
PNFP 10-K 12/31/2007

Section 1: 10-K (PINNACLE FINANCIAL PARTNERS, INC.)

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

FORM 10-K

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

For the fiscal year ended December 31, 2007

OR

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

For the transition period from _____ to _____

Commission File Number: 000-31225



PINNACLE FINANCIAL PARTNERS, INC.

(Exact name of registrant as specified in charter)

Tennessee

(State or other jurisdiction
of incorporation)

62-1812853

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

211 Commerce Street, Suite 300, Nashville, Tennessee

(Address of principal executive offices)

37201

(Zip Code)

Registrant's telephone number, including area code: (615) 744-3700

Securities registered pursuant to Section 12 (b) of the Act:

Title of Each Class

Common Stock, par value \$1.00

Name of Exchange on which Registered

Nasdaq Global Select Market

Securities registered to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark if the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity as of the last business day of the registrant's most recently completed second fiscal quarter: \$410,959,000 as of June 30, 2007.

APPLICABLE ONLY TO CORPORATE REGISTRANTS

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 22,418,287 shares of common stock as of February 28, 2008.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Shareholders, scheduled to be held April 15, 2008, are incorporated by reference into Part III of this Form 10-K.

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FORWARD-LOOKING STATEMENTS

Pinnacle Financial Partners, Inc. (“Pinnacle Financial”) may from time to time make written or oral statements, including statements contained in this report which may constitute forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 (the “Exchange Act”). The words “expect,” “anticipate,” “intend,” “consider,” “plan,” “believe,” “seek,” “should,” “estimate,” and similar expressions are intended to identify such forward-looking statements, but other statements may constitute forward-looking statements. These statements should be considered subject to various risks and uncertainties. Such forward-looking statements are made based upon management’s belief as well as assumptions made by, and information currently available to, management pursuant to “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. Pinnacle Financial’s actual results may differ materially from the results anticipated in forward-looking statements due to a variety of factors. Such factors are described below in “Item 1A. Risk Factors” and include, without limitation, (i) unanticipated deterioration in the financial condition of borrowers resulting in significant increases in loan losses and provisions for those losses, (ii) increased competition with other financial institutions, (iii) lack of sustained growth in the economy in the Nashville and Knoxville, Tennessee areas, (iv) rapid fluctuations or unanticipated changes in interest rates, (v) the inability of our bank subsidiary, Pinnacle National Bank, to satisfy regulatory requirements for its expansion plans, and (vi) changes in state or federal legislation or regulations applicable to financial service providers, including banks. Many of such factors are beyond Pinnacle Financial’s ability to control or predict, and readers are cautioned not to put undue reliance on such forward-looking statements. Pinnacle Financial does not intend to update or reissue any forward-looking statements contained in this report as a result of new information or other circumstances that may become known to Pinnacle Financial. Forward-looking statements made by us in this report are also subject to those risks identified within “Item 1A. Risk Factors.”

PART I

Unless this Form 10-K indicates otherwise or the context otherwise requires, the terms “we,” “our,” “us,” “Pinnacle Financial Partners” or “Pinnacle Financial” as used herein refer to Pinnacle Financial Partners, Inc. and its bank subsidiaries, including its principal bank subsidiary at December 31, 2007 Pinnacle National Bank, which we sometimes refer to as “Pinnacle National,” “our bank subsidiary” or “our bank” and its other subsidiaries. References herein to the fiscal years 2003, 2004, 2005, 2006 and 2007 mean our fiscal years ended December 31, 2003, 2004, 2005, 2006 and 2007, respectively.

ITEM 1. BUSINESS

OVERVIEW

Pinnacle Financial Partners is Tennessee’s second-largest bank holding company, with \$3.8 billion in assets as of Dec. 31, 2007. Incorporated on Feb. 28, 2000, the holding company is parent of Pinnacle National Bank and owns 100% of the capital stock of Pinnacle National Bank. The firm started operations on Oct. 27, 2000, with one office in Nashville, Tenn., and has since grown to 33 offices, including 31 in eight rapidly-growing Middle Tennessee counties. The firm also has two offices in Knoxville, Tenn., the state’s third-largest banking market, and plans to expand to a total of five offices in Knoxville by the end of 2010.

The firm operates as a community bank primarily in urban markets. As an urban community bank, Pinnacle provides the personalized service most often associated with small community banks, while offering the sophisticated products and services, such as investments and treasury management, most typically offered by large regional and national banks. This approach positions Pinnacle Financial to move clients from the three vulnerable regional and national banks that, despite significant market share losses over the last seven years, still possess almost 50% market share in the Nashville MSA.

Withstanding Market Turbulence

Despite the turbulence in financial markets and the financial services industry, Pinnacle has maintained excellent credit quality as compared to other competing financial institutions and has not had significant credit losses since its inception. Pinnacle attributes this to sound credit policy, as well as its approach of hiring the best financial services professionals in the market. Hiring only experienced lenders with large client followings has enabled Pinnacle to further its growth without sacrificing soundness.

Pinnacle also believes that its markets are in good position to weather a national economic downturn. While the local Nashville and Knoxville economies are not as robust as in previous periods, we believe they are still strong in comparison to other United States markets of similar size. Further, national research firm POLICON ranked the Nashville MSA No. 4 nationally in 2007 for economic strength based on long-term tendency to grow in size and quality.

Growth through Acquisition and Successful Integration

In 2007 Pinnacle acquired Mid-America Bancshares Inc. (“Mid-America”), a \$1.12 billion, two-bank holding company with a significant presence in rapidly growing counties that serve to compliment Pinnacle’s existing footprint. Mid-America, formed in 2006 as the parent of PrimeTrust Bank and Bank of the South, operated 14 offices in very attractive trade areas within the Nashville MSA. When Pinnacle acquired PrimeTrust and Bank of the South, each had a growth rate in the top 10 in the country for banks chartered in 2001, the year both banks were formed. The acquisition closed on Nov. 30, 2007, and Pinnacle successfully integrated operations of PrimeTrust and Bank of the South into Pinnacle’s bank subsidiary on February 29, 2008. We measured success on several criteria and we believe we successfully integrated PrimeTrust and Bank of the South as a result of:

1. Achievement of all major integration milestones on time,
2. Achievement of the financial synergies that were proposed at the time the Mid-America transaction was announced,
3. No degradation in service quality as measured by internal client surveys, and
4. Continued loan growth for the combined firm at rates exceeding those of the previous period.

This experience with the Mid-America merger mirrors the successful integration in 2006 of Cavalry Banking (“Cavalry”). Cavalry was a one-bank holding company headquartered in Rutherford County, one of the fastest growing counties in Tennessee. In that acquisition, we met synergy targets and achieved all major milestones while significantly increasing market share. Furthermore, we do not believe we have lost and do not anticipate losing any significant revenue producers or clients as a result of the Mid-America integration.

Opportunity. We believe there are major trends in the Nashville MSA that strengthen our strategic market position as a locally managed community bank:

- Clients generally perceive that service levels at banks are declining. We believe this is largely attributable to merger-related integration issues resulting from consolidation in the bank and brokerage industries. Additionally, small business owners want a reliable point of contact that is knowledgeable about their business and the financial products and services that are important to the success of their business. Nashville is dominated by three large regional bank holding companies that are headquartered elsewhere, each of whom is experiencing declining market share trends over the last seven years; and
- There is significant growth in the demand for convenient access to financial services, particularly through ATMs, telephone banking, remote deposit capture and Internet banking. We have developed best-in-class products and services in these areas, including free ATM usage and a comprehensive Internet banking suite of products.

