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)

þ **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

o **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 þ No o

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 o No o

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 o Accelerated Filer þ Non-accelerated Filer o Smaller reporting company o

(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 o No þ

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 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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Part I. Financial Information

Item 1.

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 September 30,		Nine Months Ended 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

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	Tota Stockho Equi
	Shares	Amount	Shares	Amount					
ces, 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
se of yee on stock , stock ation common varrants and tax s			59,319	59,319		641,191			70
ce of ed common net of ures			283,488	283,488		(283,488)			
ted shares ld for taxes			(3,194)	(3,194)		(58,531)			(6
ce of 000 shares mon stock, offering f ,215			8,855,000	8,855,000		100,172,785			109,02
lation of 5 warrants usly issued Treasury					(3,348,402)	3,348,402			
nsation e for ed shares						1,009,611			1,00
nsation e for stock s						1,361,938			1,36
ion on ed stock nd		819,059					(819,059)		
ed nds paid							(3,206,249)		(3,20

ehensive e (loss): s							(33,032,713)		(33,03
realized n securities le-for-sale, deferred tax of ,374								6,993,575	6,99
ehensive									(26,03
es, nber 30,	95,000	$ 89,167,706	32,956,737	$ 32,956,737	$ 3,348,402	$ 523,232,882	$ 47,322,426	$ 14,062,975	$ 710,09
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	$ 701,02
se of yee on stock , and tax s			329,558	329,558		1,992,279			2,32
ce of ed common net of res			312,219	312,219		(312,219)			
ted shares ld for taxes			(11,034)	(11,034)		(137,744)			(14
nsation e for ed shares						1,774,345			1,77
nsation e for stock s						1,273,286			1,27
on on ed stock nt		992,496					(992,496)		
ed nds paid							(3,562,500)		(3,56
ehensive e (loss): s							(28,096,281)		(28,09
realized n securities le-for-sale,								11,946,683	11,94

deferred tax e of ,167									
ehensive									(16,14
ces, nber 30,	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

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	(307,729,185)	(509,606,923)
Loans sold	301,434,231	523,338,574
Decrease in other assets	11,887,367	17,377,317
Increase (decrease) in other liabilities	20,541,366	(9,573,279)
Net cash provided by operating activities	93,252,807	72,431,447
Investing activities:		
Activities in securities available-for-sale:		
Purchases	(422,982,104)	(614,690,009)
Sales	146,082,535	346,895,583
Maturities, prepayments and calls	262,564,699	195,745,788
Activities in securities held-to-maturity:		
Sales	954,388	
Maturities, prepayments and calls	1,240,565	3,960,000
Decrease (increase) in loans, net	186,760,840	(332,879,425)
Purchases of premises and equipment and software	(7,674,801)	(10,419,279)
Proceeds from the sale of premises and equipment and software	5,035	14,885
Other investments	(1,878,676)	(4,709,089)
Net cash provided by (used in) investing activities	165,072,481	(416,081,546)
Financing activities:		
Net increase in deposits	2,229,029	287,043,453
Net (decrease) increase in securities sold under agreements to repurchase	(84,073,048)	31,376,107
Net decrease in Federal funds purchased		(71,643,000)

Advances from Federal Home Loan Bank:		
Issuances	90,000,000	70,000,000
Payments	(181,130,196)	(30,860,649)
Net decrease in borrowings under lines of credit		(18,000,000)
Preferred dividends paid	(3,562,500)	(3,206,249)
Issuance of common stock, net of expenses		109,027,785
Exercise of common stock options and stock appreciation rights	2,173,059	638,785
Excess tax benefit from stock compensation	10,358	44,364
Net cash (used in) provided by financing activities	(174,353,298)	374,420,596
Net increase in cash and cash equivalents	83,971,990	30,770,497
Cash and cash equivalents, beginning of period	166,602,074	90,252,755
Cash and cash equivalents, end of period	$ 250,574,064	$ 121,023,252

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 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 valuation of other real estate owned, and the determination of the valuation of deferred tax assets.

Cash Flow Information Supplemental cash flow information addressing certain cash and noncash transactions for each of the nine months ended September 30, 2010 and 2009 was as follows:

	For the nine months ended September 30,	
	2010	***2009***
Cash Transactions:		
Interest	$ 47,024,839	$ 59,036,422
Income taxes received	100,000	3,200,000
Noncash Transactions:		
Loans charged-off to the allowance for loan losses	58,729,862	55,120,618
Loans foreclosed upon and transferred to other real estate owned	68,087,450	24,706,149
Net unrealized gains on available-for-sale securities, net of deferred taxes	11,946,683	6,993,575

Income (Loss) Per Common Share Basic net income (loss) per share available to common stockholders (EPS) is computed by dividing net income or loss available to common stockholders 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 is attributable to common stock options, common stock appreciation rights, warrants and 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.

As of September 30, 2010, there were approximately 2,015,000 stock options and 8,800 stock appreciation rights outstanding to purchase common shares. Additionally, as of September 30, 2010, Pinnacle Financial had outstanding warrants to purchase 267,455 shares of common stock. Most of these options and stock appreciation rights have exercise prices and compensation costs attributable to current services, which is less than the average market price of Pinnacle Financial s common stock. For the three months ended September 30, 2010, approximately 720,000 dilutive stock options, stock appreciation rights and warrants were included in the earnings per share calculation. Due to the net loss attributable to common stockholders for the nine months ended September 30, 2010, no potentially dilutive shares related to stock options, stock appreciation rights, and warrants were included in the loss per share calculations, as including such shares would have an anti-dilutive effect on loss per share. As of September 30, 2009, there were 2,149,000 stock options and 10,000 stock appreciation rights outstanding to purchase common shares. Additionally, as of September 30, 2009, Pinnacle Financial had outstanding warrants to purchase 612,455 of common shares. Due to the net loss attributable to common stockholders for the nine months ended September 30, 2009, no potentially dilutive shares related to these stock options, stock appreciation rights, and warrants were included in the loss per share calculations, as including such shares would have an antidilutive effect on earnings per share.

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

The following is a summary of the basic and diluted earnings per share calculations for the three and nine months ended September 30, 2010 and 2009:

	For the three months ended September 30,		*For the nine months ended September 30,*	
	2010	*2009*	*2010*	*2009*
Basic earnings per share calculation:				
Numerator Net income (loss) available to common stockholders	$ 549,048	$ (4,851,164)	$ (32,690,860)	$ (37,453,855)
Denominator Average common shares outstanding	32,857,428	32,460,614	32,697,985	27,011,749
Basic income (loss) per share available to common stockholders	$ 0.02	$ (0.15)	$ (1.00)	$ (1.39)
Diluted earnings per share calculation:				
Numerator Income (loss) available to common stockholders	$ 549,048	$ (4,851,164)	$ (32,690,860)	$ (37,453,855)
Denominator Average common shares outstanding	32,857,428	32,460,614	32,697,985	27,011,749
Dilutive shares contingently issuable	719,535			
Average diluted common shares outstanding	33,576,963	32,460,614	32,697,985	27,011,749
Diluted net income (loss) per share available to common stockholders	$ 0.02	$ (0.15)	$ (1.00)	$ (1.39)

Recently Adopted Accounting Pronouncements

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 860 Transfers and Servicing amended previous guidance on accounting for transfers of financial assets. The amended guidance eliminates the concept of qualifying special-purpose entities and requires that these entities be evaluated for consolidation under applicable accounting guidance, and it also removes the exception that permitted sale accounting for certain mortgage securitizations when control over the transferred assets had not been surrendered. Based on this new standard, many types of transferred financial assets that would previously have been derecognized will now remain on the transferor s financial statements. The guidance also requires enhanced disclosures about transfers of financial assets and the transferor s continuing involvement with those assets and related risk exposure. Pinnacle Financial adopted this new guidance on January 1, 2010. Adoption of this new guidance did not have a significant impact on the Company s financial condition or results of operations, given Pinnacle Financial s limited involvement in financial asset transfer activities.

Also in June 2009, the FASB issued amended guidance on accounting for variable interest entities (VIEs). This guidance replaces the quantitative-based risks and rewards calculation for determining which enterprise might have a controlling financial interest in a VIE. The new, more qualitative evaluation focuses on who has the power to direct the significant economic activities of the VIE and also who has the obligation to absorb losses or rights to receive benefits from the VIE. It also requires an ongoing reassessment of whether an enterprise is the primary beneficiary of a VIE and calls for certain expanded disclosures about an enterprise s involvement with variable interest entities. The new guidance was adopted by Pinnacle Financial on January 1, 2010. The new guidance did not have a material effect

on the Company s financial position or results of operations.

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

In the first quarter of 2010, the FASB updated Accounting Standards Update (ASU) No. 2010-09, *Subsequent Events (Topic 855) Amendments to Certain Recognition and Disclosure Requirements.* This guidance amends FASB ASC Topic 855, *Subsequent Events*, so that SEC filers no longer are required to disclose the date through which subsequent events have been evaluated in originally issued and revised financial statements. SEC filers must evaluate subsequent events through the date the financial statements are issued.

Also during the first quarter of 2010, the FASB issued ASU No. 2010-06, *Improving Disclosures about Fair Value Measurements.* This update requires reporting entities to make new disclosures about recurring or nonrecurring fair-value measurements including significant transfers into and out of Level 1 and Level 2 fair-value measurements and information about purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair-value measurements. This guidance was effective for interim and annual reporting periods beginning after December 15, 2009. The new guidance did not have an impact on the Company s financial position or results of operations.

Recently Issued Accounting Standards

In March 2010, the FASB issued ASU 2010-11, *Scope Exception Related to Embedded Credit Derivatives*. ASU 2010-11 amends ASC 815 to provide clarifying language regarding when embedded credit derivative features are not considered embedded derivatives subject to potential bifurcation and separate accounting. The provisions of ASU 2010-11 are effective for periods beginning after June 15, 2010 and require re-evaluation of certain preexisting contracts to determine whether the accounting for such contracts is consistent with the amended guidance in ASU 2010-11. If the fair value option is elected for an instrument upon adoption of the amendments to ASC 815, re-evaluation of such preexisting contracts is not required. Pinnacle Financial is currently assessing the effects of adopting the provisions of ASU 2010-20.

In July 2010, the FASB issued Accounting Standards Update 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. ASU 2010-20 provides enhanced disclosures related to the credit quality of financing receivables and the allowance for credit losses, and provides that new and existing disclosures should be disaggregated based on how an entity develops its allowance for credit losses and how it manages credit exposures. Under the provisions of ASU 2010-20, additional disclosures required for financing receivables include information regarding the aging of past due receivables, credit quality indicators, and modifications of financing receivables. The provisions of ASU 2010-20 are effective for periods ending after December 15, 2010, with the exception of the amendments to the rollforward of the allowance for credit losses and the disclosures about modifications which are effective for periods beginning after December 15, 2010. Comparative disclosures are required only for periods ending subsequent to initial adoption. Pinnacle Financial is currently assessing the effects of adopting the provisions of ASU 2010-20 and will provide the required disclosure in the 2010 Annual Report.

Note 2. Participation in U.S. Treasury Capital Purchase Program and Private Placement of Common Stock

On December 12, 2008, Pinnacle Financial issued 95,000 shares of preferred stock to the Treasury for $95 million pursuant to the Treasury s Capital Purchase Program (CPP) under the Troubled Assets Relief Program (TARP). 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 have an exercise price of $26.64 each, are immediately exercisable and expire 10 years from the date of issuance. The CPP preferred stock is non-voting, other than having class voting rights on certain matters, and pays cumulative dividends quarterly at a rate of 5% per annum for the first five years and 9% thereafter. Pinnacle Financial can redeem the preferred shares issued to the Treasury under the CPP at any time subject to a requirement that it must consult with its primary federal regulators before redemption. 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 issued to the U.S. Treasury in connection with Pinnacle Financial s participation in the CPP, the number of shares issuable upon exercise of the warrants issued to the Treasury in connection with the CPP was reduced by

50%, or 267,455 shares.

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Note 3. Securities

The amortized cost and fair value of securities available-for-sale and held-to-maturity at September 30, 2010 and December 31, 2009 are summarized as follows:

	September 30, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale:				
U.S. Treasury securities	$	$	$	$
U.S. government agency securities	61,127,951	1,074,696		62,202,647
Mortgage-backed securities	657,909,980	18,313,514	712,045	675,511,449
State and municipal securities	203,059,912	12,192,151	169,809	215,082,254
Corporate notes and other	10,222,798	1,255,471	68,495	11,409,774
	$ 932,320,641	$ 32,835,832	$ 950,349	$ 964,206,124
Securities held-to-maturity:				
U.S. government agency securities	$	$	$	$
State and municipal securities	4,325,401	148,965	17,467	4,456,899
	$ 4,325,401	$ 148,965	$ 17,467	$ 4,456,899

	December 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale:				
U.S. Treasury securities	$	$	$	$
U.S. Government agency securities	196,927,928	959,805	2,459,428	195,428,305
Mortgage-backed securities	507,443,622	11,799,596	1,551,804	517,691,414
State and municipal securities	204,028,645	4,489,162	1,222,955	207,294,852
Corporate notes and other	10,411,342	327,975	141,797	10,597,520
	$ 918,811,537	$ 17,576,538	$ 5,375,984	$ 931,012,091
Securities held-to-maturity:				
U.S. government agency securities	$	$	$	$
State and municipal securities	6,542,496	237,300	42,460	6,737,336
	$ 6,542,496	$ 237,300	$ 42,460	$ 6,737,336

There were no security sales during the three months ended September 30, 2010. During the nine months ended September 30, 2010, Pinnacle Financial realized approximately $2.9 million in gains and $246,000 in losses from the sale of $146.1 million of available-for-sale securities and $954,000 of held-to-maturity securities. Also during the nine

month period ended September 30, 2010, Pinnacle Financial realized a loss of approximately $20,000 related to the sale of an available-for-sale corporate note for which the bond issuer had recently experienced financial distress. At September 30, 2010, approximately $779.6 million of Pinnacle Financial s investment portfolio was pledged to secure public funds and other deposits and securities sold under agreements to repurchase.

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The amortized cost and fair value of debt securities as of September 30, 2010 by contractual maturity are shown below. Actual maturities may differ from contractual maturities of mortgage-backed securities since the mortgages 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.

	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 3,166,583	$ 3,198,435	$ 1,570,268	$ 1,594,338
Due in one year to five years	36,743,566	38,068,123	2,755,133	2,862,561
Due in five years to ten years	93,412,169	98,773,386		
Due after ten years	141,088,343	148,654,731		
Mortgage-backed securities	657,909,980	675,511,449		
	$ 932,320,641	$ 964,206,124	$ 4,325,401	$ 4,456,899

At September 30, 2010 and December 31, 2009, included in securities were the following investments with unrealized losses. The information below classifies these investments according to the term of the unrealized losses of less than twelve months or twelve months or longer:

	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, 2010:						
U.S. government agency securities	$	$	$	$	$	$
Mortgage-backed securities	160,292,983	710,142	228,890	1,903	160,521,873	712,045
State and municipal securities	5,113,843	59,132	3,987,527	128,144	9,101,370	187,276
Corporate notes			431,505	68,495	431,505	68,495
Total temporarily-impaired securities	$ 165,406,826	$ 769,274	$ 4,647,922	$ 198,542	$ 170,054,748	$ 967,816
At December 31, 2009:						
U.S. government agency securities	$ 132,265,031	$ 2,459,428	$	$	$ 132,265,031	$ 2,459,428
	128,404,340	1,551,189	76,958	615	128,481,298	1,551,804

Mortgage-backed securities						
State and municipal securities	43,351,971	672,033	8,379,062	593,382	51,731,033	1,265,415
Corporate notes	473,191	141,797			473,191	141,797
Total temporarily-impaired securities	$ 304,494,533	$ 4,824,447	$ 8,456,020	$ 593,997	$ 312,950,553	$ 5,418,444

The applicable date for determining when securities are in an unrealized loss position is September 30, 2010. As such, it is possible that a security had a market value that exceeded its amortized cost on other days during the past twelve-month period.

The unrealized losses associated with these investment securities are primarily driven by changes in interest rates and are not due to the credit quality of the securities. These securities will continue to be monitored as a part of our ongoing impairment analysis, but are expected to perform even if the rating agencies reduce the credit rating of the bond insurers. Management evaluates the financial performance of the issuers on a quarterly basis to determine if it is probable that the issuers can make all contractual principal and interest payments.

Periodically, available-for-sale securities may be sold or the composition of the portfolio realigned to improve yields, quality or marketability, or to implement changes in investment or asset/liability strategy, including maintaining collateral requirements, raising funds for liquidity purposes and in the event of a bank merger where certain investment holdings acquired via the merger are outside of the firm s investment policy. Additionally, if an available-for-sale security loses its investment grade, tax-exempt status, the underlying credit support is terminated or collection otherwise becomes uncertain based on factors known to management, Pinnacle Financial will consider selling the security, but will review each security on a case by case basis. Pinnacle Financial notes that the $20,000 loss realized during the second quarter of 2010 was due to concerns over the future financial stability of the bond issuer. The sales during the first quarter of 2010 were primarily related to securities that lost their underlying credit support. The sales during the second quarter of 2010 were to reposition our portfolio due to current economic conditions. As noted in the table above, at September 30, 2010, Pinnacle Financial had unrealized losses of $968,000 on $170 million of available-for-sale securities. Because Pinnacle Financial does not intend to sell these securities and it is not more likely than not that Pinnacle Financial will be required to sell the securities before recovery of their amortized cost bases, which may be maturity, Pinnacle Financial does not consider these securities to be other-than-temporarily impaired at September 30, 2010.