Our primary market segments, which are small businesses with annual sales from \$1 million to \$50 million, real estate professionals and consumers that are not price-based shoppers, are more likely to be disaffected by the banking industry’s perceived decline in customer service and lack of financial product sophistication. To overcome these client perceptions and attract business from these market segments, our approach is to hire only seasoned professionals, from both the banking and brokerage industries, and strategically design our banking, investment and insurance products to meet the expected needs of our targeted market segments. As an example, we consider our consumer brokerage and corporate treasury management products to be at least at parity with the large regional banks that dominate our target segment in the Nashville market. Our advantage is that we have both the sophisticated product offering and the exceptional service level provided by local financial advisors working hand-in-hand with the client on an ongoing basis. Accordingly, our marketing philosophy is centered on delivering exceptional service and effective financial advice through highly trained personnel who understand and care about the broad financial needs and objectives of our clients.

Business Strategies. To carry out our marketing philosophy, our specific business strategies have been and will continue to be:

- Hire and retain highly experienced and qualified banking and financial professionals with successful track records and, for client contact personnel, established books of business with small businesses, real estate professionals and affluent households within the Nashville and Knoxville MSAs. On average, our senior client contact associates have in excess of 20 years experience in their local market. We have also achieved an annual associate retention rate of approximately 90 percent. We believe we will continue to experience success in attracting more market-best associates to our firm as well as retaining our highly experienced and successful group of associates.
- Provide individualized attention with consistent, local decision-making authority.
- Offer a full line of financial services to include traditional depository and credit products, as well as sophisticated investment, trust and insurance products and services. As of December 31, 2007, Pinnacle National’s brokerage division, Pinnacle Asset Management, had accumulated approximately \$878 million in brokerage assets. In 2007, Pinnacle Asset Management was

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the top producer among Raymond James Financial Services branches nationwide. Additionally, our trust department had accumulated approximately \$464 million in trust assets under management at December 31, 2007. We will use our trust area, Pinnacle Asset Management and Miller and Loughry Insurance Services to provide a broad array of sophisticated and convenient investment and insurance products and services.

- Capitalize on customer dissatisfaction that we believe exists and has been caused by what we believe to be our competitors' less than satisfactory response to the financial needs of today's sophisticated consumers and small- to medium-sized businesses. Since we began our company, we have historically surveyed our customers on numerous matters related to their relationship with us. Consistently, 100 percent of these surveys indicate that Pinnacle is recognizably better than our competitors.
- Offer extraordinary convenience by building a distribution system with online banking, telephone banking, remote deposit services and access to ATMs across the globe to provide options for clients to access financial services 24/7. In addition to the office expansion through acquisition, we opened two new offices in 2007, one in the Nashville MSA and the other in Knoxville.

We believe our business strategies allow us to effectively distinguish ourselves from other financial institutions operating within the Nashville and Knoxville MSAs and successfully attract and retain business relationships with small businesses and affluent households.

Market Area. Our markets of Nashville and Knoxville are two of the top three banking market areas in Tennessee.

Nashville MSA

The Nashville MSA, Pinnacle's primary market area, includes Davidson County and twelve surrounding counties. This area represents a geographic area that covers approximately 4,000 square miles and a population in excess of 1.3 million people. For Pinnacle National, we concentrate our market efforts on Davidson, Rutherford, Williamson, Sumner, Wilson, Cheatham, Dickson and Bedford counties which represent 89.9% of the Nashville MSA's population base and 95.3% of the deposit base (based on June 30, 2007 FDIC information). The area's growth is not limited to population. Median income in the Nashville MSA is expected to have increased by 22% between 2000 and 2008.

Nashville is the capitol of Tennessee and an important transportation, business and tourism center within the United States. Additionally, the metropolitan Nashville area has attracted a number of significant business relocations resulting in an expansion of its labor force into many different industry sectors. In 2007, *Expansion Management* once again ranked Nashville as one of "America's 50 Hottest Cities" for relocation and expansion, and Marketwatch.com ranked Nashville No. 6 nationally in its Top 10 Cities for Business ranking because of Nashville's robust industry sectors. In its Best Cities for Relocating Families ranking, *Primacy* ranked Nashville No. 2 nationally among large market cities based on factors such as home prices, appreciation rates and property taxes. Over the last few years, Nashville has been chosen by such companies as Louisiana Pacific, Nissan North America, CareMark and Dell to relocate their U.S. headquarters or to significantly expand their operations.

Our primary service area's economic strength comes from its large employer base, which includes several large enterprises such as Vanderbilt University and Medical Center, HCA Inc., Saturn Corporation and Nissan Motor Manufacturing Corporation USA. There are currently more than 300 healthcare companies in the Nashville area. Additionally, according to the Nashville Area Chamber of Commerce, the regional economy has outperformed the state and national economies during the most recent time periods and continues to benefit from low unemployment, consistent job growth, substantial outside investment and expansion and a well trained and growing labor force. We anticipate that these factors will continue to cause more businesses to relocate to, or start operations in, the Nashville MSA and, in turn, will increase the demand for depository and lending services within our market at a pace faster than national averages. In comparing Nashville MSA deposits as of June 30, 2007 to those at June 30, 2006, the Nashville MSA deposits were \$2.1 billion higher in 2007 than in 2006, which reflects a 7.4% growth rate.

Knoxville MSA

The Knoxville MSA, where Pinnacle established its de novo presence in 2007, includes five counties with a total population of 667,000 in 2006. According to a Labor Market Assessment of the Greater Knoxville Region conducted for the Knoxville Area Chamber Partnership in 2006, the area's population is growing faster than the state or national growth rates. The study indicates the population is projected to increase by 5.8%, compared to 4.3% for Tennessee and 4.8%

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nationally, between 2006 and 2011. *Primacy* ranked Knoxville No. 1 nationally among middle market cities based on factors such as home prices, appreciation rates and property taxes.

The business climate in the Knoxville MSA has earned the area a reputation for being a good choice for relocation. For instance, *Expansion Management* magazine ranks Knoxville among its 50 Hottest Cities, *Forbes* ranked Knoxville the No. 5 in its ranking of Best Places for Business and Careers, and *Site Selection* magazine ranked Knoxville No. 5 nationally for Best Overall Business Climate.

Among the leading companies that have recently relocated significant operations to the Knoxville area are Brinks Home Security, SYSCO Corporation, Reily Foods and Exedy America. The area was already home to corporate headquarters such as Panasonic Electronic Devices, Regal Corp., Scripps Networks, Sea Ray Boats, Goody's Family Clothing, Pilot Oil, Ruby Tuesday and the Tennessee Valley Authority.

The region is also home to the University of Tennessee and Oak Ridge National Laboratory and Y-12 National Security Complex. These intellectual assets help spur growth in the Knoxville MSA.

Competitive Conditions. The Nashville MSA banking market is very competitive, with 59 financial institutions with over \$30.6 billion in deposits in the market as of June 30, 2007 up from approximately \$28.5 billion at June 30, 2006 according to FDIC data. As of June 30, 2007, approximately 65.0% of this deposit base was controlled by large, multi-state banks headquartered outside of Nashville, which included the following six banks, Regions Financial (headquartered in Birmingham, Alabama), Bank of America (headquartered in Charlotte, North Carolina), First Horizon (headquartered in Memphis, Tennessee), US Bancorp (headquartered in Milwaukee, Wisconsin), SunTrust (headquartered in Atlanta, Georgia), and Fifth Third (headquartered in Cincinnati, Ohio). According to FDIC deposit information, the collective market share of deposits in the Nashville MSA of Regions Financial (including the acquired Union Planters National Bank, First American National Bank, and AmSouth Bank), Bank of America and SunTrust (including the acquired National Bank of Commerce) declined from 67.3% to 48.9% during the ten years ended June 30, 2007. Pinnacle, on the other hand, after only seven years of operations, now holds the No. 4 market share position in the Nashville MSA immediately behind the three vulnerable out-of-state banks.

The Knoxville MSA banking market is also very competitive, with 35 financial institutions with over \$10.4 billion in deposits in the market as of June 30, 2007. According to FDIC data, bank and thrift deposits in the Knoxville MSA grew from approximately \$10.1 billion at June 30, 1996 to more than \$10.4 billion at June 30, 2007. As of June 30, 2007, approximately 68.0% of this deposit base was controlled by large, multi-state banks headquartered outside of Knoxville, which included the following four banks, Regions Financial (headquartered in Birmingham, Alabama), First Horizon (headquartered in Memphis, Tennessee), Branch Banking and Trust (headquartered in Winston-Salem, North Carolina), and SunTrust (headquartered in Atlanta, Georgia). According to FDIC deposit information, the collective market share of deposits in the Knoxville MSA of Regions Financial (including the acquired Union Planters National Bank, First American National Bank, and AmSouth Bank), First Horizon and SunTrust (including the acquired National Bank of Commerce) declined from 66.3% to 56.7% during the ten years ended June 30, 2007.

Consequently, while large, multi-state institutions are well established in both of our market areas, the general trends indicate that a majority of the community banks in our market areas have been able to increase their deposit market share in recent years at the expense of the larger, multi-state banks. Furthermore, continued consolidation of our industry, particularly with respect to the larger regional banks that have presence in our market, should create additional opportunities for us as we capitalize on customer dissatisfaction that usually occurs following a merger of these larger multi-state banks.

The Nashville MSA has also experienced several new denovo banks over the last few years. These new banks will increase the competitiveness of our local market as they work to build market share within Nashville and the surrounding counties. This competition may limit or reduce our profitability, reduce our growth and adversely affect our results of operations and financial condition. We expect that these new banks will approach our customers about moving their banking relationships as well as approach our associates about joining their organizations. However, we do not anticipate losing any customers or associates to these organizations as we will continue to focus on providing high quality customer service and maintaining a high level of engagement with our associate base.

We also believe that Pinnacle National's status as a community bank will not be enough to compete in today's financial industry. In the wake of modern technology and the prosperity of the United States' financial markets, banking clients have generally become more sophisticated in their approach to selecting financial services providers. We believe that the most important criteria to our bank's targeted clients when selecting a bank is their desire to receive exceptional and personal customer service while being able to enjoy convenient access to a broad array of sophisticated financial products. Additionally, when presented with a choice, we believe

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that many of our bank's targeted clients would prefer to deal with a locally-owned institution headquartered in Tennessee, like Pinnacle National, as opposed to a large, multi-state bank, where many important decisions regarding a client's financial affairs are made elsewhere.

Employees

As of Feb. 15, 2008, we employed 732 associates, including 671 full-time associates. These associates are Pinnacle's most important asset and are the reason the firm continues to outpace growth rates of similar institutions. We consider our relationship with all associates to be excellent. This is supported by the fact that for the fifth consecutive year, Pinnacle was named by the Nashville Business Journal as the "Best Place to Work in Nashville" among Middle Tennessee's large companies with more than 100 employees. The selection is based on a survey of associates.

We are also one of a relatively small number of financial firms in the country that provide stock options and other forms of equity compensation for all associates via a broad-based equity incentive plan. We believe this broad-based equity incentive plan directly aligns our employee base with our shareholders, and that our associates have become even more engaged in the creation of shareholder value over the intermediate- and long-terms. Information concerning these plans is included in the "Notes to the Consolidated Financial Statements."

Additionally, all of our non-commission based employees participate in an annual cash incentive plan whereby they receive a certain percentage of their annual base salary should the firm meet certain soundness and earnings targets for the year. Information concerning this plan is included in "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Lending Services

We offer a full range of lending products, including commercial, real estate and consumer loans to individuals and small-to medium-sized businesses and professional entities. We compete for these loans with competitors who are also well established in the Nashville and Knoxville MSAs.

Pinnacle National's loan approval policies provide for various levels of officer lending authority. When the amount of total loans to a single borrower exceeds that individual officer's lending authority, officers with a higher lending limit, Pinnacle National's board of directors or the executive committee of the board determine whether to approve the loan request.

Pinnacle National's lending activities are subject to a variety of lending limits imposed by federal law. Differing limits apply based on the type of loan or the nature of the borrower, including the borrower's relationship to Pinnacle National. In general, however, at December 31, 2007, we were able to loan any one borrower a maximum amount equal to approximately \$30.3 million plus an additional \$20.2 million, or a total of approximately \$50.5 million, for loans that meet certain additional federal collateral guidelines. These legal limits will increase or decrease as our bank subsidiary's capital increases or decreases as a result of its earnings or losses, the injection of additional capital or other reasons. In addition to these regulatory limits, Pinnacle National currently imposes upon itself an internal lending limit of \$22 million, which is less than the prescribed legal lending limit.

The principal economic risk associated with each category of loans that Pinnacle National expects to make is the creditworthiness of the borrower. General economic factors affecting a commercial or consumer borrower's ability to repay include interest, inflation and unemployment rates, as well as other factors affecting a borrower's assets, clients, suppliers and employees. Many of Pinnacle National's commercial loans are made to small- to medium-sized businesses that are sometimes less able to withstand competitive, economic and financial pressures than larger borrowers. During periods of economic weakness, these businesses may be more adversely affected than larger enterprises, and may cause increased levels of nonaccrual or other problem loans, loan charge-offs and higher provision for loan losses.

Pinnacle National's commercial clients borrow for a variety of purposes. The terms of these loans will vary by purpose and by type of any underlying collateral and include equipment loans and working capital loans. Commercial loans may be unsecured or secured by accounts receivable or by other business assets. Pinnacle National also makes a variety of commercial real estate loans, residential real estate loans and construction and development loans.

Pinnacle National also makes a variety of loans to individuals for personal, family, investment and household purposes, including secured and unsecured installment and term loans, residential first mortgage loans, home equity loans and home equity lines of credit. We do not have any concentrations of subprime loans.

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Investment Securities

In addition to loans, Pinnacle National has other investments primarily in obligations of the United States government, obligations guaranteed as to principal and interest by the United States government and other securities. No investment in any of those instruments exceeds any applicable limitation imposed by law or regulation. The executive committee of the board of directors reviews the investment portfolio on an ongoing basis in order to ensure that the investments conform to Pinnacle National's asset liability management policy as set by the board of directors.

Asset and Liability Management

Our Asset Liability Management Committee ("ALCO"), composed of senior managers of Pinnacle National, manages Pinnacle National's assets and liabilities and strives to provide a stable, optimized net interest income and margin, adequate liquidity and ultimately a suitable after-tax return on assets and return on equity. ALCO conducts these management functions within the framework of written policies that Pinnacle National's board of directors has adopted. ALCO works to maintain an acceptable position between rate sensitive assets and rate sensitive liabilities.

Deposit Services

Pinnacle National seeks to establish a broad base of core deposits, including savings, checking, interest-bearing checking, money market and certificate of deposit accounts. To attract deposits, Pinnacle National has employed a marketing plan in its overall service area and features a broad product line and competitive rates and services. The primary sources of deposits are residents and businesses located in the Nashville and Knoxville MSAs. Pinnacle National generally obtains these deposits through personal solicitation by its officers and directors. We also utilize non-core deposits as a significant funding source for our growth. These non-core deposit sources primarily include brokered certificates of deposits and public funds.

Investment, Trust and Insurance Services

Pinnacle National contracts with Raymond James Financial Service, Inc. ("RJFS"), a registered broker-dealer and investment adviser, to offer and sell various securities and other financial products to the public from Pinnacle National's locations through Pinnacle National employees that are also RJFS employees. RJFS is a subsidiary of Raymond James Financial, Inc.

Pinnacle National offers, through RJFS, non-FDIC insured investment products in order to assist Pinnacle National's clients in achieving their financial objectives consistent with their risk tolerances. Pinnacle National's suite of investment products include:

- Mutual Funds;
- Variable Annuities;
- Money Market Instruments;
- Treasury Securities;
- Bonds;
- Fixed Annuities;
- Stocks;
- Financial Planning;
- Asset Management Accounts; and
- Listed Options.

All of the financial products listed above are offered by RJFS from Pinnacle National's main office and its other offices. Additionally, we believe that the brokerage and investment advisory program offered by RJFS complements Pinnacle National's general banking business, and further supports its business philosophy and strategy of delivering to our clients those products and services that meet their financial needs. In addition to the compliance monitoring provided by RJFS, Pinnacle National has developed its own compliance-monitoring program to further ensure that Pinnacle National personnel deliver these products in a manner consistent with the various regulations governing such activities.