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The carrying values of Pinnacle Financial s investment securities could decline in the future if the financial condition of issuers deteriorate and management determines it is probable that Pinnacle Financial will not recover the entire amortized cost bases of the securities. As a result, there is a risk that other-than-temporary impairment charges may occur in the future given the current economic environment.

Note 4. Loans and Allowance for Loan Losses

The composition of loans at September 30, 2010 and December 31, 2009 is summarized in the table below.

	At September 30, 2010	At December 31, 2009
Commercial real estate mortgage	$ 1,103,260,724	$ 1,118,068,014
Consumer real estate mortgage	720,139,725	756,015,076
Construction and land development	359,728,140	525,270,527
Commercial and industrial	995,742,999	1,071,444,097
Consumer and other	73,051,767	92,584,027
Total loans	3,251,925,355	3,563,381,741
Allowance for loan losses	(84,550,007)	(91,958,789)
Loans, net	$ 3,167,373,348	$ 3,471,422,952

Changes in the allowance for loan losses for the nine months ended September 30, 2010 and for the year ended December 31, 2009 are as follows:

	September 30, 2010	December 31, 2009
Balance at beginning of period	$ 91,958,789	$ 36,484,073
Charged-off loans	(58,729,862)	(62,598,965)
Recovery of previously charged-off loans	2,797,153	1,315,450
Provision for loan losses	48,523,927	116,758,231
Balance at end of period	$ 84,550,007	$ 91,958,789

At September 30, 2010 and December 31, 2010, Pinnacle Financial had certain impaired loans of $103,127,000 and $124,709,000, respectively, which were on nonaccruing interest status. In each case, at the date such loans were placed on nonaccrual status, Pinnacle Financial reversed all previously accrued interest income against current year earnings. Had nonaccruing loans been on accruing status, interest income would have been higher by $7.6 million and $4.6 million for the nine months ended September 30, 2010 and 2009, respectively.

Impaired loans also include loans that Pinnacle National may elect to formally restructure due to the weakening credit status of a borrower such that the restructuring may facilitate a repayment plan that minimizes the potential losses that Pinnacle National may have to otherwise incur. These loans are classified as impaired loans and, if on nonaccruing status as of the date of restructuring, the loans are included in nonperforming loans. Once a relationship is classified as a restructured loan and in accordance with industry practice, the relationship will remain classified as a restructured loan until the borrower can demonstrate adherence to the restructured terms through the end of the current fiscal year. Not included in nonperforming loans are loans that have been restructured that were performing as of the restructure

date. At September 30, 2010, there were $13.47 million of accruing restructured loans that remain in a performing status. There were $26.98 million of accruing restructured loans at December 31, 2009.

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Potential problem loans, which are not included in nonperforming assets, amounted to approximately $267.6 million at September 30, 2010, compared to $257.0 million at December 31, 2009. Potential problem loans represent those loans with a well-defined weakness and where information about possible credit problems of borrowers has caused management to have serious doubts about the borrower s ability to comply with present repayment terms. This definition is believed to be substantially consistent with the standards established by the Office of the Comptroller of the Currency, or OCC, Pinnacle National s primary regulator, for loans classified as substandard, excluding the impact of nonperforming loans.

At September 30, 2010, Pinnacle Financial had granted loans and other extensions of credit amounting to approximately $21,902,000 to directors, executive officers, and their related entities, of which $18,067,000 had been drawn upon. The terms on these loans and extensions are on substantially the same terms customary for other persons similarly situated for the type of loan involved. None of these loans to directors, executive officers, and their related entities were impaired at September 30, 2010. During the nine months ended September 30, 2010, $2,506,000 of loan and other commitment increases and $14,592,000 of principal and other reductions were made by directors, executive officers, and their related entities. Loans outstanding to directors, executive officers and their related entities decreased from December 31, 2009 to September 30, 2010 due to the resignation of one of Pinnacle Financial s board members.

At September 30, 2010, Pinnacle Financial had approximately $21.8 million of mortgage loans held-for-sale compared to approximately $12.4 million at December 31, 2009. These loans are marketed to potential investors prior to closing the loan with the borrower such that there is an agreement for the subsequent sale of the loan between the eventual investor and Pinnacle Financial prior to the loan being closed with the borrower. Pinnacle Financial sells loans to investors on a loan-by-loan basis and has not entered into any forward commitments with investors for future loan sales. All of these loan sales transfer servicing rights to the buyer. During the three and nine months ended September 30, 2010, Pinnacle Financial recognized $1,311,000 and $2,734,000, respectively, in gains on the sale of these loans compared to $978,000 and $4,386,000, respectively, during the three and nine months ended September 30, 2009.

At September 30, 2010, Pinnacle Financial had $48,710,000 in other real estate owned which had been acquired, usually through foreclosure, from borrowers compared to $29,603,000 at December 31, 2009. Substantially all of these amounts relate to homes and residential development projects that are either completed or are in various stages of construction or development for which Pinnacle Financial believes it has adequate collateral based on recent appraisals. The other real estate owned is initially recorded at fair value less costs to sell. These fair values are periodically updated based on new appraisals and other information.

Note 5. Income Taxes

Under FASB ASC 740, Income Taxes, companies are required to apply their estimated full year tax rate on a year to date basis in each interim period. However, companies should not apply the estimated full year tax rate to interim results if the expected annual effective tax benefit rate exceeds the tax benefit rate based on interim items only. ASC 740 requires that the tax benefit recognized be limited to the benefit calculated on interim items only. As such, Pinnacle Financial recorded a tax benefit through the third quarter of 2009 based on the actual year-to-date results. Pinnacle Financial s effective tax rate in 2009 differs from the Federal income tax statutory rate of 35% primarily due to investments in bank qualified municipal securities, bank owned life insurance, federal tax credits, state tax expense, and tax savings from our captive insurance subsidiary, PNFP Insurance, Inc. Also impacting the effective tax rate for 2009 are Federal tax credits related to the New Markets Tax Credit program whereby a subsidiary of Pinnacle National has been awarded approximately $2.3 million in future Federal tax credits which are available through 2010. Tax benefits related to these credits will be recognized for financial reporting purposes in the same periods that the credits are recognized in the Company s income tax returns. The credit that is available for the year ending December 31, 2010 is $360,000. Pinnacle Financial believes that it will comply with the various regulatory provisions of the New Markets Tax Credit program. The effective tax rate in 2010 differs from the Federal income tax statutory rate due primarily to the recognition of a valuation allowance against deferred tax assets during the three months

ended June 30, 2010.

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During the three months ended June 30, 2010, Pinnacle Financial performed its quarterly assessment of net deferred tax assets. Companies are required to assess whether a valuation allowance should be established against their deferred tax assets based on the consideration of all available evidence using a more likely than not standard. In making such judgments, significant weight is given to evidence that can be objectively verified. As a result of increased credit losses, Pinnacle Financial entered into a three-year cumulative pre-tax loss position as of June 30, 2010. A cumulative loss position is considered significant negative evidence in assessing the realizability of a deferred tax asset which is difficult to overcome. Pinnacle Financial s estimate of the realization of its deferred tax assets was solely based on future reversals of existing taxable temporary differences and taxable income in prior carry back years. Pinnacle Financial did not consider future taxable income in determining the realizability of its deferred tax assets. This resulted in the recognition of a deferred tax asset valuation allowance of approximately $17.4 million during the three months ended June 30, 2010. During the three months ended September 30, 2010, Pinnacle Financial increased the amount of the deferred tax valuation allowance by approximately $400,000. The valuation allowance was recorded within income tax expense and was offset by our current period benefit. Once profitability has been restored for a reasonable time and such profitability is considered sustainable, the valuation allowance will be reversed. Reversal of the valuation allowance requires a great deal of judgment and will be based on the circumstances that exist as of that future date.

Note 6. Commitments and Contingent Liabilities

In the normal course of business, Pinnacle Financial has entered into off-balance sheet financial instruments which include commitments to extend credit (i.e., including unfunded lines of credit) and standby letters of credit. Commitments to extend credit are usually the result of lines of credit granted to existing borrowers under agreements that the total outstanding indebtedness will not exceed a specific amount during the term of the indebtedness. Typical borrowers are commercial concerns that use lines of credit to supplement their treasury management functions, thus their total outstanding indebtedness may fluctuate during any time period based on the seasonality of their business and the resultant timing of their cash flows. Other typical lines of credit are related to home equity loans granted to consumers. Commitments to extend credit generally have fixed expiration dates or other termination clauses and may require payment of a fee.

Standby letters of credit are generally issued on behalf of an applicant (our customer) to a specifically named beneficiary and are the result of a particular business arrangement that exists between the applicant and the beneficiary. Standby letters of credit have fixed expiration dates and are usually for terms of two years or less unless terminated beforehand due to criteria specified in the standby letter of credit. A typical arrangement involves the applicant routinely being indebted to the beneficiary for such items as inventory purchases, insurance, utilities, lease guarantees or other third party commercial transactions. The standby letter of credit would permit the beneficiary to obtain payment from Pinnacle Financial under certain prescribed circumstances. Subsequently, Pinnacle Financial would then seek reimbursement from the applicant pursuant to the terms of the standby letter of credit.

Pinnacle Financial follows the same credit policies and underwriting practices when making these commitments as it does for on-balance sheet instruments. Each customer s creditworthiness is evaluated on a case-by-case basis, and the amount of collateral obtained, if any, is based on management s credit evaluation of the customer. Collateral held varies but may include cash, real estate and improvements, marketable securities, accounts receivable, inventory, equipment, and personal property.

The contractual amounts of these commitments are not reflected in the consolidated financial statements and would only be reflected if drawn upon. Since many of the commitments are expected to expire without being drawn upon, the contractual amounts do not necessarily represent future cash requirements. However, should the commitments be drawn upon and should our customers default on their resulting obligation to us, Pinnacle Financial s maximum exposure to credit loss, without consideration of collateral, is represented by the contractual amount of those instruments.

A summary of Pinnacle Financial s total contractual amount for all off-balance sheet commitments at September 30, 2010 is as follows:

Commitments to extend credit	$ 893,600,000
Standby letters of credit	76,671,000

At September 30, 2010, the fair value of Pinnacle Financial s standby letters of credit was $357,000. This amount represents the unamortized fee associated with these standby letters of credit and is included in the consolidated balance sheet of Pinnacle Financial. This fair value will decrease over time as the existing standby letters of credit approach their expiration dates.

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On May 2-3, 2010, the Middle Tennessee area experienced significant rainfall which caused substantial flooding, in many cases above previously mapped flood plain boundaries (i.e., exceeded the 100-year flood plain). Pinnacle National experienced minimal damage to its facilities and equipment and was also required to temporarily relocate personnel to other offices throughout its footprint. These matters did not have a material impact on Pinnacle National s financial position or results of operations. In addition, a number of Pinnacle National s borrowers, both residential and commercial, were displaced as a result of flooding. In some cases, the real estate that collateralizes Pinnacle National s loans to these borrowers was damaged and, in some cases, completely destroyed. Because some of this collateral was not in a designated flood zone, it is likely that certain borrowers did not carry a valid flood insurance policy to reimburse them for flood losses. Based on our current assessment and the extent of borrower s losses or the resulting impact of these events, we have established an allowance for loan losses of approximately $1 million as of September 30, 2010 as a component of our allowance for loan losses.

Various legal claims also arise from time to time in the normal course of business. In the opinion of management, the resolution of these claims outstanding at September 30, 2010 will not have a material impact on Pinnacle Financial s financial statements.

Note 7. Stock Options, Stock Appreciation Rights and Restricted Shares

Pinnacle Financial has two equity incentive plans. Additionally, Pinnacle Financial has acquired equity plans in connection with acquisitions of Cavalry Bancorp, Inc. (Cavalry) and Mid-America Bancshares, Inc. (Mid-America) under which it has granted stock options and stock appreciation rights to its employees to purchase common stock at or above the fair market value on the date of grant and granted restricted share awards to employees and directors. At September 30, 2010, there were approximately 782,000 shares available for issuance under all of these plans.

During the first quarter of 2006 and in connection with its merger with Cavalry, Pinnacle Financial assumed, the 1999 Cavalry Bancorp, Inc. Stock Option Plan (the Cavalry Plan). All options granted under the Cavalry Plan were fully vested prior to Pinnacle Financial s merger with Cavalry and expire at various dates between January 2011 and June 2012. In connection with the merger, all options to acquire Cavalry common stock were converted to options to acquire Pinnacle Financial s common stock at the 0.95 exchange ratio. The exercise price of the outstanding options under the Cavalry Plan was adjusted using the same exchange ratio. All other terms of the Cavalry options were unchanged. At September 30, 2010, there were 29,452 Pinnacle Financial shares remaining to be acquired by the participants in the Cavalry Plan at exercise prices that ranged between $10.26 per share and $13.68 per share.

On November 30, 2007 and in connection with its merger with Mid-America, Pinnacle Financial assumed several equity incentive plans, including the Mid-America Bancshares, Inc. 2006 Omnibus Equity Incentive Plan (the Mid-America Plans). All options and stock appreciation rights granted under the Mid-America Plans were fully vested prior to Pinnacle Financial s merger with Mid-America and expire at various dates between June 2011 and July 2017. In connection with the merger, all options and stock appreciation rights to acquire Mid-America common stock were converted to options or stock appreciation rights, as applicable, to acquire Pinnacle Financial common stock at the 0.4655 exchange ratio. The exercise price of the outstanding options and stock appreciation rights under the Mid-America Plans was adjusted using the same exchange ratio with the exercise price also being reduced by $1.50 per share. All other terms of the Mid-America options and stock appreciation rights were unchanged. At September 30, 2010, there were 224,911 Pinnacle Financial shares which could be acquired by the participants in the Mid-America Plans at exercise prices that ranged between $7.52 per share and $20.41 per share. At September 30, 2010, there were approximately 78,000 shares available for issue under the Mid-America Plans, which shares may only be issued to Pinnacle associates that were Mid-America associates prior to the merger.

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Common Stock Options and Stock Appreciation Rights

As of September 30, 2010, there were 2,014,633 stock options and 8,792 stock appreciation rights outstanding to purchase common shares. A summary of the activity within the equity incentive plans during the nine months ended September 30, 2010 and information regarding expected vesting, contractual terms remaining, intrinsic values and other matters was as follows:

	Number	Weighted-Average Exercise Price	Weighted-Average Contractual Remaining Term (in years)	Aggregate Intrinsic Value (1) (000 s)
Outstanding at December 31, 2009	**2,149,775**	**$ 17.54**	**5.23**	**$ 6,643**
Granted				
Exercised **(2)**	(93,027)	8.49		
Forfeited	(33,323)	20.24		
Outstanding at September 30, 2010	**2,023,425**	**$ 17.91**	**4.59**	**$ 2,494**
Outstanding and expected to vest as of September 30, 2010	**1,990,739**	**$ 17.80**	**4.57**	**$ 2,490**
Options exercisable at September 30, 2010 (3)	**1,712,646**	**$ 15.35**	**4.19**	**$ 2,494**

(1) The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted closing price of Pinnacle Financial common stock of $9.19 per common share for the approximately 637,000 options and stock

appreciation rights that were in-the-money at September 30, 2010.

(2) There were 232 stock appreciation rights exercised during the nine months ended September 30, 2010.

(3) In addition to these outstanding options, there were 267,455 warrants outstanding at September 30, 2010 and December 31, 2009 that were issued in conjunction with the CPP. These warrants, if exercised, will result in the issuance of common shares.

During the nine months ended September 30, 2010, approximately 405,000 option awards vested at an average exercise price of $26.32 and an intrinsic value of approximately $5,000.

As of September 30, 2010, there was approximately $2.6 million of total unrecognized compensation cost related to unvested stock options granted under our equity incentive plans. That cost is expected to be recognized over a weighted-average period of 1.73 years.

During the three and nine months ended September 30, 2010, Pinnacle Financial recorded stock option compensation expense of $416,000 and $1,273,000, respectively, using the Black-Scholes valuation model for awards granted prior to, but not yet vested, as of January 1, 2006 and for awards granted after January 1, 2006, compared to $461,000 and $1,362,000 for the three and nine months ended September 30, 2009. For these awards, Pinnacle Financial has recognized compensation expense using a straight-line amortization method. Stock-based compensation expense has been reduced for estimated forfeitures.

There were no options granted in the nine month periods ended September 30, 2010 and 2009.

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Restricted Shares

Additionally, Pinnacle Financial s 2004 Equity Incentive Plan and the Mid-America Plans provide for the granting of restricted share awards and other performance or market-based awards. There were no market-based awards outstanding as of September 30, 2010 under either of these plans. During the nine months ended September 30, 2010, Pinnacle Financial awarded 312,219 shares of restricted common stock to certain Pinnacle Financial associates and outside directors.

A summary of activity for unvested restricted share awards for the nine months ended September 30, 2010 is as follows:

	Number		Grant Date Weighted-Average Cost
Unvested at December 31, 2009	480,884	$	21.03
Shares awarded	312,219		14.35
Restrictions lapsed and shares released to associates/directors	(71,963)		20.44
Shares forfeited	(58,920)		23.65
Unvested at September 30, 2010	**662,220**	**$**	**17.77**

Status of 2010 Restricted Share Awards: There were 312,219 restricted share awards granted during the nine months ended September 30, 2010. The following discusses the current status of these awards:

The forfeiture restrictions on 19,397 restricted share awards granted to named executive officers in 2010 lapse in three installments as follows; 66.6% on the second anniversary date should Pinnacle Financial achieve certain earnings and soundness targets, and 33.4% on the third anniversary date should Pinnacle Financial achieve certain earnings and soundness targets in each of these periods (or, alternatively, the cumulative three-year period).