Pinnacle National receives a percentage of commission credits and fees generated by the program. Pinnacle National remains responsible for various expenses associated with the program, including promotional expenses, furnishings and equipment expenses and general personnel costs.

Pinnacle National also maintains a trust department which provides fiduciary and investment management services for individual and institutional clients. Account types include personal trust, endowments, foundations, individual retirement accounts, pensions and custody. Pinnacle Financial has also established Pinnacle Advisory Services, Inc., a registered investment advisor, to provide investment advisory services to its clients. Additionally, Miller and Loughry Insurance Services, Inc., a wholly-owned subsidiary of Pinnacle National provides insurance products, particularly in the property and casualty area, to its clients.

Other Banking Services

Given client demand for increased convenience in accessing banking and investment services, Pinnacle National also offers a broad array of convenience-centered products and services, including 24 hour telephone and Internet banking, debit cards, direct deposit and cash management services for small- to medium-sized businesses. Additionally, Pinnacle National is associated with a nationwide network of automated teller machines of other financial institutions that our clients are able to use throughout Tennessee and other regions. In many cases, Pinnacle National, in contrast to its regional competitors, reimburses its clients for any fees that may be charged to the client for utilizing the nationwide ATM network which enables us to demonstrate greater convenience as compared to these competitors.

Pinnacle National also offers its targeted commercial clients remote deposit services, which allow electronic deposits to be made from the client's place of business, giving clients even greater convenience.

Available Information

We file reports with the Securities and Exchange Commission ("SEC"), including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. We are an electronic filer, and the SEC maintains an Internet site at www.sec.gov that contains the reports, proxy and information statements, and other information we have filed electronically. Our website address is www.pnfp.com. Please note that our website address is provided as an inactive textual reference only. We make available free of charge through our website, the annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. The information provided on our website is not part of this report, and is therefore not incorporated by reference unless such information is otherwise specifically referenced elsewhere in this report.

We have posted our Corporate Governance Guidelines, our Corporate Code of Conduct for directors, officers and employees, and the charters of our Audit Committee, Human Resources and Compensation Committee, and Nominating and Corporate Governance Committee of our board of directors on the Corporate Governance section of our website at www.pnfp.com. Our corporate governance materials are available free of charge upon request to our Corporate Secretary, Pinnacle Financial Partners, Inc., 211 Commerce Street, Suite 300, Nashville, Tennessee 37201.

SUPERVISION AND REGULATION

Both Pinnacle Financial and Pinnacle National are subject to extensive state and federal banking laws and regulations that impose restrictions on and provide for general regulatory oversight of Pinnacle Financial's and Pinnacle National's operations. These laws and regulations are generally intended to protect depositors and borrowers, not shareholders. The following discussion describes the material elements of the regulatory framework which apply.

Pinnacle Financial

We are a bank holding company under the federal Bank Holding Company Act of 1956. As a result, we are subject to the supervision, examination, and reporting requirements of the Bank Holding Company Act and the regulations of the Federal Reserve.

Acquisition of Banks. The Bank Holding Company Act requires every bank holding company to obtain the Federal Reserve's prior approval before:

- Acquiring direct or indirect ownership or control of any voting shares of any bank if, after the acquisition, the bank holding company will directly or indirectly own or control more than 5% of the bank's voting shares;
- Acquiring all or substantially all of the assets of any bank; or
- Merging or consolidating with any other bank holding company.

Additionally, the Bank Holding Company Act provides that the Federal Reserve may not approve any of these transactions if it would substantially lessen competition or otherwise function as a restraint of trade, or result in or tend to create a monopoly, unless the anticompetitive effects of the proposed transaction are clearly outweighed by the public interest in meeting the convenience and needs of the communities to be served. The Federal Reserve is also required to consider the financial and managerial resources and

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future prospects of the bank holding companies and banks concerned and the convenience and needs of the communities to be served. The Federal Reserve's consideration of financial resources generally focuses on capital adequacy, which is discussed below.

Under the Bank Holding Company Act, if adequately capitalized and adequately managed, we or any other bank holding company located in Tennessee may purchase a bank located outside of Tennessee. Conversely, an adequately capitalized and adequately managed bank holding company located outside of Tennessee may purchase a bank located inside Tennessee. In each case, however, state law restrictions may be placed on the acquisition of a bank that has only been in existence for a limited amount of time or will result in specified concentrations of deposits. For example, Tennessee law currently prohibits a bank holding company from acquiring control of a Tennessee-based financial institution until the target financial institution has been in operation for three years.

Change in Bank Control. Subject to various exceptions, the Bank Holding Company Act and the Federal Change in Bank Control Act, together with related regulations, require Federal Reserve approval prior to any person or company acquiring "control" of a bank holding company. Control is conclusively presumed to exist if an individual or company acquires 25% or more of any class of voting securities of the bank holding company. Control is rebuttably presumed to exist if a person or company acquires 10% or more, but less than 25%, of any class of voting securities and either:

- The bank holding company has registered securities under Section 12 of the Securities Exchange Act of 1934; or
- No other person owns a greater percentage of that class of voting securities immediately after the transaction.

Our common stock is registered under the Securities Exchange Act of 1934. The regulations provide a procedure for challenge of the rebuttable control presumption.

Permitted Activities. The Gramm-Leach-Bliley Act of 1999 amended the Bank Holding Company Act and expanded the activities in which bank holding companies and affiliates of banks are permitted to engage. The Gramm-Leach-Bliley Act eliminates many federal and state law barriers to affiliations among banks and securities firms, insurance companies, and other financial service providers. Generally, if we qualify and elect to become a financial holding company, which is described below, we may engage in activities that are:

- Financial in nature;
- Incidental to a financial activity; or
- Complementary to a financial activity and do not pose a substantial risk to the safety or soundness of depository institutions or the financial system generally.

The Gramm-Leach-Bliley Act expressly lists the following activities as financial in nature:

- Lending, trust and other banking activities;
- Insuring, guaranteeing, or indemnifying against loss or harm, or providing and issuing annuities, and acting as principal, agent, or broker for these purposes, in any state;
- Providing financial, investment, or advisory services;
- Issuing or selling instruments representing interests in pools of assets permissible for a bank to hold directly;
- Underwriting, dealing in or making a market in securities;
- Activities that the Federal Reserve has determined to be so closely related to banking or managing or controlling banks as to be a proper incident to banking or managing or controlling banks;

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- Activities permitted outside of the United States that the Federal Reserve has determined to be usual in connection with banking or other financial operations abroad;
- Merchant banking through securities or insurance affiliates; and
- Insurance company portfolio investments.

The Gramm-Leach-Bliley Act also authorizes the Federal Reserve, in consultation with the Secretary of the Treasury, to determine activities in addition to those listed above that are financial in nature or incidental to such financial activity. In determining whether a particular activity is financial in nature or incidental or complementary to a financial activity, the Federal Reserve must consider (1) the purpose of the Bank Holding Company and Gramm-Leach-Bliley Acts, (2) changes or reasonably expected changes in the marketplace in which financial holding companies compete and in the technology for delivering financial services, and (3) whether the activity is necessary or appropriate to allow financial holding companies to effectively compete with other financial service providers and to efficiently deliver information and services.

To qualify to become a financial holding company, any of our depository institution subsidiaries must be well capitalized and well managed and must have a Community Reinvestment Act rating of at least “satisfactory.” Additionally, we must file an election with the Federal Reserve to become a financial holding company and provide the Federal Reserve with 30 days written notice prior to engaging in a permitted financial activity. Although we do not have any immediate plans to file an election with the Federal Reserve to become a financial holding company, one of the primary reasons we selected the holding company structure was to have increased flexibility. Accordingly, if deemed appropriate in the future, we may seek to become a financial holding company.

Under the Bank Holding Company Act, a bank holding company, which has not qualified or elected to become a financial holding company, is generally prohibited from engaging in or acquiring direct or indirect control of more than 5% of the voting shares of any company engaged in nonbanking activities unless, prior to the enactment of the Gramm-Leach-Bliley Act, the Federal Reserve found those activities to be so closely related to banking as to be a proper incident to the business of banking. Activities that the Federal Reserve has found to be so closely related to banking as to be a proper incident to the business of banking include:

- Factoring accounts receivable;
- Acquiring or servicing loans;
- Leasing personal property;
- Conducting discount securities brokerage activities;
- Performing selected data processing services;
- Acting as agent or broker in selling credit life insurance and other types of insurance in connection with credit transactions; and
- Performing selected insurance underwriting activities.

Despite prior approval, the Federal Reserve may order a bank holding company or its subsidiaries to terminate any of these activities or to terminate its ownership or control of any subsidiary when it has reasonable cause to believe that the bank holding company’s continued ownership, activity or control constitutes a serious risk to the financial safety, soundness, or stability of any of its bank subsidiaries.

Support of Subsidiary Institutions. Under Federal Reserve policy, we are expected to act as a source of financial strength for our bank subsidiary, Pinnacle National, and to commit resources to support Pinnacle National. This support may be required at times when, without this Federal Reserve policy, we might not be inclined to provide it. In the unlikely event of our bankruptcy, any commitment by us to a federal bank regulatory agency to maintain the capital of Pinnacle National would be assumed by the bankruptcy trustee and entitled to a priority of payment.

Pinnacle National

Following our merger with Mid-America, on February 29, 2008, we, through Pinnacle National, sold the charter of PrimeTrust Bank to an unaffiliated third party but simultaneously purchased all of the assets and assumed all of the liabilities of PrimeTrust Bank and merged Bank of the South into Pinnacle National so that we now own only one bank — Pinnacle National. Pinnacle National is a national bank chartered under the federal National Bank Act. As a result, it is subject to the supervision, examination and reporting requirements of the National Bank Act and the regulations of the Office of the Comptroller of the Currency (the “OCC”). The OCC regularly examines Pinnacle National’s operations and has the authority to approve or disapprove mergers, the establishment of branches and similar corporate actions. The OCC also has the power to prevent the continuance or development of unsafe or unsound banking practices or other violations of law. Additionally, Pinnacle National’s deposits are insured by the FDIC to the maximum extent provided by law. Pinnacle National also is subject to numerous state and federal statutes and regulations that will affect its business, activities and operations.

Branching. While the OCC has authority to approve branch applications, national banks are required by the National Bank Act to adhere to branching laws applicable to state chartered banks in the states in which they are located. With prior regulatory approval, Tennessee law permits banks based in the state to either establish new or acquire existing branch offices throughout Tennessee. Pinnacle National and any other national or state-chartered bank generally may branch across state lines by merging with banks in other states if allowed by the applicable states’ laws. Tennessee law, with limited exceptions, currently permits branching across state lines either through interstate merger, branch acquisition, or branch establishment. The laws of Alabama, North Carolina and Virginia would allow Pinnacle to acquire or establish branches in those states, and banks in those states to similarly branch in Tennessee.

FDIC Insurance. The FDIC has adopted a risk-based assessment system for insured depository institutions that takes into account the risks attributable to different categories and concentrations of assets and liabilities. In early 2006, Congress passed the Federal Deposit Insurance Reform Act of 2005, which made certain changes to the Federal deposit insurance program. These changes included merging the Bank Insurance Fund and the Savings Association Insurance Fund, increasing retirement account coverage to \$250,000 and providing for inflationary adjustments to general coverage beginning in 2010, providing the FDIC with authority to set the fund’s reserve ratio within a specified range, and requiring dividends to banks if the reserve ratio exceeds certain levels. The new statute grants banks an assessment credit based on their share of the assessment base on December 31, 1996, and the amount of the credit can be used to reduce assessments in any year subject to certain limitations. Because it was not organized until 2000, Pinnacle National was not eligible to receive this one-time assessment credit; however, approximately \$297,000 in credits were available from the Cavalry acquisition, all of which were used to reduce our insurance assessment in 2007.

The FDIC may terminate its insurance of deposits if it finds that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Capital Adequacy

Both Pinnacle Financial and Pinnacle National are required to comply with the capital adequacy standards established by the Federal Reserve, in our case, and the OCC, in the case of Pinnacle National. The Federal Reserve has established a risk-based and a leverage measure of capital adequacy for bank holding companies. Pinnacle National is also subject to risk-based and leverage capital requirements adopted by the OCC, which are substantially similar to those adopted by the Federal Reserve for bank holding companies.

The risk-based capital standards are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies, to account for off-balance-sheet exposure, and to minimize disincentives for holding liquid assets. Assets and off-balance-sheet items, such as letters of credit and unfunded loan commitments, are assigned to broad risk categories, each with appropriate risk weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance-sheet items.

The minimum guideline for the ratio of total capital to risk-weighted assets is 8%. Total capital consists of two components, Tier 1 capital and Tier 2 capital. Tier 1 capital generally consists of common stock, minority interests in the equity accounts of consolidated subsidiaries, noncumulative perpetual preferred stock, and a limited amount of cumulative perpetual preferred stock, less goodwill and other specified intangible assets. Tier 1 capital must equal at least 4% of risk-weighted assets. Tier 2 capital generally consists of subordinated debt, other preferred stock, and a limited amount of loan loss reserves. The total amount of Tier 2 capital is limited to 100% of Tier 1 capital.

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In addition, the Federal Reserve has established minimum leverage ratio guidelines for bank holding companies. These guidelines provide for a minimum ratio of Tier 1 capital to average assets, less goodwill and other specified intangible assets, of 3% for bank holding companies that meet specified criteria, including having the highest regulatory rating and implementing the Federal Reserve's risk-based capital measure for market risk. All other bank holding companies generally are required to maintain a leverage ratio of at least 4%. The guidelines also provide that bank holding companies experiencing high internal growth, as is our case, or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels. Furthermore, the Federal Reserve has indicated that it will consider a bank holding company's Tier 1 capital leverage ratio, after deducting all intangibles, and other indicators of capital strength in evaluating proposals for expansion or new activities.

Information concerning our regulatory ratios at December 31, 2007 is included in the "Notes to the Consolidated Financial Statements."

If our growth rate continues, as we presently anticipate, our assets will grow faster than our capital and our capital ratios will decline. In order to maintain capital at Pinnacle National at appropriate levels, we may be required to incur borrowings or issue additional trust preferred or equity securities, the proceeds of which would be contributed to Pinnacle National.

Failure to meet capital guidelines could subject a bank or bank holding company to a variety of enforcement remedies, including issuance of a capital directive, the termination of deposit insurance by the FDIC, a prohibition on accepting brokered deposits, and other restrictions on its business. As described above, significant additional restrictions can be imposed on FDIC-insured depository institutions that fail to meet applicable capital requirements.

Prompt Corrective Action

The Federal Deposit Insurance Corporation Improvement Act of 1991 establishes a system of prompt corrective action to resolve the problems of undercapitalized financial institutions. Under this system, the federal banking regulators have established five capital categories (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized) into one of which all institutions are placed. Federal banking regulators are required to take various mandatory supervisory actions and are authorized to take other discretionary actions with respect to institutions in the three undercapitalized categories. The severity of the action depends upon the capital category in which the institution is placed. Generally, subject to a narrow exception, the banking regulator must appoint a receiver or conservator for an institution that is critically undercapitalized. The federal banking agencies have specified by regulation the relevant capital level for each category.

An institution that is categorized as undercapitalized, significantly undercapitalized, or critically undercapitalized is required to submit an acceptable capital restoration plan to its appropriate federal banking agency. A bank holding company must guarantee that a subsidiary depository institution meets its capital restoration plan, subject to various limitations. The controlling holding company's obligation to fund a capital restoration plan is limited to the lesser of 5% of an undercapitalized subsidiary's assets or the amount required to meet regulatory capital requirements. An undercapitalized institution is also generally prohibited from increasing its average total assets, making acquisitions, establishing any branches or engaging in any new line of business, except under an accepted capital restoration plan or with FDIC approval. The regulations also establish procedures for downgrading an institution and a lower capital category based on supervisory factors other than capital. As of December 31, 2007, we believe Pinnacle National and our other banking subsidiaries in existence at that date would be considered "well capitalized" by their primary regulators.