The forfeiture restrictions on another 58,203 restricted share awards granted to named executive officers lapse in one lump sum on the second anniversary date of the grant so long as Pinnacle Financial is profitable for the fiscal year immediately preceding the vesting date.

The forfeiture restrictions on 19,853 restricted share awards granted to executive management personnel, other than the named executive officers, in 2010 lapse in three equal installments should Pinnacle Financial achieve certain earnings and soundness targets over each year of the subsequent three-year period (or, alternatively, the cumulative three-year period).

The forfeiture restrictions on another 59,568 restricted share awards granted to executive management personnel, other than the named executive officers, lapse in equal installments on the anniversary date of the grant over a 10 year period or until the associate is 65 years of age, whichever is earlier.

The forfeiture restrictions on 137,999 restricted share awards granted to non-management level associates lapse in five equal installments on the anniversary date of the grant.

During the first quarter of 2010, 17,199 restricted share awards were issued to the outside members of the board of directors in accordance with their board compensation plan. Restrictions lapse on the one year anniversary date of the award based on each individual board member meeting their attendance goals for the

various board and board committee meetings to which each member was scheduled to attend. Each non-employee board member received an award of 1,323 shares.

Compensation expense associated with the performance-based restricted share awards is recognized over the performance period that the restrictions associated with the awards are anticipated to lapse based on a graded vesting schedule such that each performance traunche is amortized separately. Compensation expense associated with the time-based restricted share awards is recognized over the time period that the restrictions associated with the awards lapse based on the total cost of the award. For the three and nine months ended September 30, 2010, Pinnacle Financial recognized approximately $583,000 and $1,774,000, respectively, in compensation costs attributable to all restricted share awards issued prior to the end of those periods, compared to $203,000 and $1,010,000, respectively, for the three and nine months ended September 30, 2009.

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Note 8. Regulatory Matters

Pinnacle National is subject to restrictions on the payment of dividends to Pinnacle Financial under federal banking laws and the regulations of the OCC. Pinnacle Financial is also subject to limits on payment of dividends to its shareholders by the rules, regulations and policies of federal banking authorities and by its participation in the CPP. Pinnacle Financial has not paid any cash dividends on its common stock since inception, and it does not anticipate that it will consider paying cash dividends on its common stock until Pinnacle Financial generates sufficient capital through net income from operations to support both anticipated asset growth and dividend payments. Pursuant to federal banking regulations and due to losses incurred in 2009, beginning in 2010, Pinnacle National had no net retained profits from the previous two years available for dividend payments to Pinnacle Financial. Accordingly, Pinnacle National may not, subsequent to January 1, 2010, without the prior consent of the OCC, pay any dividends to Pinnacle Financial until such time that current year profits exceed the net losses and dividends of the prior two years. Until such time as it may receive dividends from Pinnacle National, Pinnacle Financial anticipates servicing its preferred stock dividend and subordinated indebtedness requirements from its available cash balances. Pinnacle Financial has agreed to obtain prior approval of the Federal Reserve Bank of Atlanta before making such dividend and subordinated debt payments.

Pinnacle Financial and its banking subsidiary are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions, by regulators that, if undertaken, could have a direct material effect on the financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, Pinnacle Financial and Pinnacle National must meet specific capital guidelines that involve quantitative measures of the assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. Pinnacle Financial s and Pinnacle National s capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require Pinnacle Financial and Pinnacle National to maintain minimum amounts and ratios of Total and Tier I capital to risk-weighted assets and of Tier I capital to average assets. Management believes, as of September 30, 2010, that Pinnacle Financial and Pinnacle National met all capital adequacy requirements to which they are subject. To be categorized as well-capitalized, Pinnacle National must maintain minimum Total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the following table. Pinnacle Financial s and Pinnacle National s actual capital amounts and ratios are presented in the following table (dollars in thousands):

	Actual		**Minimum Capital Requirement**		**Minimum To Be Well-Capitalized Under Prompt Corrective Action Provisions**	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
At September 30, 2010						
Total capital to risk weighted assets:						
Pinnacle Financial	$ 554,763	15.05%	$ 294,975	8.0%	not applicable	
Pinnacle National	$ 482,745	13.12%	$ 294,355	8.0%	$ 371,841	10.0%
Tier I capital to risk weighted assets:						

Pinnacle Financial	$ 496,187	13.46%	$ 147,488	4.0%	not applicable	
Pinnacle National	$ 424,265	11.53%	$ 147,177	4.0%	$ 223,104	6.0%
Tier I capital to average assets (*):						
Pinnacle Financial	$ 496,187	10.45%	$ 190,013	4.0%	not applicable	
Pinnacle National	$ 424,265	8.95%	$ 189,691	4.0%	$ 237,114	5.0%

(*) Average assets for the above calculations were based on the most recent quarter.

In January 2010, Pinnacle National agreed to an OCC requirement to maintain a minimum Tier 1 capital to average assets ratio of 8% and a minimum total capital to risk-weighted assets ratio of 12%. As noted above, Pinnacle National had 8.95% of Tier 1 capital to average assets and 13.12% of total capital to risk-weighted assets at September 30, 2010. Pinnacle Financial contributed approximately $25 million to Pinnacle National as of the quarter ended June 30, 2010, and at September 30, 2010, has $63.4 million of cash available, if required, for further capital support of Pinnacle National.

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Note 9. Derivative Instruments

Financial derivatives are reported at fair value in other assets or other liabilities. The accounting for changes in the fair value of a derivative depends on whether it has been designated and qualifies as part of a hedging relationship. For derivatives not designated as hedges, the gain or loss is recognized in current earnings. Pinnacle Financial enters into interest rate swaps (swaps) to facilitate customer transactions and meet their financing needs. Upon entering into these instruments to meet customer needs, Pinnacle Financial enters into offsetting positions in order to minimize the risk to Pinnacle Financial. These swaps are derivatives, but are not designated as hedging instruments.

Interest rate swap contracts involve the risk of dealing with counterparties and their ability to meet contractual terms. When the fair value of a derivative instrument contract is positive, this generally indicates that the counter party or customer owes Pinnacle Financial, and results in credit risk to Pinnacle Financial. When the fair value of a derivative instrument contract is negative, Pinnacle Financial owes the customer or counterparty and therefore, has no credit risk.

A summary of Pinnacle Financial s interest rate swaps as of September 30, 2010 is included in the following table (in thousands):

	September 30, 2010	
	Notional Amount	Estimated Fair Value
Interest rate swap agreements:		
Pay fixed / receive variable swaps	$ 232,886	$ 19,996
Pay variable / receive fixed swaps	232,886	(19,813)
Total	$ 465,772	$ 183

Note 10. Fair Value of Financial Instruments

FASB ASC 820, Fair Value Measurements and Disclosures, which defines fair value, establishes a framework for measuring fair value in U.S. generally accepted accounting principles and expands disclosures about fair value measurements. The definition of fair value focuses on the exit price, i.e., the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, not the entry price, i.e., the price that would be paid to acquire the asset or received to assume the liability at the measurement date. The statement emphasizes that fair value is a market-based measurement; not an entity-specific measurement. Therefore, the fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability.

Valuation Hierarchy

FASB ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Following is a description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such assets and liabilities pursuant to the

valuation hierarchy.

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Assets

Securities available-for-sale Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid government securities and certain other financial products. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows and are classified within Level 2 of the valuation hierarchy. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy.

Impaired loans A loan is considered to be impaired when it is probable Pinnacle Financial will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. Impaired loans are measured based on the present value of expected payments using the loan s original effective rate as the discount rate, the loan s observable market price, or the fair value of the collateral if the loan is collateral dependent. If the recorded investment in the impaired loan exceeds the measure of fair value, a valuation allowance may be established as a component of the allowance for loan losses or the expense is recognized as a charge-off. Impaired loans are classified within Level 3 of the hierarchy.

Other investments Included in other investments are investments in certain nonpublic private equity funds. The valuation of nonpublic private equity investments requires significant management judgment due to the absence of quoted market prices, inherent lack of liquidity and the long-term nature of such assets. These investments are valued initially based upon transaction price. The carrying values of other investments are adjusted either upwards or downwards from the transaction price to reflect expected exit values as evidenced by financing and sale transactions with third parties, or when determination of a valuation adjustment is confirmed through ongoing reviews by senior investment managers. A variety of factors are reviewed and monitored to assess positive and negative changes in valuation including, but not limited to, current operating performance and future expectations of the particular investment, industry valuations of comparable public companies, changes in market outlook and the third-party financing environment over time. In determining valuation adjustments resulting from the investment review process, emphasis is placed on current company performance and market conditions. These investments are included in Level 3 of the valuation hierarchy.

Other real estate owned Other real estate owned, consisting of properties obtained through foreclosure or in satisfaction of loans, is initially recorded at fair value, determined on the basis of current appraisals, comparable sales, and other estimates of value obtained principally from independent sources, adjusted for estimated selling costs. At the time of foreclosure, any excess of the loan balance over the fair value of the real estate held as collateral is treated as a charge against the allowance for loan losses. Gains or losses on sale and any subsequent adjustments to the fair value are recorded as a component of foreclosed real estate expense. Other real estate owned is included in Level 3 of the valuation hierarchy.

Other assets Included in other assets are certain assets carried at fair value, including the cash surrender value of bank owned life insurance policies and interest rate swap agreements. The carrying amount of the cash surrender value of bank owned life insurance is based on information received from the insurance carriers indicating the financial performance of the policies and the amount Pinnacle Financial would receive should the policies be surrendered. Pinnacle Financial reflects these assets within Level 3 of the valuation hierarchy. The carrying amount of interest rate swap agreements is based on pricing models obtained from a third party bank. Pinnacle Financial reflects these assets within Level 2 of the valuation hierarchy.

Liabilities

Other liabilities Pinnacle Financial has certain liabilities carried at fair value including certain interest rate swap agreements. The fair value of these liabilities is based on pricing models obtained from a third party bank and is reflected within Level 2 of the valuation hierarchy.

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The following tables present the financial instruments carried at fair value as of September 30, 2010 and December 31, 2009, by caption on the consolidated balance sheets and by FASB ASC 820 valuation hierarchy (as described above) (dollars in thousands):

Assets and liabilities measured at fair value on a recurring basis as of September 30, 2010

	Total carrying value in the consolidated balance sheet	Quoted market prices in an active market (Level 1)	Models with significant observable market parameters (Level 2)	Models with significant unobservable market parameters (Level 3)
Investment securities available-for-sale:				
U.S. Treasury securities	$	$	$	$
U.S. government agency securities	62,203		62,203	
Mortgage-backed securities	675,511		675,511	
State and municipal securities	215,082		215,082	
Corporate notes and other	11,410		11,410	
Total investment securities available-for-sale	964,206		964,206	
Other investments	2,582			2,582
Other assets	67,755		19,631	48,124
Total assets at fair value	$ 1,034,543	$	$ 983,837	$ 50,706
Other liabilities	$ 19,813	$	$ 19,813	$
Total liabilities at fair value	$ 19,813	$	$ 19,813	$

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2009

	Total carrying value in the consolidated balance sheet	Quoted market prices in an active market (Level 1)	Models with significant observable market parameters (Level 2)	Models with significant unobservable market parameters (Level 3)
Investment securities available-for-sale:				
U.S. Treasury securities	$	$	$	$
U.S. government agency securities	195,428		195,428	

Mortgage-backed securities	517,691		517,691	
State and municipal securities	207,295		207,295	
Corporate notes and other	10,598		10,598	
Total investment securities available-for-sale	931,012		931,012	
Other investments	1,999			1,999
Other assets	57,391		9,872	47,519
Total assets at fair value	$ 990,402	$	$ 940,884	$ 49,518
Other liabilities	$ 10,054	$	$ 10,054	$
Total liabilities at fair value	$ 10,054	$	$ 10,054	$

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Assets and liabilities measured at fair value on a nonrecurring basis as of September 30, 2010

	Total carrying value in the consolidated balance sheet	Quoted market prices in an active market (Level 1)	Models with significant observable market parameters (Level 2)	Models with significant unobservable market parameters (Level 3)
Other real estate owned	$ 48,710	$	$	$ 48,710
Impaired loans, net (1)	96,426			96,426
Total	$ 145,136	$	$	$ 145,136

(1) *Amount is net of a valuation allowance of $6.7 million as required by ASC 310-10, Receivables.*

Assets and liabilities measured at fair value on a nonrecurring basis as of December 31, 2009

	Total carrying value in the consolidated balance sheet	Quoted market prices in an active market (Level 1)	Models with significant observable market parameters (Level 2)	Models with significant unobservable market parameters (Level 3)
Other real estate owned	$ 29,603	$	$	$ 29,603
Impaired loans, net (1)	105,425			105,425
Total	$ 135,028	$	$	$ 135,028

(1) *Amount is net of a valuation allowance of $19.3 million as required by ASC*

310-10,
Receivables.

Level changes in fair value measurements

In January 2010, the FASB updated ASC subtopic 820-10 to include disclosure requirements surrounding transfers of assets and liabilities in and out of Levels 1 and 2. Previous guidance only required transfer disclosures for Level 3 assets and liabilities. Pinnacle Financial monitors the valuation technique utilized by various pricing agencies, in the case of the bond portfolio to ascertain when transfers between levels have been affected. The nature of the remaining assets and liabilities is such that transfers in and out of any level are expected to be rare. For the three and nine months ended September 30, 2010, there were no transfers between levels. The new standard also requires an increased level of disaggregation within asset/liability classes. Pinnacle Financial has disaggregated other assets and liabilities as shown to comply with the requirements of this standard.

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The table below includes a rollforward of the balance sheet amounts for the nine months ended September 30, 2010 (including the change in fair value) for financial instruments classified by Pinnacle Financial within Level 3 of the valuation hierarchy for assets and liabilities measured at fair value on a recurring basis. When a determination is made to classify a financial instrument within Level 3 of the valuation hierarchy, the determination is based upon the significance of the unobservable factors to the overall fair value measurement. However, since Level 3 financial instruments typically include, in addition to the unobservable or Level 3 components, observable components (that is, components that are actively quoted and can be validated to external sources), the gains and losses in the table below include changes in fair value due in part to observable factors that are part of the valuation methodology (in thousands).

	Nine months ended September 30,			
	2010		2009	
	Other assets	Other liabilities	Other assets	Other liabilities
Fair value, January 1	$ 49,518	$	$ 48,974	$
Total realized gains included in income	766		171	
Change in unrealized gains/losses included in other comprehensive income for assets and liabilities still held at September 30				
Purchases, issuances and settlements, net	422		377	
Transfers out of Level 3			(278)	
Fair value, September 30	$ 50,706	$	$ 49,244	$
Total realized gains included in income related to financial assets and liabilities still on the consolidated balance sheet at September 30	$ 766	$	$ 171	$

The following methods and assumptions were used by Pinnacle Financial in estimating its fair value disclosures for financial instruments that are not measured at fair value. In cases where quoted market prices are not available, fair values are based on estimates using discounted cash flow models. Those models are significantly affected by the assumptions used, including the discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. The use of different methodologies may have a material effect on the estimated fair value amounts. The fair value estimates presented herein are based on pertinent information available to management as of September 30, 2010 and December 31, 2009. Such amounts have not been revalued for purposes of these consolidated financial statements since those dates and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

Cash and cash equivalents The carrying amounts of cash, due from banks, federal funds sold, and short-term discount notes sold approximate their fair value.

Securities held-to-maturity and available-for-sale Estimated fair values for investment securities are based on quoted market prices where available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable instruments.

Loans For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values approximate carrying values. For other loans, fair values are estimated using discounted cash flow models, using current market interest rates offered for loans with similar terms to borrowers of similar credit quality. Fair values for

impaired loans are estimated using discounted cash flow models or based on the fair value of the underlying collateral. This method of estimating fair value does not incorporate the exit-price concept of fair value and generally produces a higher value than an exit approach.

Mortgage loans held-for-sale Mortgage loans held-for-sale are carried at the lower of cost or fair value. Fair value is based on the anticipated sales price of these loans as the loans are usually sold within a few weeks of their origination.

Deposits, Securities Sold Under Agreements to Repurchase, Federal Home Loan Bank Advances and Other Borrowings and Subordinated Debt The carrying amounts of demand deposits, savings deposits, securities sold under agreements to repurchase, floating rate advances from the Federal Home Loan Bank and floating rate subordinated debt approximate their fair values. Fair values for certificates of deposit, fixed rate advances from the Federal Home Loan Bank and fixed rate subordinated debt are estimated using discounted cash flow models, using current market interest rates offered on certificates, advances and other borrowings with similar remaining maturities. For fixed rate subordinated debt, the maturity is assumed to be as of the earliest date that the indebtedness will be repriced.

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Off-Balance Sheet Instruments The fair values of Pinnacle Financial s off-balance-sheet financial instruments are based on fees charged to enter into similar agreements. However, commitments to extend credit do not represent a significant value to Pinnacle Financial until such commitments are funded. Pinnacle Financial has determined that the fair value of commitments to extend credit is not significant.