Payment of Dividends

We are a legal entity separate and distinct from Pinnacle National. Over time, the principal source of our cash flow, including cash flow to pay dividends to our holders of trust preferred securities and to our common stock shareholders, will be dividends that Pinnacle National pays to us as its sole shareholder. Statutory and regulatory limitations apply to Pinnacle National's payment of dividends to us as well as to our payment of dividends to our shareholders.

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. Generally, federal regulatory policy encourages holding company debt to be serviced by subsidiary bank dividends or additional equity issuances instead of utilizing additional debt for such purpose. In the fourth quarter of 2007, Pinnacle National paid dividends to Pinnacle Financial of \$1.25 million.

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The payment of dividends by Pinnacle National and us may also be affected by other factors, such as the requirement to maintain adequate capital above regulatory guidelines. If, in the opinion of the OCC, Pinnacle National was engaged in or about to engage in an unsafe or unsound practice, the OCC could require, after notice and a hearing, that Pinnacle National stop or refrain from engaging in the practice. The federal banking agencies have indicated that paying dividends that deplete a depository institution's capital base to an inadequate level would be an unsafe and unsound banking practice. Under the Federal Deposit Insurance Corporation Improvement Act of 1991, a depository institution may not pay any dividend if payment would cause it to become undercapitalized or if it already is undercapitalized. Moreover, the federal agencies have issued policy statements that provide that bank holding companies and insured banks should generally only pay dividends out of current operating earnings. See "Prompt Corrective Action" above.

Restrictions on Transactions with Affiliates

Both Pinnacle Financial and Pinnacle National are subject to the provisions of Section 23A of the Federal Reserve Act. Section 23A places limits on the amount of:

- A bank's loans or extensions of credit to affiliates;
- A bank's investment in affiliates;
- Assets a bank may purchase from affiliates, except for real and personal property exempted by the Federal Reserve;
- The amount of loans or extensions of credit to third parties collateralized by the securities or obligations of affiliates; and
- A bank's guarantee, acceptance or letter of credit issued on behalf of an affiliate.

The total amount of the above transactions is limited in amount, as to any one affiliate, to 10% of a bank's capital and surplus and, as to all affiliates combined, to 20% of a bank's capital and surplus. In addition to the limitation on the amount of these transactions, each of the above transactions must also meet specified collateral requirements. Pinnacle National must also comply with other provisions designed to avoid the taking of low-quality assets.

Pinnacle Financial and Pinnacle National are also subject to the provisions of Section 23B of the Federal Reserve Act which, among other things, prohibits an institution from engaging in the above transactions with affiliates unless the transactions are on terms substantially the same, or at least as favorable to the institution or its subsidiaries, as those prevailing at the time for comparable transactions with nonaffiliated companies.

Pinnacle National is also subject to restrictions on extensions of credit to its executive officers, directors, principal shareholders and their related interests. These extensions of credit (1) must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties, and (2) must not involve more than the normal risk of repayment or present other unfavorable features.

Community Reinvestment

The Community Reinvestment Act requires that, in connection with examinations of financial institutions within their respective jurisdictions, the Federal Reserve, the OCC or the FDIC shall evaluate the record of each financial institution in meeting the credit needs of its local community, including low- and moderate-income neighborhoods. These facts are also considered in evaluating mergers, acquisitions, and applications to open a branch or facility. Failure to adequately meet these criteria could impose additional requirements and limitations on Pinnacle National. Additionally, banks are required to publicly disclose the terms of various Community Reinvestment Act-related agreements. Pinnacle National has received a "satisfactory" CRA rating from the OCC.

Privacy

Under the Gramm-Leach-Bliley Act, financial institutions are required to disclose their policies for collecting and protecting confidential information. Customers generally may prevent financial institutions from sharing personal financial information with nonaffiliated third parties except for third parties that market the institutions' own products and services. Additionally, financial institutions generally may not disclose consumer account numbers to any nonaffiliated third party for use in telemarketing, direct mail marketing or other marketing through electronic mail to consumers. Pinnacle National has established a privacy policy to ensure compliance with federal requirements.

Other Consumer Laws and Regulations

Interest and other charges collected or contracted for by Pinnacle National are subject to state usury laws and federal laws concerning interest rates. For example, under the Soldiers' and Sailors' Civil Relief Act of 1940, a lender is generally prohibited from charging an annual interest rate in excess of 6% on any obligations for which the borrower is a person on active duty with the United States military. Pinnacle National's loan operations are also subject to federal laws applicable to credit transactions, such as the:

- Federal Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- Fair Credit Reporting Act of 1978, governing the use and provision of information to credit reporting agencies;
- Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies;
- Bank Secrecy Act, governing how banks and other firms report certain currency transactions and maintain appropriate safeguards against "money laundering" activities;
- Soldiers' and Sailors' Civil Relief Act of 1940, governing the repayment terms of, and property rights underlying, secured obligations of persons in military service; and
- Rules and regulations of the various federal agencies charged with the responsibility of implementing the federal laws.

Pinnacle National's deposit operations are subject to the:

- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records; and
- Electronic Funds Transfer Act and Regulation E issued by the Federal Reserve to implement that act, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services.

Anti-Terrorism Legislation

On October 26, 2001, the President of the United States signed the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act of 2001. Under the USA PATRIOT Act, financial institutions are subject to prohibitions against specified financial transactions and account relationships as well as enhanced due diligence and "know your customer" standards in their dealings with foreign financial institutions and foreign customers.

In addition, the USA PATRIOT Act authorizes the Secretary of the Treasury to adopt rules increasing the cooperation and information sharing between financial institutions, regulators, and law enforcement authorities regarding individuals, entities and organizations engaged in, or reasonably suspected based on credible evidence of engaging in, terrorist acts or money laundering activities. Any financial institution complying with these rules will not be deemed to have violated the privacy provisions of the Gramm-Leach-Bliley Act, as discussed above. Pinnacle National currently has policies and procedures in place designed to comply with the USA PATRIOT Act.

Proposed Legislation and Regulatory Action

New regulations and statutes are regularly proposed that contain wide-ranging proposals for altering the structures, regulations and competitive relationships of the nation's financial institutions. We cannot predict whether or in what form any proposed regulation or statute will be adopted or the extent to which our business may be affected by any new regulation or statute.

Effect of Governmental Monetary Policies

Our earnings are affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. The Federal Reserve's monetary policies have had, and are likely to continue to have, an important impact on the operating results of commercial banks through the Federal Reserve's statutory power to implement national monetary policy in order, among other things, to curb inflation or combat a recession. The Federal Reserve, through its monetary and fiscal policies, affects the levels of bank loans, investments and deposits through its control over the issuance of United States government securities, its regulation of the discount rate applicable to member banks and its influence over reserve requirements to which member banks are subject. We cannot predict the nature or impact of future changes in monetary and fiscal policies.

ITEM 1A. RISK FACTORS

Investing in our common stock involves various risks which are particular to our company, our industry and our market area. Several risk factors regarding investing in our common stock are discussed below. This listing should not be considered as all-inclusive. If any of the following risks were to occur, we may not be able to conduct our business as currently planned and our financial condition or operating results could be negatively impacted. These matters could cause the trading price of our common stock to decline in future periods.

We are geographically concentrated in the Nashville, Tennessee MSA, and changes in local economic conditions impact our profitability.

We currently operate primarily in the Nashville, Tennessee MSA, and most all of our loan, deposit and other customers live or have operations in the Nashville MSA. Accordingly, our success significantly depends upon the growth in population, income levels, deposits and housing starts in the Nashville MSA, along with the continued attraction of business ventures to the area. Our profitability is impacted by the changes in general economic conditions in this market. Additionally, unfavorable local or national economic conditions could reduce our growth rate, affect the ability of our customers to repay their loans to us and generally affect our financial condition and results of operations.

We are less able than a larger institution to spread the risks of unfavorable local economic conditions across a large number of diversified economies. Moreover, we cannot give any assurance that we will benefit from any market growth or favorable economic conditions in our primary market areas if they do occur.

We may not be able to continue to expand into the Knoxville MSA in the time frame and at the levels that we currently expect and our projected expansion may continue to reduce our net income in 2008.

In order to continue our expansion into the Knoxville MSA we will be required to hire a significant number of new associates and build out a branch network. We can not assure you that we will be able to hire the number of experienced associates that we need to successfully execute our strategy in the Knoxville MSA, nor can we assure you that the associates we hire will be able to successfully execute our growth strategy in that market. Because we seek to hire experienced associates, the compensation cost associated with these individuals may be higher than that of other financial institutions of similar size in the market. If we are unable to grow our loan portfolio at planned rates, the increased compensation expense of these experienced associates may negatively impact our results of operations. Because there will be a period of time before we are able to fully deploy our resources in the Knoxville MSA, our start up costs, including the cost of our associates and our branch expansion, will negatively impact our results of operations. In addition, if we are not able to expand our branch footprint in the Knoxville MSA in the time period that we have targeted, our results of operations may be negatively impacted. Execution of our growth plans in the Knoxville MSA also depends on continued growth in the Knoxville economy, and unfavorable local or national economic conditions could reduce our growth rate, affect the ability of our customers to repay their obligations to us and generally negatively affect our financial condition and results of operations.

Our continued growth may require the need for additional capital and further regulatory approvals which, if not obtained, could adversely impact our profitability and implementation of our current business plan.

To continue to grow, we will need to provide sufficient capital to Pinnacle National through earnings generation, additional equity or trust preferred offerings or borrowed funds or any combination of these sources of funds. For certain amounts or types of indebtedness, we may be required to obtain certain regulatory approvals beforehand. Should our growth exceed our expectations, we may need to raise additional capital over our projected capital needs. However, our ability to raise additional capital, if needed,

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will depend on conditions in the capital markets at that time, which are outside our control, and on our financial performance. Accordingly, we cannot assure our ability to raise additional capital if needed on terms acceptable to us. If we cannot raise additional capital when needed, our ability to further expand and grow our operations could be materially impaired. Additionally, our current plan involves increasing our branch network, which will require capital expenditures. Our expansion efforts will likely also require certain regulatory approvals. Should we not be able to obtain such approvals or otherwise not be able to grow our asset base, our ability to attain our long-term profitability goals will be more difficult.

We have a concentration of credit exposure to borrowers in certain industries and we also target small to medium-sized businesses.

At December 31, 2007, we had significant credit exposures to borrowers in the trucking industry; commercial and residential building lessors; new home builders and to land subdividers. If any of these industries experience an economic slowdown and, as a result, the borrowers in these industries are unable to perform their obligations under their existing loan agreements, our earnings could be negatively impacted, causing the value of our common stock to decline.

Additionally, a substantial focus of our marketing and business strategy is to serve small to medium-sized businesses in the Nashville and Knoxville MSAs. As a result, a relatively high percentage of our loan portfolio consists of commercial loans primarily to small to medium-sized business. At December 31, 2007, our commercial and industrial loans accounted for 30% of our total loans. During periods of economic weakness, small to medium-sized businesses may be impacted more severely and more quickly than larger businesses. Consequently, the ability of such businesses to repay their loans may deteriorate, and in some cases this determination may occur quickly, which would adversely impact our results of operations and financial condition.

With our recent acquisitions of Cavalry and Mid-America, we significantly increased our real estate construction and development loans, which have a greater credit risk than residential mortgage loans.

Following the acquisitions of Cavalry and Mid-America, construction and development lending is a more significant portion of Pinnacle Financial's loan portfolio than it was prior to these acquisitions. The percentage of construction and land development loans in our bank subsidiaries' portfolios increased to approximately 18.7% of total loans at December 31, 2007 from 16.9% at December 31, 2006 and 10.5% at December 31, 2005. This type of lending is generally considered to have more complex credit risks than traditional single-family residential lending because the principal is concentrated in a limited number of loans with repayment dependent on the successful operation of the related real estate project. Consequently, these loans are more sensitive to adverse conditions in the real estate market or the general economy. These loans are generally less predictable and more difficult to evaluate and monitor and collateral may be difficult to dispose of in a market decline. Additionally, Pinnacle National may experience significant construction loan losses because independent appraisers or project engineers inaccurately estimate the cost and value of construction loan projects. Also, in the event of a general economic downturn in the construction industry, Pinnacle Financial's results of operations may be adversely impacted and its net book value may be reduced.

We may not be able to successfully integrate Mid-America's operations with ours or realize the anticipated benefits of our merger with Mid-America.

The merger of Mid-America with and into Pinnacle Financial involves the combination of two bank holding companies that previously have operated independently and in the case of Mid-America, two separate bank subsidiaries that operate separate from one another. A successful combination of the operations of the three bank subsidiaries will depend substantially on our ability to consolidate operations, systems and procedures and to eliminate redundancies and costs. We may not be able to combine our operations with the operations of Mid-America without encountering difficulties, such as:

- the loss of key employees and customers;
- the disruption of operations and business;
- inability to maintain and increase competitive presence;
- loan and deposit attrition, customer loss and revenue loss;
- possible inconsistencies in standards, control procedures and policies
- unexpected problems with costs, operations, personnel, technology and credit; and/or
- problems with the assimilation of new operations, sites or personnel, which could divert resources from regular banking operations.

Additionally, general market and economic conditions or governmental actions affecting the financial industry generally may inhibit our successful integration with Mid-America and our respective bank subsidiaries.

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Further, we entered into the merger agreement with the expectation that the merger will result in various benefits including, among other things, benefits relating to enhanced revenues, a strengthened market position for the combined company, cross selling opportunities, technology, cost savings and operating efficiencies. Achieving the anticipated benefits of the merger is subject to a number of uncertainties, including whether we integrate Mid-America and its bank subsidiaries in an efficient and effective manner, and general competitive factors in the marketplace. Failure to achieve these anticipated benefits could result in a reduction in the price of our shares as well as in increased costs, decreases in the amount of expected revenues and diversion of management's time and energy and could materially impact our business, financial condition and operating results. Finally, any cost savings that are realized may be offset by losses in revenues or other charges to earnings.

We may incur significant costs integrating Mid-America.

We expect to incur significant costs associated with combining our operations with those of Mid-America. Additional unanticipated costs may be incurred in the integration of our business with the business of Mid-America. Although we expect that the elimination of duplicative costs, as well as the realization of other efficiencies related to the integration of the businesses, may offset incremental transaction and merger-related costs over time, this net benefit may not be achieved in the near term, or at all.

If our allowance for loan losses is not sufficient to cover actual loan losses, our earnings will decrease.

If loan customers with significant loan balances fail to repay their loans according to the terms of these loans, our earnings would suffer. We make various assumptions and judgments about the probable losses in our loan portfolio, including the creditworthiness of our borrowers and the value of any collateral securing the repayment of our loans. We maintain an allowance for loan losses in an attempt to cover our estimate of the probable losses in our loan portfolio. In determining the size of this allowance, we rely on an analysis of our loan portfolio based on volume and types of loans, internal loan classifications, trends in classifications, volume and trends in delinquencies, nonaccruals and charge-offs, national and local economic conditions, industry and peer bank loan quality indications, and other pertinent factors and information. Because we are a relatively young organization, our allowance estimation may be less reflective of our historical loss experience than a more mature organization. If our assumptions are inaccurate, our current allowance may not be sufficient to cover potential loan losses, and additional provisions may be necessary which would decrease our earnings.