The carrying amounts and estimated fair values of Pinnacle Financial s financial instruments at September 30, 2010 and December 31, 2009 were as follows (in thousands):

	September 30, 2010		**December 31, 2009**	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Financial assets:				
Cash and cash equivalents	$ 250,574	$ 250,574	$ 166,602	$ 166,602
Securities available-for-sale	964,206	964,206	931,012	931,012
Securities held-to-maturity	4,325	4,457	6,542	6,737
Mortgage loans held-for-sale	21,804	21,804	12,441	12,441
Loans, net	3,167,373	3,210,858	3,471,423	3,477,104
Derivative assets	19,996	19,996	10,237	10,237
Bank owned life insurance	47,489	47,489	46,811	46,811
Other investments	2,582	2,582	1,999	1,999
Financial liabilities:				
Deposits and securities sold under agreements to repurchase	$ 4,017,026	$ 4,022,253	$ 4,099,064	$ 4,119,262
Federal Home Loan Bank advances and other borrowings	121,435	126,636	212,655	215,503
Subordinated debt	97,476	74,614	97,476	102,607
Derivative liabilities	19,813	19,813	10,054	10,054
	Notional Amount	**Estimated Fair Value**	**Notional Amount**	**Estimated Fair Value**
Off-balance sheet instruments:				
Commitments to extend credit	$ 893,600	$	$ 946,888	$
Standby letters of credit	76,671	357	89,732	312

Note 11. Variable Interest Entities

Effective January 1, 2010, Pinnacle Financial adopted the provisions of ASC Topic 860 and ASC Topic 810. ASC 860, Transfers and Servicing, provides for the removal of the qualifying special purpose entity (QSPE) concept from GAAP, resulting in these entities being considered Variable Interest Entities (VIEs) which must be evaluated for consolidation on and after its effective date. ASC 810, Consolidation, revises the criteria for determining the primary beneficiary of a VIE by replacing the quantitative-based risks and rewards test previously required with a qualitative analysis. The updated provisions of ASC 810 clarify that a VIE exists when the equity investors as a group lack either the power through voting rights or similar rights to direct the activities of an entity that most significantly impact the entity s economic performance, the obligation to absorb the expected losses of the entity, or the right to receive the expected benefits of the entity, or when the equity investors as a group do not have sufficient equity at risk for the entity to finance its activities by itself. A variable interest is a contractual, ownership or other interest that fluctuates with changes in the fair value of the VIE s net assets exclusive of variable interests.

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Under ASC 810, as amended, Pinnacle Financial is deemed to be the primary beneficiary and required to consolidate a VIE if it has a variable interest in the VIE that provides it with a controlling financial interest. For such purposes, the determination of whether a controlling financial interest exists is based on whether a single party has both the power to direct the activities of the VIE that most significantly impact the VIE s economic performance and the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant. ASC 810, as amended, requires continual reconsideration of conclusions reached regarding which interest holder is a VIE s primary beneficiary and disclosures surrounding those VIE s which have not been consolidated. The consolidation methodology provided in this footnote for the quarter ended September 30, 2010, has been prepared in accordance with ASC 810.

At September 30, 2010, Pinnacle Financial did not have any consolidated variable interest entities to disclose but did have several nonconsolidated VIEs, discussed below.

Non-consolidated Variable Interest Entities

Since 2003, Pinnacle Financial has made equity investments as a limited partner in various partnerships that sponsor affordable housing projects. The purpose of these investments is to achieve a satisfactory return on capital and to support Pinnacle Financial s community reinvestment initiatives. The activities of the limited partnerships include the identification, development, and operation of multi-family housing that is leased to qualifying residential tenants generally within Pinnacle Financial s primary geographic region. These partnerships are considered VIEs because Pinnacle Financial, as the holder of the equity investment at risk, does not have the ability to direct the activities that most significantly affect the success of the entity through voting rights or similar rights. While Pinnacle Financial could absorb losses that are significant to these partnerships as it has a risk of loss for its initial capital contributions and funding commitments to each partnership, it is not considered the primary beneficiary of the partnerships as the general partners whose managerial functions give them the power to direct the activities that most significantly impact the partnerships economic performance and who are exposed to all losses beyond Pinnacle Financial s initial capital contributions and funding commitments are considered the primary beneficiaries.

Pinnacle Financial has previously issued subordinated debt totaling $82.5 million to PNFP Statutory Trust I, II, III, and IV. These trusts are considered VIEs because Pinnacle Financial s capital contributions to these trusts are not considered at risk in evaluating whether the holders of the equity investments at risk in the trusts have the power through voting rights or similar rights to direct the activities that most significantly impact the entities economic performance. These trusts were not consolidated by Pinnacle Financial because the holders of the securities issued by the trusts absorb a majority of expected losses and residual returns.

For certain troubled commercial loans, Pinnacle Financial restructures the terms of the borrower s debt in an effort to increase the probability of receipt of amounts contractually due. However, Pinnacle Financial does not assume decision-making power or responsibility over the borrower s operations. Following a debt restructuring the borrowing entity typically meets the definition of a VIE as the initial determination of whether the entity is a VIE must be reconsidered and economic events have proven that the entity s equity is not sufficient to permit it to finance its activities without additional subordinated financial support or a restructuring of the terms of its financing. As Pinnacle Financial does not have the power to direct the activities that most significantly impact such troubled commercial borrowers operations, it is not considered the primary beneficiary even in situations where, based on the size of the financing provided, Pinnacle Financial is exposed to potentially significant benefits and losses of the borrowing entity. Pinnacle Financial has no contractual requirements to provide financial support to the borrowing entities beyond certain funding commitments established upon restructuring of the terms of the debt to allow for completion of activities which prepare the collateral related to the debt for sale.

Pinnacle Financial serves as manager over certain discretionary trusts, for which it makes investment decisions on behalf of the trusts beneficiaries in return for a reasonable management fee. The trusts meet the definition of a VIE since the holders of the equity investments at risk do not have the power through voting rights or similar rights to direct the activities that most significantly impact the entities economic performance. However, since the management

fees Pinnacle Financial receives are not considered variable interests in the trusts as all of the requirements related to permitted levels of decision maker fees are met, such VIEs are not consolidated by Pinnacle Financial because it cannot be the trusts primary beneficiary. Pinnacle Financial has no contractual requirements to provide financial support to the trusts.

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The following table summarizes VIE s that are not consolidated by Pinnacle Financial as of September 30, 2010 (in thousands):

Type	Maximum Loss Exposure	Liability Recognized	Classification
Low Income Housing Partnerships	$ 4,133	$	Other Assets
Trust Preferred Issuances	N/A	82,476	Subordinated Debt
Accruing Restructured Commercial Loans	8,947		Loans
Managed Discretionary Trusts	N/A	N/A	N/A

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion of our financial condition at September 30, 2010 and December 31, 2009 and our results of operations for the three and nine months ended September 30, 2010 and 2009. The purpose of this discussion is to focus on information about our financial condition and results of operations which is not otherwise apparent from the consolidated financial statements. The following discussion and analysis should be read along with our consolidated financial statements and the related notes included elsewhere herein.

Overview

General. The adverse economy in our principal markets continues to materially impact our financial condition and results of operations in 2010, although the economy is beginning to show signs of improvement, as reflected in our results for the three months ended September 30, 2010. Our fully diluted net income per common share available to common stockholders for the three months ended September 30, 2010 was $0.02 compared to fully diluted net loss per common share available to common stockholders of $0.15 for the same period in 2009. Our results of operations for the three and nine months ended September 30, 2010 were negatively impacted by a $400,000 and $17.8 million, respectively, non-cash charge to record a valuation for deferred tax assets. Our fully diluted net loss per common share available to common stockholders for the nine months ended September 30, 2010 was $1.00, compared to fully diluted net loss per common share available to common stockholders of $1.39 for the same period in 2009. At September 30, 2010, loans totaled $3.252 billion, as compared to $3.563 billion at December 31, 2009, while total deposits increased to $3.826 billion at September 30, 2010 from $3.824 billion at December 31, 2009.

Results of Operations. Our net interest income increased to $36.1 million for the third quarter of 2010 compared to $34.5 million for the third quarter of 2009. Our net interest income increased to $108.3 million for the first nine months of 2010 compared to $93.8 million for the same period in 2009. The net interest margin (the ratio of net interest income to average earning assets) for the three months ended September 30, 2010 was 3.23% compared to 3.05% for the same period in 2009. The net interest margin for the nine months ended September 30, 2010 was 3.24% compared to 2.84% for the same period in 2009. The improvement in the net interest margin for both periods was primarily the result of a decrease in funding costs.

Our provision for loan losses was $4.8 million for the third quarter of 2010 compared to $22.1 million for the same period in 2009. The provision for loan losses was $48.5 million for the nine months ended September 30, 2010 compared to $101.1 million for the same period in 2009. During the third quarter of 2010, we incurred net charge-offs of $7.3 million compared to $5.2 million in the third quarter of 2009. Net charge-offs were $55.9 million for the nine month period ended September 30, 2010 and $83.0 million for the same period in the prior year, which included a $21.5 million charge-off of a loan in the second quarter of 2009 to a one-bank holding company. During the first nine months of 2010, our allowance for loan losses as a percentage of total loans increased from 2.58% at December 31, 2009 to 2.60% at September 30, 2010.

Noninterest income for the three months ended September 30, 2010 compared to the same period in 2009 increased by $857,000 or 11.1%. Noninterest income for the nine month period ended September 30, 2010 decreased $3.8 million, or 12.2%, primarily due to substantially higher gains on the sale of investment securities in the first nine months of 2009, as compared to the same period in the current year.

A number of factors contributed to increased noninterest expense for the three and nine months ended September 30, 2010 compared to the same periods in 2009 including: increases in salaries and employee benefits as a result of an increase in the number of associates, increased costs associated with the disposal and maintenance of other real estate owned, increased equipment and occupancy expenses due to the expansion of our branch network, and increased other operating expenses. The number of full-time equivalent employees increased from 768.0 at September 30, 2009 to 780.6 at September 30, 2010. Additionally, our branch expansion efforts during the last few years, including the three new branches opened in the latter half of 2009 and one new branch and headquarters we opened in 2010, also increased noninterest expense.

Our efficiency ratio (the ratio of noninterest expense to the sum of net interest income and noninterest income) was 84.6% for the third quarter of 2010 compared to 64.5% for the same period in 2009. Our efficiency ratio was 81.2% for the first nine months of 2010 compared with 66.4% for the same period in 2009. Our efficiency ratio was

negatively impacted by other real estate owned and other credit related costs, including the increase in associates dedicated to problem loan resolution.

Net income available to common stockholders for the third quarter of 2010 was $549,000 compared to net loss available to common stockholders of $4.9 million for the same period in 2009. Net loss available to common stockholders for the first nine months of 2010 was $32.7 million compared to net loss available to common stockholders of $37.5 million for the same period in 2009. Included in net income (loss) available to common stockholders for the three and nine months ended September 30, 2010 and 2009 was approximately $1.5 million and $4.6 million, respectively, of charges related to preferred stock dividends and accretion of the preferred stock discount related to our participation in the CPP.

Financial Condition. Loans decreased $311.5 million during the first nine months of 2010. We have grown our total deposits to $3.826 billion at September 30, 2010 compared to $3.824 billion at December 31, 2009, an increase of $2.03 million. In comparing the composition of the average balances of our deposits between the third quarter of 2010 with the third quarter of 2009, we have experienced greater growth in our lower cost core deposit balances, defined as all client deposits except time deposits greater than $100,000, than in any other category. This decrease in reliance on higher cost non-core deposits, including brokered deposits, has contributed to the increased net interest margin between the two periods.

Capital and Liquidity. At September 30, 2010, our capital ratios, including our bank s capital ratios, exceeded regulatory minimum capital requirements as well as those levels that we agreed with the OCC that we would exceed. Additionally, at September 30, 2010, our bank would be considered to be well-capitalized pursuant to banking regulations. To support the capital needs of Pinnacle National and holding company cash requirements, at September 30, 2010, we had approximately $63.4 million of cash and cash equivalents at the holding company.

Critical Accounting Estimates

The accounting principles we follow and our methods of applying these principles conform with U.S. generally accepted accounting principles and with general practices within the banking industry. In connection with the application of those principles, we have made judgments and estimates which, in the case of the determination of our allowance for loan losses, the valuation of other real estate owned, the assessment of the valuation of deferred tax assets and the assessment of impairment of the intangibles have been critical to the determination of our financial position and results of operations.

Allowance for Loan Losses (allowance). Our management assesses the adequacy of the allowance prior to the end of each calendar quarter. This assessment includes procedures to estimate the allowance and test the adequacy and appropriateness of the resulting balance. The level of the allowance is based upon management s evaluation of the loan portfolio, past loan loss experience, current asset quality trends, known and inherent risks in the portfolio, adverse situations that may affect the borrowers ability to repay (including the timing of future payment), the estimated value of any underlying collateral, composition of the loan portfolio, economic conditions, industry and peer bank loan quality indications and other pertinent factors, including regulatory recommendations. This evaluation is inherently subjective as it requires material estimates including the amounts and timing of future cash flows expected to be received on impaired loans that may be susceptible to significant change. Loan losses are charged off when management believes that the full collectability of the loan is unlikely. A loan may be partially charged-off after a confirming event has occurred which serves to validate that full repayment pursuant to the terms of the loan is unlikely. Allocation of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management s judgment, is deemed to be uncollectible.

Larger balance commercial and commercial real estate loans are impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. Collection of all amounts due according to the contractual terms means that both the interest and principal payments of a loan will be collected as scheduled in the loan agreement.

An impairment allowance is recognized if the fair value of the loan is less than the recorded investment in the loan (recorded investment in the loan is the principal balance plus any accrued interest, net of deferred loan fees or costs and unamortized premium or discount). The impairment is recognized through the provision for loan losses and is a component of the allowance. Loans that are impaired are recorded at the present value of expected future cash flows discounted at the loan s effective interest rate, or as a practical expedient, if the loan is collateral dependent, impairment measurement is based on the fair value of the collateral, less estimated disposal costs. Management

believes it follows appropriate accounting and regulatory guidance in determining impairment and accrual status of impaired loans.

The level of allowance maintained is believed by management to be adequate to absorb probable losses inherent in the loan portfolio at the balance sheet date. The allowance is increased by provisions charged to expense and decreased by charge-offs, net of recoveries of amounts previously charged-off.

In assessing the adequacy of the allowance, we also consider the results of our ongoing independent loan review process. We undertake this process both to ascertain those loans in the portfolio whose credit quality has weakened over time and to assist in our overall evaluation of the risk characteristics of the entire loan portfolio. Our loan review process includes the judgment of management, independent internal loan reviewers, and reviews that may have been conducted by third-party reviewers including regulatory examiners. We incorporate loan review results in the determination of whether or not it is probable that we will be able to collect all amounts due according to the contractual terms of a loan.

As part of management s quarterly assessment of the allowance, management divides the loan portfolio into five segments: commercial, commercial real estate, small business lending, consumer and consumer real estate. Each segment is then analyzed such that an allocation of the allowance is estimated for each loan segment.

The allowance allocation for commercial and commercial real estate loans begins with a process of estimating the probable losses inherent for these types of loans. The estimates for these loans are established by category and based on our internal system of credit risk ratings and historical loss data. The estimated loan loss allocation rate for our internal system of credit risk grades for commercial and commercial real estate loans is based on management s experience with similarly graded loans, discussions with banking regulators and industry loss factors. We weighted the allocation methodologies for the commercial and commercial real estate portfolios and determined a weighted average allocation for these portfolios.

The allowance allocation for the small business lending unit is determined consistent with the methodology followed for the commercial portfolio. The small business lending unit underwrites relationships less than $250,000 in business loans and no more than $500,000 in combined business and consumer purpose loans. These relationships will be centrally underwritten to increase consistency and mitigate risk associated with individually underwritten loans.

The allowance allocation for consumer and consumer real estate loans which includes installment, home equity, consumer mortgages, automobiles and others is established for each of the categories by estimating probable losses inherent in that particular category of consumer and consumer real estate loans. The estimated loan loss allocation rate for each category is based on management s experience, discussions with banking regulators, consideration of our actual loss rates, industry loss rates and loss rates of various peer bank groups. Consumer and consumer real estate loans are evaluated as a group by category (i.e. retail real estate, installment, etc.) rather than on an individual loan basis because these loans are smaller and homogeneous. We weight the allocation methodologies for the consumer and consumer real estate portfolios and determine a weighted average allocation for these portfolios.

During the third quarter of 2010, we completed our historical loan loss migration analysis and incorporated the results of that history into our determination of the allowance for loan losses. We believe the increased emphasis on historical metrics provides a better estimate of losses inherent in our portfolio. This refinement of our methodology did not result in a material change in our allowance.

The estimated loan loss allocation for all five loan portfolio segments is then adjusted for management s estimate of probable losses for several environmental factors. The allocation for environmental factors is particularly subjective and does not lend itself to exact mathematical calculation. This amount represents estimated probable inherent credit losses which exist, but have not yet been identified, as of the balance sheet date, and are based upon quarterly trend assessments in delinquent and nonaccrual loans, unanticipated charge-offs, credit concentration changes, prevailing economic conditions, changes in lending personnel experience, changes in lending policies or procedures and other influencing factors. These environmental factors are considered for each of the four loan segments and the allowance allocation, as determined by the processes noted above for each component, is increased or decreased based on the incremental assessment of these various environmental factors.

The assessment also includes an unallocated component. We believe that the unallocated amount is warranted for inherent factors that cannot be practically assigned to individual loan categories. An example is the imprecision in the overall measurement process, in particular the volatility of the local economies in the markets we serve and the results of our credit risk ratings process.

We then test the resulting allowance by comparing the balance in the allowance to historical trends and industry and peer information. Our management then evaluates the result of the procedures performed, including the results of our testing, and decides on the appropriateness of the balance of the allowance in its entirety. The audit committee of our

board of directors reviews and approves the assessment prior to the filing of quarterly and annual financial information.

While our policies and procedures used to estimate the allowance for loan losses, as well as the resultant provision for loan losses charged to operations, are considered adequate by management and are reviewed from time to time by our regulators, they are necessarily approximate and imprecise. There are factors beyond our control, such as conditions in the local and national economy, a local real estate market or particular industry conditions which may negatively impact, materially, our asset quality and the adequacy of our allowance for loan losses and, thus, the resulting provision for loan losses.

Other Real Estate Owned. Other real estate owned (OREO), consists of properties obtained through foreclosure or in satisfaction of loans, is reported at the lower of cost or fair value, less estimated costs to sell at the date acquired with any loss recognized as a charge-off through the allowance for loan losses. Additional OREO losses for subsequent valuation adjustments are determined on a specific property basis and are included as a component of other noninterest expense along with holding costs. Any gains or losses on disposal realized at the time of disposal are reflected in noninterest income or noninterest expense, as applicable. Significant judgments and complex estimates are required in estimating the fair value of other real estate owned, and the period of time within which such estimates can be considered current is significantly shortened during periods of market volatility, as experienced during current market conditions. As a result, the net proceeds realized from sales transactions could differ significantly from appraisals, comparable sales, and other estimates used to determine the fair value of other real estate owned.

Deferred Tax Asset Valuation. A valuation allowance is recognized for a deferred tax asset if, based on the weight of available evidence, it is more-likely-than-not that some portion or the entire deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. In making such judgments, significant weight is given to evidence that can be objectively verified. As a result of the increased credit losses, Pinnacle Financial entered into a three-year cumulative pre-tax loss position as of June 30, 2010. A cumulative loss position is considered significant negative evidence in assessing the realizability of a deferred tax asset which is difficult to overcome. Pinnacle Financial s estimate of the realization of its deferred tax assets was solely based on the scheduled reversal of deferred tax liabilities and taxable income available in prior carry back years. Pinnacle Financial did not consider future taxable income in determining the realizability of its deferred tax assets. This resulted in a deferred tax asset valuation allowance of $17.4 million as of and for the three months ended June 30, 2010 through income tax expense. During the three months ended September 30, 2010, Pinnacle Financial increased the amount of the deferred tax valuation allowance by $400,000 to appropriately record our deferred tax assets at their net realizable amount. Once profitability has been restored for a reasonable time and such profitability is considered sustainable, the valuation allowance would be reversed. Reversal of the valuation allowance requires a great deal of judgment and will be based on the circumstances that exist as of that future date.

Impairment of Intangible Assets. Long-lived assets, including purchased intangible assets subject to amortization, such as our core deposit intangible asset, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated.

Goodwill and intangible assets that have indefinite useful lives are evaluated for impairment annually and are evaluated for impairment more frequently if events and circumstances indicate that the asset might be impaired. That annual assessment date is September 30. An impairment loss is recognized to the extent that the carrying amount exceeds the asset s fair value. The goodwill impairment analysis is a two-step test. The first step, used to identify potential impairment, involves comparing each reporting unit s estimated fair value to its carrying value, including goodwill. If the estimated fair value of a reporting unit exceeds its carrying value, goodwill is considered not to be impaired. If the carrying value exceeds estimated fair value, there is an indication of potential impairment and the second step is performed to measure the amount of impairment.

If required, the second step involves calculating an implied fair value of goodwill for each reporting unit for which the first step indicated potential impairment. The implied fair value of goodwill is determined in a manner similar to the amount of goodwill calculated in a business combination, by measuring the excess of the estimated fair value of the reporting unit, as determined in the first step, over the aggregate estimated fair values of the individual assets, liabilities and identifiable intangibles as if the reporting unit was being acquired in a business combination. If the implied fair value of goodwill exceeds the carrying value of goodwill assigned to the reporting unit, there is no impairment. If the carrying value of goodwill assigned to a reporting unit exceeds the implied fair value of the

goodwill, an impairment charge is recorded for the excess. Subsequent reversal of goodwill impairment losses is not permitted.

We performed our annual evaluation of whether there were indications of potential goodwill impairment as of September 30, 2010. Our stock price has historically traded above its book value per common share. At September 30, 2010, our stock price was trading below its book value per common share. Based on the results of our annual assessment, we determined that there was no impairment as of September 30, 2010. However, should we continue to experience losses and/or discount rates increase, or should our stock price decline further below our book value per common share, an impairment charge to goodwill and other intangible assets may be required.

Results of Operations

The following is a summary of our results of operations (dollars in thousands):

	Three months ended September 30,		*2010-2009 Percent Increase (Decrease)*	*Nine months ended September 30,*		*2010-2009 Percent Increase (Decrease)*
	2010	*2009*		*2010*	*2009*	
Interest income	$ 50,650	$ 52,442	*(3.4%)*	$ 154,269	$ 151,988	*1.5%*
Interest expense	14,590	17,894	*(18.5%)*	45,952	58,228	*(21.1%)*
Net interest income	36,060	34,548	*4.4%*	108,317	93,760	*15.5%*
Provision for loan losses	4,789	22,134	*(78.4%)*	48,524	101,064	*(52.0%)*
Net interest income after provision for loan losses	31,271	12,414	*151.9%*	59,793	(7,304)	*918.6%*
Noninterest income	8,594	7,737	*11.1%*	27,649	31,475	*(12.2%)*
Noninterest expense	37,774	27,280	*38.5%*	110,431	83,129	*32.8%*
Net income (loss) before income taxes	2,091	(7,129)	*129.3%*	(22,989)	(58,958)	*(61.0%)*
Income tax (benefit) expense		(3,782)	*(100.0%)*	5,107	(25,925)	*(119.7%)*
Net income (loss)	2,091	(3,347)	*162.5%*	(28,096)	(33,033)	*14.9%*
Preferred dividends and preferred stock discount accretion	1,542	1,504	*2.5%*	4,595	4,421	*3.9%*
Net income (loss) available to common stockholders	$ 549	$ (4,851)	*111.3%*	$ (32,691)	$ (37,454)	*12.7%*
Basic net income (loss) per common share available to common stockholders	$ 0.02	$ (0.15)	*111.2%*	$ (1.00)	$ (1.39)	*28.3%*
Diluted income (loss) per common share available to common stockholders	$ 0.02	$ (0.15)	*110.9%*	$ (1.00)	$ (1.39)	*28.3%*

Net Interest Income. Net interest income represents the amount by which interest earned on various earning assets exceeds interest paid on deposits and other interest bearing liabilities and is one of the most significant components of our results of operations. For the three months ended September 30, 2010 and 2009, we recorded net interest income of $36.1 million and $34.5 million, respectively, which resulted in a net interest margin of 3.23% and 3.05%. For the nine months ended September 30, 2010 and 2009, we recorded net interest income of $108.3 million and $93.8 million, respectively, which resulted in a net interest margin of 3.24% and 2.84%.

The following tables set forth the amount of our average balances, interest income or interest expense for each category of interest-earning assets and interest-bearing liabilities and the average interest rate for interest-earning assets and interest-bearing liabilities, net interest spread and net interest margin for the three and nine months ended September 30, 2010 and 2009 (dollars in thousands):

	Three months ended September 30, 2010			*Three months ended September 30, 2009*		
	Average Balances	*Interest*	*Rates/ Yields*	*Average Balances*	*Interest*	*Rates/ Yields*
***Interest-earning assets*:**						
Loans (1)	$ 3,295,531	$ 41,105	4.96%	$ 3,583,182	$ 41,666	4.61%
Securities:						
Taxable	750,427	7,004	3.70%	749,457	8,608	4.56%
Tax-exempt (2)	204,442	1,943	4.97%	169,171	1,694	5.24%
Federal funds sold and other	269,556	598	0.95%	74,663	474	2.76%
Total interest-earning assets	4,519,956	$ 50,650	4.51%	4,576,473	$ 52,442	4.60%
Nonearning assets						
Intangible assets	256,011			259,016		
Other nonearning assets	225,406			193,366		
Total assets	$ 5,001,373			$ 5,028,855		
Interest-bearing liabilities:						
Interest bearing deposits						
Interest checking	$ 540,387	$ 890	0.65%	$ 348,300	$ 508	0.58%
Savings and money market	1,397,396	4,787	1.36%	916,669	2,967	1.28%
Time	1,387,170	6,629	1.90%	2,018,814	11,625	2.28%
Total interest bearing deposits	3,324,953	12,306	1.47%	3,283,783	15,100	1.82%
Securities sold under agreements to repurchase	210,037	435	0.82%	223,737	363	0.64%
Federal Home Loan Bank advances and other borrowings	126,130	921	2.90%	236,660	1,481	2.48%
Subordinated debt	97,476	928	3.78%	97,476	950	3.86%
Total interest-bearing liabilities	3,758,596	14,590	1.54%	3,841,656	17,894	1.85%
Noninterest-bearing deposits	534,171			462,783		
Total deposits and interest-bearing liabilities	4,292,767	14,590	1.35%	4,304,439	$ 17,894	1.65%
Other liabilities	21,708			8,572		
Stockholders equity	686,898			715,844		

Total liabilities and stockholders equity	$ 5,001,373			$ 5,028,855		
Net interest income		$ 36,060			$ 34,548	
Net interest spread (3)			2.97%			2.75%
Net interest margin (4)			3.23%			3.05%

(1) Average balances of nonperforming loans are included in the above amounts.

(2) Yields based on the carrying value of those tax exempt instruments are shown on a fully tax equivalent basis.

(3) Yields realized on interest-bearing assets less the rates paid on interest-bearing liabilities. The net interest spread calculation excludes the impact of demand deposits. Had the impact of demand deposits been included, the net interest spread for the quarter ended September 30, 2010 would have been 3.16% compared to a net interest

spread of 2.95% for the quarter ended September 30, 2009.

(4) Net interest margin is the result of annualized net interest income calculated on a tax-equivalent basis divided by average interest-earning assets for the period.

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	Nine months ended September 30, 2010			*Nine months ended September 30, 2009*		
	Average Balances	*Interest*	*Rates/ Yields*	*Average Balances*	*Interest*	*Rates/ Yields*
Interest-earning assets:						
Loans (1)	$ 3,410,648	$ 122,504	4.81%	$ 3,506,243	$ 119,819	4.57%
Securities:						
Taxable	778,117	24,150	4.15%	739,480	26,089	4.72%
Tax-exempt (2)	205,006	5,979	5.14%	159,086	4,742	5.26%
Federal funds sold and other	173,732	1,636	1.36%	82,614	1,338	2.35%
Total interest-earning assets	4,567,503	$ 154,269	4.58%	4,487,423	$ 151,988	4.58%
Nonearning assets						
Intangible assets	256,754			259,894		
Other nonearning assets	215,492			219,859		
Total assets	$ 5,039,749			$ 4,967,176		
Interest-bearing liabilities:						
Interest bearing deposits						
Interest checking	$ 516,024	$ 2,593	0.67%	$ 355,677	$ 1,405	0.53%
Savings and money market	1,312,209	13,623	1.39%	802,946	7,322	1.22%
Time	1,503,524	22,479	2.00%	2,106,428	40,527	2.57%
Total interest bearing deposits	3,331,757	38,695	1.55%	3,265,051	49,254	2.02%
Securities sold under agreements to repurchase	231,580	1,352	0.78%	232,450	1,147	0.66%
Federal Home Loan Bank advances and other borrowings	150,772	3,249	2.88%	254,145	4,657	2.45%
Subordinated debt	97,476	2,656	3.64%	97,476	3,170	4.35%
Total interest-bearing liabilities	3,811,585	45,952	1.61%	3,849,122	58,228	2.02%
Noninterest-bearing deposits	511,519			445,616		
Total deposits and interest-bearing liabilities	4,323,104	45,952	1.42%	4,294,738	$ 58,228	1.81%
Other liabilities	17,297			5,436		
Stockholders equity	699,348			667,002		
Total liabilities and stockholders equity	$ 5,039,749			$ 4,967,176		
Net interest income		$ 108,317			$ 93,760	

Net interest spread (3)	2.97%	2.56%
Net interest margin (4)	3.24%	2.84%

(1) *Average balances of nonperforming loans are included in the above amounts.*

(2) *Yields based on the carrying value of those tax exempt instruments are shown on a fully tax equivalent basis.*

(3) *Yields realized on interest-bearing assets less the rates paid on interest-bearing liabilities. The net interest spread calculation excludes the impact of demand deposits. Had the impact of demand deposits been included, the net interest spread for the nine months ended September 30, 2010 would have been 3.16% compared to a net interest spread of 2.77% for the nine months ended*

September 30, 2009.

(4) *Net interest margin is the result of annualized net interest income calculated on a tax-equivalent basis divided by average interest-earning assets for the period.*

As noted above, the net interest margin for the three and nine months ended September 30, 2010 was 3.23% and 3.24%, respectively, compared to a net interest margin of 3.05% and 2.84%, respectively, for the same periods in 2009. Our net interest margin increased by 18 basis points when comparing the three months ended September 30, 2010 to the three months ended September 30, 2009 and 40 basis points when comparing the nine months ended September 30, 2010 to the nine months ended September 30, 2009. Matters related to the changes in net interest income, net interest yields and rates, and net interest margin are presented below:

Our loan yields increased by 35 basis points and 24 basis points during the three and nine months ended September 30, 2010 when compared to the same periods in 2009. A significant amount of our loan portfolio has daily floating rate pricing tied to our prime lending rate or a national interest rate index. Our weighted average prime rate for the three and nine months ended September 30, 2010 was 3.25% compared to 3.25% for the same periods in 2009. However, the weighted average rate being assessed on these daily floating rate loans was 5.19% at September 30, 2010. The difference is largely due to interest rate floors, as approximately $1.0 billion of our daily floating rate interest loans and $413.0 million of our variable rate loan portfolio were currently priced at their contractual interest rate floor. Other factors that impact our loan yields in any period are our evaluation of the creditworthiness, collateral, loan term and ongoing relationship with a particular borrower.

Nonperforming loans continued to negatively impact our net interest margin during the three and nine months ended September 30, 2010 when compared to the same periods in 2009. Average nonperforming loans were $110.7 million and $119.4 million for the three and nine months ended September 30, 2010 compared to $111.0 million and $66.7 million for the three and nine months ended September 30, 2009. We are continuing to review our portfolio to identify problem loans prior to the progression to a nonperforming loan and taking action to resolve our nonperforming assets to improve our core margin.

During the third quarter of 2010, overall deposit rates were less than those rates for the comparable period in 2009 by 35 basis points. For the nine months ended September 30, 2010, deposit rates decreased by 47 basis points over the same period in 2009. The net decreases were largely impacted by our efforts to increase lower cost core deposits while reducing levels of wholesale funding which are associated with higher funding costs. Our non-core funding as a percentage of total funding has decreased from 41.3% at December 31, 2009 to 31.0% at September 30, 2010. Also positively impacting our funding costs are time deposits repricing at lower rates than those that were in effect for the three and nine month periods ended September 30, 2009.

Rates paid on such products as interest checking, savings and money market accounts and securities sold under agreements to repurchase increased as compared to the same period in the prior year. Competitive deposit pricing pressures in our market limited our ability to reduce our funding costs more aggressively, and rate increases within transaction and savings classifications negatively impacted our net interest margin. We routinely monitor the pricing of deposit products by our primary competitors and believe that our markets are very competitive banking markets with several market participants seeking deposit growth. As a result, competitive limitations on our ability to more significantly lower rates paid on our deposit products had a negative impact on our margin during the third quarter of 2010.

During the three and nine months ended September 30, 2010, the average balances on noninterest bearing deposit liabilities, interest bearing transaction accounts, savings and money market accounts and securities sold under agreements to repurchase amounted to 62.5% and 59.5% of our total funding compared to 45.3% and 42.8% during the same periods in 2009. The increase in these products as a percentage of total funding is attributable to our focus on growing our core deposit base and reducing our reliance on wholesale funding sources which has had a favorable impact on our net interest margin. Average noninterest bearing deposits increased to 11.8% of total funding for the nine months ended September 30, 2010, compared to 10.4% over

the same period in prior year. Maintaining and increasing our noninterest bearing deposit balances in relation to total funding is critical to maintaining and growing our net interest margin.

We continue to deploy various asset liability management strategies to manage our risk to interest rate fluctuations. We believe that short term rates will remain flat for the remainder of 2010 and most of 2011. It is our belief that rates may eventually begin to rise by the end of 2011 or first quarter of 2012. Due to the percentage of variable rate loans with loan floors currently in place, our balance sheet would be considered liability-sensitive. In order to prepare for a rising rate environment, we are increasing spreads to loan pricing indices so that when rates increase we are in a better position to maintain our margins. We believe our net interest margin should increase during the remainder of 2010 due to several factors related to pricing adjustments for certain loans and deposits. Offsetting the positive impact of any initiative we deploy to enhance our net interest margin will be the ongoing negative impact of nonperforming assets. We also believe that a rise in our net interest margin will be slowed somewhat by reduced loan demand as business owners and other potential borrowers continue to evaluate the length and severity of the deterioration in local and national economies.

Provision for Loan Losses. The provision for loan losses represents a charge to earnings necessary to establish an allowance for loan losses that, in management s evaluation, should be adequate to provide coverage for the inherent losses on outstanding loans. The provision for loan losses amounted to $4.8 million and $22.1 million for the three months ended September 30, 2010 and 2009, respectively, and $48.5 million and $101.1 million for the nine months ended September 30, 2010 and 2009, respectively. Provision expense for both the three and nine month period ended September 30, 2010 has decreased as compared to the same periods in prior year. Prior year to date provisioning expense included the charge-off of a loan to a one-bank holding company for $21.5 million after their subsidiary bank was placed in receivership by their regulator. The impact of the continuing economic distress, particularly its impact on the residential construction market, continues to impact provisioning expense. The level of nonperforming loans and net-charge offs were the primary reasons for continued elevated allowance for loan losses.

Based upon management s assessment of the loan portfolio, we adjust our allowance for loan losses to an amount deemed appropriate to adequately cover probable losses in the loan portfolio. Our allowance for loan losses as a percentage of total loans increased from 2.58% at December 31, 2009 to 2.60% at September 30, 2010. Based upon our evaluation of the loan portfolio, we believe the allowance for loan losses to be adequate to absorb our estimate of probable losses existing in the loan portfolio at September 30, 2010. While our policies and procedures used to estimate the allowance for loan losses, as well as the resultant provision for loan losses charged to operations, are considered adequate by management and are reviewed from time to time by our regulators, they are necessarily approximate and imprecise. There are factors beyond our control, such as conditions in the local and national economy, local real estate market, or particular industry conditions, which may materially negatively impact our asset quality and the adequacy of our allowance for loan losses and, thus, the resulting provision for loan losses.

Noninterest Income. Our noninterest income is composed of several components, some of which vary significantly between quarterly and annual periods. Service charges on deposit accounts and other noninterest income generally reflect customer growth trends, while investment services and fees from the origination of mortgage loans and gains on the sale of securities will often reflect market conditions and fluctuate from period to period. The opportunities for recognition of gains on loans and loan participations sold and gains on sales of investment securities may also vary widely from quarter to quarter and year to year.

The following is the makeup of our noninterest income for the three and nine months ended September 30, 2010 and 2009 (dollars in thousands):

	Three months ended September 30,		*2010-2009 Percent Increase (Decrease)*	*Nine months ended September 30,*		*2010-2009 Percent Increase (Decrease)*
	2010	*2009*		*2010*	*2009*	
Noninterest income:						
Service charges on deposit accounts	$ 2,444	$ 2,559	*(4.5%)*	$ 7,239	$ 7,605	*(4.8%)*
Investment services	1,234	1,112	*11.0%*	3,786	3,044	*24.4%*
Insurance sales commissions	954	906	*5.3%*	2,957	3,131	*(5.6%)*
Gains on loans sold, net:						
Fees from the origination and sale of mortgage loans, net of sales commissions	1,296	974	*33.2%*	2,733	4,617	*(40.8%)*
Gains (losses) on loan sales and loan participations, net	14	4	*250.0%*	1	(231)	*(100.0%)*
Net gain on sale of investments				2,625	6,462	*(59.4%)*
Trust fees	726	586	*23.9%*	2,377	1,885	*26.1%*
Other noninterest income:						
ATM and other consumer fees	1,380	1,144	*20.6%*	3,979	3,316	*20.0%*
Bank-owned life insurance	312	144	*116.7%*	678	373	*81.8%*
Other noninterest income	234	308	*(24.4%)*	1,274	1,273	*0.1%*
Total other noninterest income	1,926	1,596	*20.6%*	5,931	4,962	*19.5%*
Total noninterest income	$ 8,594	$ 7,737	*11.1%*	$ 27,649	$ 31,475	*(12.2%)*

Service charge income for the three and nine months ended September 30, 2010 decreased from the comparable periods in 2009 due to decreased overdraft protection and insufficient fund charges. In November 2009, the Federal Reserve Board issued a final rule that, effective July 1, 2010, prohibits financial institutions from charging consumers fees for paying overdrafts on automated teller machine and one-time debit card transactions, unless a consumer consents, or opts in, to the overdraft service for those types of transactions, commonly referred to as Reg-E . Consumers must be provided a notice that explains the financial institution s overdraft services, including the fees associated with the service, and the consumer s choices. We implemented the provisions of Reg-E in the third quarter of 2010.

Included in noninterest income are commissions and fees from our financial advisory unit, Pinnacle Asset Management, a division of Pinnacle National. At September 30, 2010, Pinnacle Asset Management was receiving commissions and fees in connection with approximately $966 million in brokerage assets held with Raymond James Financial Services, Inc. compared to $898 million at September 30, 2009. We also offer trust services through Pinnacle National s trust division. At September 30, 2010, our trust department was receiving fees on approximately $647 million in assets compared to $607 million at September 30, 2009. The business development efforts of our trust department resulted in an increase in assets under management. We also increased the number of trust advisors in 2009. These factors contributed to an increase in trust fees for the third quarter of 2010 compared to the same period in 2009.

Revenues from mortgage originations for the third quarter of 2010 increased by 33.2% compared to the same period in the prior year. These mortgage fees are for loans originated in both the middle Tennessee and Knoxville markets that are subsequently sold to third-party investors. All of these loan sales transfer servicing rights to the buyer. Generally, mortgage origination fees increase in lower interest rate environments and decrease in rising interest rate environments. As a result, mortgage origination fees may fluctuate greatly in response to a changing interest rate environment. The gross fees from the origination and sale of mortgage loans have been offset by the commission expense associated with these originations.

We also sell certain commercial loan participations to our correspondent banks. Such sales are primarily related to new lending transactions in excess of internal loan limits or industry concentration limits. At September 30, 2010 and pursuant to participation agreements with these correspondents, we had participated approximately $58.0 million of originated commercial loans to other banks compared to $84.6 million at December 31, 2009. The participation agreements have various provisions regarding collateral position, pricing and other matters. Many of these agreements provide that we pay the correspondent less than the loan s contracted interest rate. Pursuant to FASB ASC 860, in those transactions whereby the correspondent is receiving less interest than the amount owed by the customer, we record a net gain along with a corresponding asset representing the present value of our net retained cash

flows. The resulting asset is amortized over the term of the loan. At each period end, we evaluate the discount rate we are using to measure the present value of these future cash flows and adjust this discount rate to a market-based rate. Should the discount rate we are using to measure these cash flows change during the current accounting period, the result of the change is reflected in our statements of operations. In a decreasing rate environment, our asset is negatively impacted resulting in losses reflected in earnings. Conversely, should a loan be paid prior to maturity, any remaining unamortized balance is charged as a reduction to gains on loan participations sold. We recorded gains net of amortization expense related to the aforementioned retained cash flow asset, of $14,000 and $4,000 for the three months ended September 30, 2010 and 2009, respectively, related to the loan participation transactions. During the nine months ended September 30, 2010, we recorded a gain of $1,000 compared to $231,000 in losses booked during the nine months ended September 30, 2009. We intend to maintain relationships with our correspondents in order to sell participations in future loans to these or other correspondents primarily due to limitations on loans to a single borrower or industry concentrations. In any event, the timing of participations may cause the level of losses or of gains, if any, to vary significantly.

During the nine months ended September 30, 2010 and 2009, we sold approximately $146.1 million and $347 million of our available-for-sale investment securities in order to reposition our bond portfolio for asset liability management purposes. As a result of the sale of these securities, we realized $2.6 million and $6.5 million of net gains for the nine months ended September 30, 2010 and 2009, respectively. Also, during the first nine months of 2010, we sold approximately $954,000 of municipal securities within our held-to-maturity portfolio. We sold these municipal securities as a result of the underlying credit support for these securities being terminated and, after evaluation, we elected to not maintain these securities in our portfolio.

Included in other noninterest income are miscellaneous consumer fees, such as ATM revenues and other consumer fees. These fees have increased as compared to the same periods in 2009 due to increased check card usage. Additionally, noninterest income from the cash surrender value of bank-owned life insurance increased between the three and nine months ended September 30, 2010 and 2009. The assets that support these policies are administered by the life insurance carriers and the income we receive (i.e., increases or decreases in the cash surrender value of the policies) on these policies is dependent upon the returns the insurance carriers are able to earn on the underlying investments that support the policies. Earnings on these policies are not taxable. The policy investment returns underperformed in 2009, but have shown signs of improvement in 2010.

Noninterest Expense. Noninterest expense consists of salaries and employee benefits, other real estate expenses, equipment and occupancy expenses, and other operating expenses. The following is the makeup of our noninterest expense for the three and nine months ended September 30, 2010 and 2009 (dollars in thousands):

	Three months ended September 30,		*2010-2009 Percent Increase (Decrease)*	*Nine months ended September 30,*		*2010-2009 Percent Increase (Decrease)*
	2010	*2009*		*2010*	*2009*	
Noninterest expense:						
Salaries and employee benefits:						
Salaries	$ 11,277	$ 9,760	*15.5%*	$ 33,928	$ 28,094	*20.8%*
Commissions	716	648	*10.5%*	2,099	1,861	*12.8%*
Other compensation	1,239	1,082	*14.5%*	3,816	3,530	*8.1%*
Employee benefits and other	2,837	2,755	*3.0%*	9,078	8,188	*10.9%*
Total salaries and employee benefits	16,069	14,245	*12.8%*	48,921	41,673	*17.4%*
Equipment and occupancy	5,231	4,446	*17.7%*	16,089	12,992	*23.8%*
Other real estate expense	8,522	1,250	*581.7%*	21,336	5,864	*263.8%*

Marketing and business development	748	512	*46.1%*	2,296	1,418	*61.9%*
Postage and supplies	636	515	*23.5%*	2,071	2,175	*(4.8%)*
Amortization of intangibles	744	777	*(4.2%)*	2,236	2,411	*(7.3%)*
Other noninterest expense	5,824	5,535	*5.2%*	17,482	16,596	*5.3%*
Total noninterest expense	$ 37,774	$ 27,280	*38.5%*	$ 110,431	$ 83,129	*32.8%*

Expenses have generally increased between the above periods due to personnel additions occurring throughout each period, the continued development of our branch network and other expenses which increase in relation to our growth rate. We anticipate continued increases in our expenses in the future for such items as the opening of additional branches, marketing and business development and other expenses which tend to increase in relation to our growth. In addition, in 2010 we have experienced increases in noninterest expense related to increased levels of other real estate and increased FDIC assessments.

Salaries and employee benefits expense increased $1.8 million and $7.2 million or 12.8% and 17.4% over the three and nine month periods in the prior year. These expenses are primarily driven by increased personnel costs in several areas of our firm, including special assets, credit administration, and other areas focused on the resolution of problem assets. At September 30, 2010, we employed 781 full-time equivalent employees compared to 768 at September 30, 2009. Additionally, included in other compensation expense for the three months ended September 30, 2010 and 2009, were approximately $999,000 and $665,000, respectively, and for the nine months ended September 30, 2010 and 2009, were approximately $3,048,000 and $2,372,000, respectively, of compensation expenses related to time vested stock options and restricted share awards.

Equipment and occupancy expenses for the three and nine months ended September 30, 2010 were 17.7% and 23.8% greater, respectively, than in the same periods in the prior year. These increases are primarily attributable to our continued market expansion to Knoxville, Tennessee, and increased build out of the Nashville MSA. During the fourth quarter of 2009 Pinnacle opened two new full-service offices in the Fountain City and Farragut areas of Knoxville and one new full service office in the Belle Meade area of Nashville. Additionally, we relocated our headquarters to another office building in downtown Nashville in December 2009. This relocation was completed in the second quarter of 2010. Also, in January of 2010, we consolidated our two Brentwood, Tennessee locations into one larger facility and closed the two former offices. Our 100 Oaks office opened in Nashville, Tennessee in the second quarter of 2010.

Foreclosed real estate expense was $8.52 million for the third quarter of 2010 compared to $1.3 million for the third quarter of 2009. Foreclosed real estate expense was $21.3 million for the first nine months of 2010 compared to $5.9 million for the same period in 2009. The increase in foreclosed real estate expense is related to the continued deterioration of local real estate values, particularly with respect to foreclosed properties acquired from builders and residential land developers. At September 30, 2010, we had $48.7 million in other real estate owned compared to $22.8 million at September 30, 2009.

Marketing and other business development expenses are higher in the third quarter of 2010 compared to the third quarter of 2009 due to increases in the number of customers and prospective customers; increases in the number of customer contact personnel and the corresponding increases in customer entertainment; and other business development expenses.

Total other noninterest expenses increased to $5.8 million or 5.2% in the third quarter of 2010 when compared to 2009 and increased to $17.5 million or 5.3% for the nine month period ended September 30, 2010. A substantial portion of this expense is attributable to FDIC deposit insurance assessments and to a lesser extent to insurance expense, lending related expenses related to problem assets, including appraisal, legal and other charges, and other expenses which are incidental variable costs related to deposit gathering and lending. Also included are expenses related to ATM networks, correspondent bank service charges, check losses, and closing attorney expenses.

Our efficiency ratio (ratio of noninterest expense to the sum of net interest income and noninterest income) was 84.6% for the third quarter of 2010 compared to 64.5% in the third quarter 2009 and 81.2% for the first nine months of 2010 compared to 66.4% in 2009. The efficiency ratio measures the amount of expense that is incurred to generate a dollar of revenue. Our efficiency ratio was negatively impacted by other real estate owned and other credit related costs, including the increase in associates dedicated to problem loan resolution.

Income Taxes. The effective tax rate for the three and nine months ended September 30, 2010 was principally impacted by the recognition of a $17.4 million deferred tax assets valuation allowance in the second quarter of 2010 and an increase to that allowance of $400,000 in the third quarter of 2010. The effective tax benefit rate for the three and nine months ended September 30, 2009 was approximately 53% and 44%, respectively. Additional factors impacting the effective income tax rate are investments in bank qualified municipal securities, bank owned life insurance, federal tax credits, state tax expense, and tax savings from our captive insurance subsidiary, PNFP Insurance, Inc.

Preferred stock dividends and preferred stock discount accretion. Net income (loss) available for common stockholders was reduced by $1.2 million and $3.6 million, respectively, in each of the three and nine month periods ended September 30, 2010 and 2009 for preferred stock dividends. Accretion on preferred stock discount associated with the preferred securities of $328,000 and $290,000 was reflected for the three months ended September 30, 2010

and 2009, respectively, and $992,000 and $819,000 for the nine months ended September 30, 2010 and 2009, respectively.

Financial Condition

Our consolidated balance sheet at September 30, 2010 reflects the measures we have taken since December 31, 2009 to accelerate our return to improved soundness, including continued reduction in the residential construction and land development portfolio and resolution of problem assets. Total assets were $4.962 billion at September 30, 2010 compared to $5.129 billion at December 31, 2009, a decrease of 3.26%

Loans. The composition of loans at September 30, 2010 and at December 31, 2009 and the percentage (%) of each classification to total loans are summarized as follows (dollars in thousands):

	September 30, 2010		*December 31, 2009*	
	Amount	*Percent*	*Amount*	*Percent*
Commercial real estate Mortgage	$ 1,103,261	*33.9%*	$ 1,118,068	*31.4%*
Consumer real estate Mortgage	720,140	*22.2%*	756,015	*21.2%*
Construction and land development	359,729	*11.1%*	525,271	*14.7%*
Commercial and industrial	995,743	*30.6%*	1,071,444	*30.1%*
Consumer and other	73,052	*2.2%*	92,584	*2.6%*
Total loans	$ 3,251,925	*100.0%*	$ 3,563,382	*100.0%*

Although the allocation of our loan portfolio did not change significantly during the nine months ended September 30, 2010 when compared to December 31, 2009, we experienced a decrease of 31.5% in the construction and land development loan classification as well as a decrease of 4.7% in the consumer real estate-mortgage classification. The decrease in the construction and land development classification is due in part to our decision to reduce our exposure to this particular segment, particularly the residential construction and land development segment. The reduction in our appetite for these type loans will likely restrain our loan growth in the future in comparison to historical periods. The commercial real estate mortgage category primarily consists of owner-occupied commercial real estate loans. Owner-occupied commercial real estate is similar in many ways to our commercial and industrial lending in that these loans are generally made to businesses on the basis of the cash flows of the business rather than on the valuation of the real estate. We continue to consider these types of commercial real estate mortgage products to be desirable. At September 30, 2010, approximately 46.8% of the outstanding principal balance of our commercial real estate loans was secured by owner-occupied properties.

We periodically analyze our commercial loan portfolio to determine if a concentration of credit risk exists to any one or more industries. We use broadly accepted industry classification systems in order to classify borrowers into various industry classifications. We have a credit exposure (loans outstanding plus unfunded commitments) exceeding 25% of Pinnacle National s total risk-based capital to borrowers in the following industries at September 30, 2010 and December 31, 2009 (dollars in thousands):

	At September 30, 2010			
	Outstanding Principal Balances	**Unfunded Commitments**	**Total exposure**	**Total Exposure at December 31, 2009**
Lessors of nonresidential buildings	$ 457,905	$ 50,196	$ 508,101	$ 497,534
Lessors of residential buildings	125,808	14,950	140,758	159,292
Land subdividers	154,303	21,576	175,879	218,634
New housing operative builders	97,091	28,733	125,824	171,970

We also acquire certain loans from other banks. At September 30, 2010, we had acquired approximately $116.9 million of commercial loans from other banks. Substantially all of these loans are to Nashville or Knoxville

based businesses and were acquired in order to potentially develop other business opportunities with these firms.

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The following table classifies our fixed and variable rate loans at September 30, 2010 according to contractual maturities of (1) one year or less, (2) after one year through five years, and (3) after five years. The table also classifies our variable rate loans pursuant to the contractual repricing dates of the underlying loans (dollars in thousands):

	Amounts at September 30, 2010				
	Fixed Rates	***Variable Rates***	***Totals***	***At September 30, 2010***	***At December 31, 2009***
Based on contractual maturity:					
Due within one year	$ 188,355	$ 893,115	$ 1,081,470	*33.3%*	*35.7%*
Due in one year to five years	778,340	752,396	1,530,736	*47.1%*	*43.7%*
Due after five years	82,786	556,931	639,717	*19.6%*	*20.6%*
Totals	$ 1,049,481	$ 2,202,442	$ 3,251,923	*100.0%*	*100.0%*
Based on contractual repricing dates:					
Daily floating rate (*)	$	$ 1,323,254	$ 1,323,254	*40.7%*	*38.9%*
Due within one year	188,355	739,943	928,298	*28.5%*	*28.8%*
Due in one year to five years	778,340	133,855	912,195	*28.1%*	*28.8%*
Due after five years	82,786	5,390	88,176	*2.7%*	*3.5%*
Totals	$ 1,049,481	$ 2,202,442	$ 3,251,923	*100.0%*	*100.0%*

The above information does not consider the impact of scheduled principal payments.

(*) Daily floating rate loans are tied to Pinnacle National s prime lending rate or a national interest rate index with the underlying loan rates changing in relation to changes in these indexes. Interest rate floors are

currently in effect on approximately $1.04 billion of our daily floating rate loan portfolio and on approximately $413 million of the variable rate loan portfolio at varying maturities. The weighted average rate of the floors for the daily floating rate portfolio is 5.19% and the weighted average rate of the floors for the remaining variable rate portfolio is 4.49%. As a result, interest income on these loans will not adjust until the contractual rate on the underlying loan exceeds the interest rate floor.

Performing Loans in Past Due Status. The following table is a summary of our performing loans that were past due at least 30 days but less than 90 days and greater than 90 days past due as of September 30, 2010 and December 31, 2009 (dollars in thousands):

	September 30, 2010	***December 31, 2009***
Performing loans past due 30 to 90 days:		
Commercial real estate mortgage	$ 1,351	$ 3,790
Consumer real estate mortgage	3,701	5,442
Construction and land development	7,313	2,936
Commercial and industrial	5,399	3,595
Consumer and other	263	506

Total performing loans past due 30 to 90 days	$	18,027	$	16,269
Performing loans past due 90 days or more:				
Commercial real estate mortgage	$	1,197	$	
Consumer real estate mortgage		1,128		
Construction and land development				76
Commercial and industrial		1,314		100
Consumer and other				5
Total performing loans past due 90 days or more	$	3,639	$	181
Ratios:				
Performing loans past due 30 to 90 days as a percentage of total loans		0.55%		0.45%
Performing loans past due 90 days or more as a percentage of total loans		0.11%		0.01%
Total performing loans in past due status as a percentage of total loans		0.67%		0.46%

Potential Problem Loans. Potential problem loans, which are not included in nonperforming assets, amounted to approximately $267.6 million or 8.2% of total loans at September 30, 2010 compared to $257.0 million or 7.2% at December 31, 2009. Potential problem loans represent those loans with a well-defined weakness and where information about possible credit problems of borrowers has caused management to have serious doubts about the borrower s ability to comply with present repayment terms. This definition is believed to be substantially consistent with the standards established by the OCC, Pinnacle National s primary regulator, for loans classified as substandard, excluding the impact of nonperforming loans. The increase in potential problem loans from December 31, 2009 was caused primarily by the downgrade of additional residential construction and development loans, commercial and industrial loans, and commercial real estate loans.

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Non-Performing Assets and Restructured Accruing Loans. At September 30, 2010 we had $151.8 million in nonperforming assets compared to $154.3 million at December 31, 2009. At September 30, 2010, there were $13.5 million of accruing restructured loans that remain in a performing status. There were $27.0 million accruing restructured loans at December 31, 2009. Included in nonperforming assets were $103.1 million in nonperforming loans and $48.7 million in other real estate owned at September 30, 2010 and $124.7 million in nonperforming loans and $29.6 million in other real estate assets at December 31, 2009. Home builders and developers and sub-dividers of land have continued to experience stress due to a combination of declining residential real estate demand and resulting price and collateral value declines in Pinnacle Financial s market areas.

The following table is a summary of our nonperforming assets at September 30, 2010 and December 31, 2009 (dollars in thousands):

	At December 31, 2009	*Increases (2)*	*Decreases (3)*	*At September 30, 2010*
Nonperforming loans (1)				
Commercial real estate mortgage	$ 22,240	$ 23,214	$ 29,296	$ 16,158
Consumer real estate mortgage	12,721	21,758	21,097	13,382
Construction and land development	72,528	65,610	82,462	55,676
Commercial and industrial	16,230	28,669	29,119	15,780
Consumer and other	990	1,812	671	2,131
Total nonperforming loans	124,709	141,063	162,645	103,127
Other real estate owned	29,603	70,190	51,083	48,710
Total nonperforming assets	$ 154,312	$ 211,253	$ 213,728	$ 151,837
Restructured accruing loans				
Commercial real estate mortgage	14,229	2,840	8,122	8,947
Consumer real estate mortgage	749	561	749	561
Construction and land development		223	223	
Commercial and industrial	12,000	3,960	12,000	3,960
Consumer and other				
Total restructured accruing loans	26,978	7,584	21,094	13,468
Total nonperforming assets and restructured accruing loans	$ 181,290	$ 218,837	$ 234,822	$ 165,305
Ratios:				
Nonperforming loans to total loans	3.50%			3.17%
Nonperforming assets to total loans plus other real estate owned	4.29%			4.60%
Nonperforming loans plus restructured accruing loans to total loans and other real estate owned	4.22%			3.53%

(1) Nonperforming loans exclude loans that have been restructured and remain on accruing status. These loans are not considered to be nonperforming because they were performing loans immediately prior to their restructuring and are currently performing in accordance with the restructured terms.

(2) Increases in nonperforming loans are attributable to loans where we have discontinued the accrual of interest at some point during the nine months ended September 30, 2010. Increases in other real estate owned represent the value of properties that have been foreclosed upon during the third quarter of 2010. Increases in restructured accruing loans

are those loans where we have granted the borrower a concession due to the deteriorating financial condition of the borrower during the nine months ended September 30, 2010. These concessions can be in the form of a reduced interest rate, extended maturity date or other matters.

(3) Decreases in nonperforming loans are primarily attributable to payments we have collected from borrowers, charge-offs of recorded balances and transfers of balances to other real estate owned during the nine months ended September 30, 2010. Decreases in other real estate owned represent either the sale, disposition or valuation adjustment on properties which had previously been foreclosed

upon. Decreases in restructured accruing loans are those loans which were previously restructured in a prior calendar year whereby the borrower has satisfactorily performed in accordance with the restructured terms.

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All nonperforming loans are reviewed by and, in most cases, reassigned to a special assets officer that was not the individual responsible for originating the loan. If the loan is reassigned, the special assets officer is responsible for developing an action plan designed to minimize any future losses that may accrue to us. Typically, these special assets officers review our loan files, interview past loan officers assigned to the relationship, meet with borrowers, inspect collateral, reappraise collateral and/or consult with legal counsel. The special assets officer then recommends an action plan to a committee of directors and/or senior associates including lenders and workout specialists, which could include foreclosure, restructuring the loan, issuing demand letters or other actions.

We discontinue the accrual of interest income when (1) there is a significant deterioration in the financial condition of the borrower and full repayment of principal and interest is not expected or (2) the principal or interest is more than 90 days past due, unless the loan is both well-secured and in the process of collection.

Due to the weakening credit status of a borrower, we may elect to formally restructure certain loans to facilitate a repayment plan that seeks to minimize the potential losses that we might incur. Restructured loans are classified as impaired loans and, if on nonaccruing status as of the date of restructuring, the loans are included in the nonperforming loan balances noted above. Not included in nonperforming loans are loans that have been restructured that were performing as of the restructure date. At September 30, 2010, there were $13.5 million of accruing restructured loans that remain in a performing status. There were $27.0 million accruing restructured loans at December 31, 2009.

At September 30, 2010, we owned $48.7 million in real estate which we had acquired (usually through foreclosure) from borrowers, compared to $29.6 million at December 31, 2009, all of which is located within our principal markets. We break out our other real estate owned into four categories: new home construction, developed lots, undeveloped land, and other. Included in the other category are primarily condos, office buildings and existing homes. The following table shows the classification of our other real estate owned (dollars in thousands):

	September 30, 2010	*December 31, 2009*
New home construction	$ 2,811	$ 2,829
Developed lots	13,497	656
Undeveloped land	13,029	22,317
Other	19,373	3,801
	$ 48,710	$ 29,603

Allowance for Loan Losses (allowance). We maintain the allowance at a level that our management deems appropriate to adequately cover the probable losses inherent in the loan portfolio. As of September 30, 2010 and December 31, 2009, our allowance for loan losses was $84.6 million and $92.0 million, respectively, which our management deemed to be adequate at each of the respective dates. The judgments and estimates associated with our allowance determination are described under Critical Accounting Estimates above.

The following table sets forth, based on management s best estimate, the allocation of the allowance to types of loans as well as the unallocated portion as of September 30, 2010 and December 31, 2009 and the percentage of loans in each category to total loans (dollars in thousands):

	September 30, 2010		*December 31, 2009*	
	Amount	*Percent*	*Amount*	*Percent*
Commercial real estate Mortgage	$ 22,523	33.9%	$ 22,505	31.4%
Consumer real estate Mortgage	10,206	22.1%	10,725	21.2%
Construction and land development	17,510	11.1%	23,027	14.7%
Commercial and industrial	21,795	30.6%	26,332	30.0%
Consumer and other	1,874	2.3%	2,456	2.7%
Unallocated	10,642	NA	6,914	NA

Total allowance for loan losses	$	84,550	100.0%	$	91,959	100.0%

Specific valuation allowances related to all impaired loans were approximately $6.7 million at September 30, 2010 compared to $19.3 million at December 31, 2009.

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The following is a summary of changes in the allowance for loan losses for the nine months ended September 30, 2010 and for the year ended December 31, 2009 and the ratio of the allowance for loan losses to total loans as of the end of each period (dollars in thousands):

	Nine months ended September 30, 2010	*Year ended December 31, 2009*
Balance at beginning of period	$ 91,959	$ 36,484
Provision for loan losses	48,524	116,758
Charged-off loans:		
Commercial real estate Mortgage	(6,884)	(986)
Consumer real estate Mortgage	(5,461)	(4,881)
Construction and land development	(25,792)	(23,952)
Commercial and industrial (1)	(20,016)	(31,134)
Consumer and other loans	(577)	(1,646)
Total charged-off loans	(58,730)	(62,599)
Recoveries of previously charged-off loans:		
Commercial real estate Mortgage	201	
Consumer real estate Mortgage	306	622
Construction and land development	1,413	139
Commercial and industrial	670	258
Consumer and other loans	207	297
Total recoveries of previously charged-off loans	2,797	1,316
Net charge-offs	(55,933)	(61,283)
Balance at end of period	$ 84,550	$ 91,959
Ratio of allowance for loan losses to total loans outstanding at end of period	2.60%	2.58%
Ratio of net charge-offs (2) to average loans outstanding for the period	2.26%	1.71%

(1) Includes a $21.5 million charge-off of a loan in the second quarter of 2009.

(2)

Net charge-offs for the nine months ended September 30, 2010 have been annualized.

As noted in our critical accounting policies, management assesses the adequacy of the allowance prior to the end of each calendar quarter. This assessment includes procedures to estimate the allowance and test the adequacy and appropriateness of the resulting balance. The level of the allowance is based upon management s evaluation of the loan portfolios, past loan loss experience, known and inherent risks in the portfolio, the views of Pinnacle National s regulators, adverse situations that may affect the borrower s ability to repay (including the timing of future payments), the estimated value of any underlying collateral, composition of the loan portfolio, economic conditions, industry and peer bank loan quality indications and other pertinent factors. This evaluation is inherently subjective as it requires material estimates including the amounts and timing of future cash flows expected to be received on impaired loans that may be susceptible to significant change.

Investments. Our investment portfolio, consisting primarily of Federal agency bonds, state and municipal securities and mortgage-backed securities, amounted to $968.5 million and $937.6 million at September 30, 2010 and December 31, 2009, respectively. Our investment portfolio serves many purposes including serving as a stable source of income, collateral for public funds and as a potential liquidity source. A summary of our investment portfolio at September 30, 2010 follows:

	September 30, 2010
Weighted average life	4.35 years
Weighted average coupon	4.30%
Tax equivalent yield	3.97%

Deposits and Other Borrowings. We had approximately $3.83 billion of deposits at September 30, 2010 compared to $3.82 billion at December 31, 2009. Our deposits consist of noninterest and interest-bearing demand accounts, savings accounts, money market accounts and time deposits. Additionally, we entered into agreements with certain customers to sell certain securities under agreements to repurchase the security the following day. These agreements (which are typically associated with comprehensive treasury management programs for our clients and provide them with short-term returns for their excess funds) amounted to $191.4 million at September 30, 2010 and $275.5 million at December 31, 2009. Additionally, at September 30, 2010, we had borrowed $121.4 million in advances from the Federal Home Loan Bank of Cincinnati compared to $212.7 million at December 31, 2009.

Generally, we have classified our funding base as either core funding or non-core funding. Core funding consists of all deposits other than time deposits issued in denominations of $100,000 or greater. All other funding is deemed to be non-core. The following table represents the balances of our deposits and other fundings and the percentage of each type to the total at September 30, 2010 and December 31, 2009 (dollars in thousands):

	September 30, 2010	Percent	December 31, 2009	Percent
Core funding:				
Noninterest-bearing deposit accounts	$ 581,181	*13.7%*	$ 498,087	*11.3%*
Interest-bearing demand accounts	526,164	*12.4%*	483,274	*11.0%*
Savings and money market accounts	1,439,594	*34.0%*	1,198,012	*27.2%*
Time deposit accounts less than $100,000	378,734	*8.9%*	407,312	*9.2%*
Total core funding	2,925,673	*69.0%*	2,586,685	*58.7%*
Non-core funding:				
Relationship based non-core funding:				
Time deposit accounts greater than $100,000				
Reciprocating time deposits	259,192	*6.1%*	228,941	*5.2%*
Other time deposits	570,379	*13.5%*	636,521	*14.4%*
Securities sold under agreements to repurchase	191,392	*4.5%*	275,465	*6.3%*
Total relationship based non-core funding	1,020,963	*24.1%*	1,140,927	*25.9%*
Wholesale funding:				
Public funds greater than $100,000		*0.0%*	40,005	*0.9%*
Brokered deposits	70,390	*1.7%*	331,447	*7.5%*
Federal Home Loan Bank advances	121,435	*2.9%*	212,655	*4.8%*
Subordinated debt Pinnacle National	15,000	*0.4%*	15,000	*0.3%*
Subordinated debt Pinnacle Financial	82,476	*1.9%*	82,476	*1.9%*
Total wholesale funding	289,301	*6.9%*	681,583	*15.4%*
Total non-core funding	1,310,264	*31.0%*	1,822,510	*41.3%*
Totals	$ 4,235,937	*100.0%*	$ 4,409,195	*100.0%*

Our funding policies limit the amount of non-core funding we can use to support our growth. Periodically, we may exceed our policy limitations, at which time management will develop plans to bring our core funding ratios back within compliance. At September 30, 2010, we were in compliance with our core funding policies. As noted in the table above, our core funding as a percentage of total funding increased from 58.7% at December 31, 2009 to 69.0% at September 30, 2010. The reciprocating time deposit category consists of deposits we receive from a bank network (the CDARS network) in connection with deposits of our customers in excess of our FDIC coverage limit that we place with the CDARS network. With the temporary increase in FDIC coverage from $100,000 to $250,000, the CDARS network, which manages the reciprocating time deposit programs, began placing funds in other time deposits greater than $100,000 increments, thus elevating the amount of other time deposits above the $100,000 core threshold. In addition, the temporary insurance limit increase resulted in a significant increase in time deposits of our customers between $100,000 and the new insurance limits. The Dodd Frank Wall Street Reform and Consumer Protection Act (Dodd Frank Act) permanently increases deposit insurance coverage from $100,000 to $250,000, and we expect this

will cause us to change our deposit categories to reflect the new deposit limit including our core deposit definition. Growing our core deposit base is a key strategic objective of our firm.

The amount of time deposits as of September 30, 2010 amounted to $1.28 billion. The following table shows our time deposits, including brokered time deposits, in denominations of under $100,000 and those of denominations of $100,000 or greater by category based on time remaining until maturity of (1) three months or less, (2) over three but less than six months, (3) over six but less than twelve months and (4) over twelve months and the weighted average rate for each category (dollars in thousands):

	Balances	Weighted Avg. Rate
Denominations less than $100,000		
Three months or less	$ 89,626	1.81%
Over three but less than six months	95,943	2.01%
Over six but less than twelve months	127,923	2.00%
Over twelve months	90,399	2.53%
	403,891	2.08%
Denomination $100,000 and greater		
Three months or less	369,742	1.34%
Over three but less than six months	201,570	1.91%
Over six but less than twelve months	200,897	2.06%
Over twelve months	102,595	2.82%
	874,804	1.81%
Totals	$ 1,278,695	1.89%

Subordinated debt and other borrowings. On December 29, 2003, we established PNFP Statutory Trust I; on September 15, 2005 we established PNFP Statutory Trust II; on September 7, 2006 we established PNFP Statutory Trust III and on October 31, 2007 we established PNFP Statutory Trust IV (Trust I ; Trust II ; Trust III , Trust IV or collectively, the Trusts). All are wholly-owned Pinnacle Financial subsidiaries that are statutory business trusts. We are the sole sponsor of the Trusts and acquired each Trust s common securities for $310,000; $619,000; $619,000, and $928,000, respectively. The Trusts were created for the exclusive purpose of issuing 30-year capital trust preferred securities (Trust Preferred Securities) in the aggregate amount of $10,000,000 for Trust I; $20,000,000 for Trust II; $20,000,000 for Trust III, and $30,000,000 for Trust IV and using the proceeds to acquire junior subordinated debentures (Subordinated Debentures) issued by Pinnacle Financial. The sole assets of the Trusts are the Subordinated Debentures. At September 30, 2010, our $2,476,000 investment in the Trusts is included in investments in unconsolidated subsidiaries in the accompanying consolidated balance sheets and our $82,476,000 obligation is reflected as subordinated debt.

The Trust I Preferred Securities bear a floating interest rate based on a spread over 3-month LIBOR (3.092% at September 30, 2010) which is set each quarter and matures on December 30, 2033. The Trust II Preferred Securities bear a floating interest rate based on a spread over 3-month LIBOR (1.689% at September 30, 2010) which is set each quarter and matures on September 30, 2035. The Trust II securities mature on September 30, 2035. The Trust III Preferred Securities bear a floating interest rate based on a spread over 3-month LIBOR (1.939% at September 30, 2010) which is set each quarter and mature on September 30, 2036. The Trust IV Preferred Securities bear a floating interest rate based on a spread over 3-month LIBOR (3.142% at September 30, 2010) which is set each quarter and matures on September 30, 2037.

Distributions are payable quarterly. The Trust Preferred Securities are subject to mandatory redemption upon repayment of the Subordinated Debentures at their stated maturity date or their earlier redemption in an amount equal to their liquidation amount plus accumulated and unpaid distributions to the date of redemption. We guarantee the

payment of distributions and payments for redemption or liquidation of the Trust Preferred Securities to the extent of funds held by the Trusts. Pinnacle Financial s obligations under the Subordinated Debentures together with the guarantee and other back-up obligations, in the aggregate, constitute a full and unconditional guarantee by Pinnacle Financial of the obligations of the Trusts under the Trust Preferred Securities.

The Subordinated Debentures are unsecured; bear interest at a rate equal to the rates paid by the Trusts on the Trust Preferred Securities; and mature on the same dates as those noted above for the Trust Preferred Securities. Interest is payable quarterly. We may defer the payment of interest at any time for a period not exceeding 20 consecutive quarters provided that the deferral period does not extend past the stated maturity. During any such deferral period, distributions on the Trust Preferred Securities will also be deferred and our ability to pay dividends on our common shares will be restricted.

Subject to approval by the Federal Reserve Bank of Atlanta (Reserve Bank) and the limitations on repurchase resulting from Pinnacle Financial s participation in the CPP, the Trust Preferred Securities may be redeemed subject to the limitations imposed under the CPP prior to maturity at our option on or after September 17, 2008 for Trust I; on or after September 30, 2010 for Trust II; September 30, 2011 for Trust III and September 30, 2012 for Trust IV. The Trust Preferred Securities may also be redeemed at any time subject to the CPP restrictions in whole (but not in part) in the event of unfavorable changes in laws or regulations that result in (1) the Trust becoming subject to federal income tax on income received on the Subordinated Debentures, (2) interest payable by the parent company on the Subordinated Debentures becoming non-deductible for Federal tax purposes, (3) the requirement for the Trust to register under the Investment Company Act of 1940, as amended, or (4) loss of the ability to treat the Trust Preferred Securities as Tier I capital under the Federal Reserve capital adequacy guidelines.

The Trust Preferred Securities for the Trusts qualify as Tier I capital under current regulatory definitions subject to certain limitations. That treatment is expected to continue under the Dodd Frank Act. Debt issuance costs associated with Trust I of $56,000 consisting primarily of underwriting discounts and professional fees are included in other assets in the accompanying consolidated balance sheet. These debt issuance costs are being amortized over ten years using the straight-line method. There was no debt issuance costs associated with Trust II, Trust III or Trust IV.

On August 5, 2008, Pinnacle National also entered into a $15 million subordinated term loan with a regional bank. The loan bears interest at three month LIBOR plus 3.5%, matures in 2015 and qualified as Tier 2 capital for regulatory capital purposes until August 2010. The portion that qualifies as Tier II capital decreases by $3 million at each subsequent anniversary.

Capital Resources. At September 30, 2010 and December 31, 2009, our stockholders equity amounted to $686.5 million and $701.0 million, respectively, a decrease of approximately $14.5 million. This decrease was primarily caused by preferred dividends on the preferred stock of $3.6 million and our net loss of $28.1 million offset by the exercise of employee common stock options netting $2.2 million, employee stock compensation expense of $3.1 million and net unrealized gains of $11.9 million.

In the first quarter of 2010, Pinnacle National agreed to an OCC requirement to maintain a minimum Tier 1 capital to average assets (leverage) ratio, of 8% and a minimum total capital to risk-weighted assets ratio of 12%. Pinnacle Financial has agreed with the Reserve Bank to fully utilize its available resources to ensure that Pinnacle National complies with its ratios. Pinnacle Financial contributed approximately $25 million to Pinnacle National in the second quarter of 2010. At September 30, 2010, Pinnacle National s Tier 1 risk-based capital ratio was 11.5%, total risk-based capital ratio was 13.1% and its leverage ratio was 9.0% compared to 10.7%, 12.3% and 8.7% at December 31, 2009, respectively.

At September 30, 2010, Pinnacle Financial s Tier 1 risk-based capital ratio was 13.5%, our total risk-based capital ratio was 15.1% and our leverage ratio was 10.5% compared to 13.1%, 14.8% and 10.7% at December 31, 2009, respectively.

Dividends. Pinnacle National is subject to restrictions on the payment of dividends to Pinnacle Financial under federal banking laws and the regulations of the OCC. During the year ended December 31, 2009, Pinnacle National paid $8.2 million in dividends to Pinnacle Financial.

Pinnacle National is required by federal law to obtain the prior approval of the OCC for payments of dividends if the total of all dividends declared by its board of directors in any year will exceed (1) the total of Pinnacle National s net profits for that year, plus (2) Pinnacle National s retained net profits of the preceding two years, less any required transfers to surplus. However, given the losses experienced by Pinnacle National during 2009, Pinnacle National may not, subsequent to January 1, 2010, without the prior approval of the OCC, pay any dividends to Pinnacle Financial until such time that current year profits exceed the net losses and dividends of the prior two years. Generally, federal regulatory policy discourages payment of holding company or bank dividends if the holding company or its subsidiaries are experiencing losses. Accordingly, until such time as it may receive dividends from Pinnacle National, Pinnacle Financial anticipates servicing its preferred stock dividend and subordinated indebtedness requirements from its available cash balances which totaled approximately $63.4 million as of September 30, 2010. Pinnacle Financial has agreed to obtain prior approval of the Reserve Bank before making such dividend and subordinated debt payments. A request for such approval for fourth quarter 2010 payments of $1.99 million in the aggregate has been made but as of the date of this report has not been acted upon by the Reserve Bank. Third quarter 2010 dividend and subordinated debt payments were approved by the Federal Reserve Bank during the third quarter.

Pinnacle Financial is subject to limits on payment of common dividends to its shareholders by the rules, regulations and policies of Federal banking authorities, the laws of the State of Tennessee and as a result of its participation in the CPP as more fully discussed in its Form 10-K for the year ended December 31, 2009. Pinnacle Financial has not paid any common stock dividends to date, nor does it anticipate paying dividends to its common shareholders for the foreseeable future. Future dividend policy will depend on Pinnacle Financial s earnings, capital position, financial condition and other factors.

Market and Liquidity Risk Management

Our objective is to manage assets and liabilities to provide a satisfactory, consistent level of profitability within the framework of established liquidity, loan, investment, borrowing, and capital policies. Our Asset Liability Management Committee (ALCO) is charged with the responsibility of monitoring these policies, which are designed to ensure acceptable composition of asset/liability mix. Two critical areas of focus for ALCO are interest rate sensitivity and liquidity risk management.

Interest Rate Sensitivity. In the normal course of business, we are exposed to market risk arising from fluctuations in interest rates. ALCO measures and evaluates the interest rate risk so that we can meet customer demands for various types of loans and deposits. ALCO determines the most appropriate amounts of on-balance sheet and off-balance sheet items. Measurements which we use to help us manage interest rate sensitivity include an earnings simulation model and an economic value of equity model. These measurements are used in conjunction with competitive pricing analysis.

Earnings simulation model. We believe that interest rate risk is best measured by our earnings simulation modeling. Forecasted levels of earning assets, interest-bearing liabilities, and off-balance sheet financial instruments are combined with ALCO forecasts of interest rates for the next 12 months and are combined with other factors in order to produce various earnings simulations. To limit interest rate risk, we have guidelines for our earnings at risk which seek to limit the variance of net interest income to less than a 20 percent decline for a gradual 300 basis point change up or down in rates from management s flat interest rate forecast over the next twelve months; to less than a 10 percent decline for a gradual 200 basis point change up or down in rates from management s flat interest rate forecast over the next twelve months; and to less than a 5 percent decline for a gradual 100 basis point change up or down in rates from management s flat interest rate forecast over the next twelve months.

Economic value of equity. Our economic value of equity model measures the extent that estimated economic values of our assets, liabilities and off-balance sheet items will change as a result of interest rate changes. Economic values are determined by discounting expected cash flows from assets, liabilities and off-balance sheet items, which establishes a base case economic value of equity. To help limit interest rate risk, we have a guideline stating that for an instantaneous 300 basis point change in interest rates up or down, the economic value of equity should not decrease by more than 30 percent from the base case; for a 200 basis point instantaneous change in interest rates up or down, the economic value of equity should not decrease by more than 20 percent; and for a 100 basis point instantaneous change in interest rates up or down, the economic value of equity should not decrease by more than 10 percent.

At September 30, 2010, our model results indicated that our balance sheet is slightly liability-sensitive. Liability-sensitivity implies that our liabilities will reprice faster than our assets. Absent any other asset liability strategies, an interest rate increase could cause slightly reduced net interest margin. This liability sensitivity is primarily attributable to the increase in loan rate floors that will remain constant during the initial stages of rising rates. Our deposit rates are difficult to lower as we have achieved, for many deposit products, embedded floors, which basically means that we either are near a zero interest rate level or competitive pressures do not allow for any meaningful decreases.

Each of the above analyses may not, on its own, be an accurate indicator of how our net interest income will be affected by changes in interest rates. Income associated with interest-earning assets and costs associated with interest-bearing liabilities may not be affected uniformly by changes in interest rates. In addition, the magnitude and duration of changes in interest rates may have a significant impact on net interest income. For example, although certain assets and liabilities may have similar maturities or periods of repricing, they may react in different degrees to changes in market interest rates. Interest rates on certain types of assets and liabilities fluctuate in advance of changes in general market rates, while interest rates on other types may lag behind changes in general market rates. In addition, certain assets, such as adjustable rate mortgage loans, have features (generally referred to as interest rate caps and floors) which limit changes in interest rates. Prepayment and early withdrawal levels also could deviate significantly from those assumed in calculating the maturity of certain instruments. The ability of many borrowers to service their debts also may decrease during periods of rising interest rates. ALCO reviews each of the above interest rate sensitivity analyses along with several different interest rate scenarios as part of its responsibility to provide a satisfactory, consistent level of profitability within the framework of established liquidity, loan, investment, borrowing, and capital policies.

We may also use derivative financial instruments to improve the balance between interest-sensitive assets and interest-sensitive liabilities and as one tool to manage our interest rate sensitivity while continuing to meet the credit and deposit needs of our customers. Beginning in 2007, we entered into interest rate swaps (swaps) to facilitate customer transactions and meet their financing needs. These swaps qualify as derivatives, but are not designated as hedging instruments. At September 30, 2010 and 2009, we had not entered into any derivative contracts to assist

managing our interest rate sensitivity.

Liquidity Risk Management. The purpose of liquidity risk management is to ensure that there are sufficient cash flows to satisfy loan demand, deposit withdrawals, and our other needs. Traditional sources of liquidity for a bank include asset maturities and growth in core deposits. A bank may achieve its desired liquidity objectives from the management of its assets and liabilities and by internally generated funding through its operations. Funds invested in marketable instruments that can be readily sold and the continuous maturing of other earning assets are sources of liquidity from an asset perspective. The liability base provides sources of liquidity through attraction of increased deposits and borrowing funds from various other institutions.

Changes in interest rates also affect our liquidity position. We currently price deposits in response to market rates and our management intends to continue this policy. If deposits are not priced in response to market rates, a loss of deposits could occur which would negatively affect our liquidity position.
Scheduled loan payments are a relatively stable source of funds, but loan payoffs and deposit flows fluctuate significantly, being influenced by interest rates, general economic conditions and competition. Additionally, debt security investments are subject to prepayment and call provisions that could accelerate their payoff prior to stated maturity. We attempt to price our deposit products to meet our asset/liability objectives consistent with local market conditions. Our ALCO is responsible for monitoring our ongoing liquidity needs. Our regulators also monitor our liquidity and capital resources on a periodic basis.
In addition, Pinnacle National is a member of the Federal Home Loan Bank of Cincinnati (FHLB). As a result, Pinnacle National receives advances from the FHLB, pursuant to the terms of various borrowing agreements, which assist it in the funding of its home mortgage and commercial real estate loan portfolios. Under the borrowing agreements with the FHLB, Pinnacle National has pledged certain qualifying residential mortgage loans and, pursuant to a blanket lien, all qualifying commercial mortgage loans as collateral. At September 30, 2010, Pinnacle National had received advances from the FHLB totaling $121.4 million at the following rates and maturities (dollars in thousands):

	Amount	Interest Rates
2010	$ 22	
2011	10,091	1.90%
2012	25,089	3.36%
2013	20,068	2.67%
2014	5,068	0.37%
Thereafter	61,097	1.96%
Total	$ 121,435	
Weighted average interest rate		2.30%

Pinnacle National also has accommodations with upstream correspondent banks for unsecured short-term advances which aggregates $80 million. These accommodations have various covenants related to their term and availability, and in most cases must be repaid within less than a month. There were no outstanding borrowings under these agreements at September 30, 2010, and for the nine months ended September 30, 2010, we averaged borrowings from correspondent banks of $348,000 under such agreements. Pinnacle National also has approximately $797 million in available Federal Reserve discount window lines.
At September 30, 2010, brokered certificates of deposit approximated $70.4 million which represented 1.7% of total funding compared to $331.4 million and 7.5% at December 31, 2009. We issue these brokered certificates through several different brokerage houses based on competitive bid. Typically, these funds are for varying maturities up to two years and are issued at rates which are competitive to rates we would be required to pay to attract similar deposits within our local markets as well as rates for FHLB advances of similar maturities. Although we consider these deposits to be a ready source of liquidity under current market conditions, we began to reduce our reliance on these deposits throughout 2009 and anticipate that these deposits will represent a smaller percentage of our total funding in 2010 as we seek to grow our core deposits.
At September 30, 2010, we had no significant commitments for capital expenditures. Our management believes that we have adequate liquidity to meet all known contractual obligations and unfunded commitments, including loan commitments and reasonable borrower, depositor, and creditor requirements over the next twelve months.
Off-Balance Sheet Arrangements. At September 30, 2010, we had outstanding standby letters of credit of $76.7 million and unfunded loan commitments outstanding of $893.6 million. Because these commitments generally

have fixed expiration dates and many will expire without being drawn upon, the total commitment level does not necessarily represent future cash requirements. If needed to fund these outstanding commitments, Pinnacle National has the ability to liquidate Federal funds sold or securities available-for-sale, or on a short-term basis to borrow and purchase Federal funds from other financial institutions.

Impact of Inflation

The consolidated financial statements and related consolidated financial data presented herein have been prepared in accordance with U.S. generally accepted accounting principles and practices within the banking industry which require the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. Unlike most industrial companies, virtually all the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution s performance than the effects of general levels of inflation.

Recent Accounting Pronouncements

Other than those pronouncements issued during the third quarter of 2010 as discussed in the Consolidated Financial Statements (unaudited), there were no other recently accounting pronouncements that are expected to impact Pinnacle Financial.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by this Item 3 is included on pages 46 through 48 of Part I Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Pinnacle Financial maintains disclosure controls and procedures, as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934 (the Exchange Act), that are designed to ensure that information required to be disclosed by it in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and that such information is accumulated and communicated to Pinnacle Financial s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Pinnacle Financial carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures as of the end of the period covered by this report. Based on the evaluation of these disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that Pinnacle Financial s disclosure controls and procedures were effective.

Changes in Internal Controls

There were no changes in Pinnacle Financial s internal control over financial reporting during Pinnacle Financial s fiscal quarter ended September 30, 2010 that have materially affected, or are reasonably likely to materially affect, Pinnacle Financial s internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There are no material pending legal proceedings to which the Company is a party or of which any of their property is the subject.

ITEM 1A. RISK FACTORS

There have been no material changes to our risk factors as previously disclosed in Part I, Item IA of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 as updated in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2010.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Period	Total Number of Shares Repurchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plans or Programs
July 1, 2010 to July 31, 2010		$		
August 1, 2010 to August 31, 2010	2,032	9.09		
September 1, 2010 to September 30, 2010				
Total	2,032	$ 9.09		

(1) During the quarter ended September 30, 2010, 10,135 shares of restricted stock previously awarded to certain of our associates vested. We withheld 2,032 shares to satisfy tax withholding requirements for these associates.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable

ITEM 4. (REMOVED AND RESERVED)

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

31.1	Certification pursuant to Rule 13a-14(a)/15d-14(a)
31.2	Certification pursuant to Rule 13a-14(a)/15d-14(a)

32.1	Certification pursuant to 18 USC Section 1350	Sarbanes-Oxley Act of 2002
32.2	Certification pursuant to 18 USC Section 1350	Sarbanes-Oxley Act of 2002

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	PINNACLE FINANCIAL PARTNERS, INC.
October 20, 2010	/s/ M. Terry Turner M. Terry Turner President and Chief Executive Officer
October 20, 2010	/s/ Harold R. Carpenter Harold R. Carpenter Chief Financial Officer