In addition, federal and state regulators periodically review our loan portfolio and may require us to increase our allowance for loan losses or recognize loan charge-offs. Their conclusions about the quality of our loan portfolio may be different than ours. Any increase in our allowance for loan losses or loan charge-offs as required by these regulatory agencies could have a negative effect on our operating results.

Fluctuations in interest rates could reduce our profitability.

The absolute level of interest rates as well as changes in interest rates may affect our level of interest income, the primary component of our gross revenue, as well as the level of our interest expense. Interest rate fluctuations are caused by many factors which, for the most part, are not under our direct control. For example, national monetary policy plays a significant role in the determination of interest rates. Additionally, competitor pricing and the resulting negotiations that occur with our customers also impact the rates we collect on loans and the rates we pay on deposits.

As interest rates change, we expect that we will periodically experience "gaps" in the interest rate sensitivities of our assets and liabilities, meaning that either our interest-bearing liabilities will be more sensitive to changes in market interest rates than our interest-earning assets, or vice versa. In either event, if market interest rates should move contrary to our position, this "gap" may work against us, and our earnings may be negatively affected.

Changes in the level of interest rates also may negatively affect our ability to originate real estate loans, the value of our assets and our ability to realize gains from the sale of our assets, all of which ultimately affect our earnings. A decline in the market value of our assets may limit our ability to borrow additional funds. As a result, we could be required to sell some of our loans and investments under adverse market conditions, upon terms that are not favorable to us, in order to maintain our liquidity. If those sales are made at prices lower than the amortized costs of the investments, we will incur losses.

National or state legislation or regulation may increase our expenses and reduce earnings.

Changes in tax law, federal legislation and regulation, such as bankruptcy laws, deposit insurance, and capital requirements, among others, can result in significant increases in our expenses and/or chargeoffs, which may adversely affect our earnings. Changes in state or federal tax laws or regulations can have a similar impact. Recently, the Tennessee Commissioner of Revenue has proposed changes in taxation of certain bank subsidiaries that would increase our state taxes materially, and the likelihood of such changes being adopted is currently uncertain.

Loss of our senior executive officers or other key employees could impair our relationship with our customers and adversely affect our business.

We have assembled a senior management team which has a substantial background and experience in banking and financial services in the Nashville market. Loss of these key personnel could negatively impact our earnings because of their skills, customer relationships and/or the potential difficulty of promptly replacing them.

Competition with other banking institutions could adversely affect our profitability.

A number of banking institutions in the Nashville market have higher lending limits, more banking offices, and a larger market share of loans or deposits. In addition, our asset management division competes with numerous brokerage firms and mutual fund companies which are also much larger. In some respects, this may place these competitors in a competitive advantage, although many of our customers have selected us because of service quality concerns at the larger enterprises. This competition may limit or reduce our profitability, reduce our growth and adversely affect our results of operations and financial condition.

We may issue additional common stock or other equity securities in the future which could dilute the ownership interest of existing shareholders.

In order to maintain our capital at desired or regulatory-required levels, we may be required to issue additional shares of common stock, or securities convertible into, exchangeable for or representing rights to acquire shares of common stock. We may sell these shares at prices below the current market price of shares, and the sale of these shares may significantly dilute shareholder ownership. We could also issue additional shares in connection with acquisitions of other financial institutions.

Even though our common stock is currently traded on the Nasdaq Stock Market's Global Select Market, it has less liquidity than many other stocks quoted on a national securities exchange.

The trading volume in our common stock on the Nasdaq Global Select Market has been relatively low when compared with larger companies listed on the Nasdaq Global Select Market or other stock exchanges. Although we have experienced increased liquidity in our stock, we cannot say with any certainty that a more active and liquid trading market for our common stock will continue to develop. Because of this, it may be more difficult for shareholders to sell a substantial number of shares for the same price at which shareholders could sell a smaller number of shares.

We cannot predict the effect, if any, that future sales of our common stock in the market, or the availability of shares of common stock for sale in the market, will have on the market price of our common stock. We can give no assurance that sales of substantial amounts of common stock in the market, or the potential for large amounts of sales in the market, would not cause the price of our common stock to decline or impair our future ability to raise capital through sales of our common stock.

The market price of our common stock has fluctuated significantly, and may fluctuate in the future. These fluctuations may be unrelated to our performance. General market or industry price declines or overall market volatility in the future could adversely affect the price of our common stock, and the current market price may not be indicative of future market prices.

If a change in control or change in management is delayed or prevented, the market price of our common stock could be negatively affected.

Provisions in our corporate documents, as well as certain federal and state regulations, may make it difficult and expensive to pursue a tender offer, change in control or takeover attempt that our board of directors opposes. As a result, our shareholders may not have an opportunity to participate in such a transaction, and the trading price of our stock may not rise to the level of other institutions that are more vulnerable to hostile takeovers. Anti-takeover provisions contained in our charter also will make it more difficult for an outside shareholder to remove our current board of directors or management.

Holders of Pinnacle Financial's bank indebtedness and junior subordinated debentures have rights that are senior to those of Pinnacle Financial's common shareholders.

Pinnacle Financial has supported its continued growth through the issuance of trust preferred securities from special purpose trusts and accompanying junior subordinated debentures. At December 31, 2007, Pinnacle Financial had outstanding trust preferred securities and accompanying junior subordinated debentures totaling \$82.5 million. Payments of the principal and interest on the trust preferred securities of these trusts are conditionally guaranteed by Pinnacle Financial. Further, the accompanying junior subordinated debentures Pinnacle Financial issued to the trusts are senior to Pinnacle Financial's shares of common stock. As a result, Pinnacle Financial must make payments on the junior subordinated debentures before any dividends can be paid on its common stock and, in the event of Pinnacle Financial's bankruptcy, dissolution or liquidation, the holders of the junior subordinated debentures must be satisfied before any distributions can be made on Pinnacle Financial's common stock. Pinnacle Financial has the right to defer distributions on its junior subordinated debentures (and the related trust preferred securities) for up to five years, during which time no dividends may be paid on its common stock.

The amount of common stock owned by, and other compensation arrangements with, our officers and directors may make it more difficult to obtain shareholder approval of potential takeovers that they oppose.

As of March 1, 2008, directors and executive officers beneficially owned approximately 7.6% of our common stock. Employment agreements with our senior management also provide for significant payments under certain circumstances following a change in control. These compensation arrangements, together with the common stock, option and warrant ownership of our board and management, could make it difficult or expensive to obtain majority support for shareholder proposals or potential acquisition proposals of us that our directors and officers oppose.

Our business is dependent on technology, and an inability to invest in technological improvements may adversely affect our results of operations and financial condition.

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. In addition to better serving customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. We have made significant investments in data processing, management information systems and internet banking accessibility. Our future success will depend in part upon our ability to create additional efficiencies in our operations through the use of technology, particularly in light of our past and projected growth strategy. Many of our competitors have substantially greater resources to invest in technological improvements. We cannot make assurances that our technological improvements will increase our operational efficiency or that we will be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers.

Our internal control over financial reporting may have weaknesses or inadequacies that may be material.

Section 404 of the Sarbanes-Oxley Act of 2002 requires us to perform an evaluation of our internal control over financial reporting and our auditor to attest to such evaluation on an annual basis. Management concluded that our internal control over financial reporting was effective at December 31, 2007. Management's report on internal control over financial reporting is included on page 53 of this Form 10-K and the report of our independent registered public accounting firm on internal control over financial reporting is included on page 55 of this Form 10-K. Ongoing compliance with these requirements is expected to be expensive and time-consuming and may negatively impact our results of operations. While our management did not identify any material weaknesses in our internal control over financial reporting at December 31, 2007, and concluded that our internal control over financial reporting was effective, we cannot make any assurances that material weaknesses in our internal control over financial reporting will not be identified in the future. If any material weaknesses are identified in the future, we may be required to make material changes in our internal control over financial reporting which could negatively impact our results of operations. In addition, upon such occurrence, our management may not be able to conclude that our internal control over financial reporting is effective or our independent registered public accounting firm may not be able to attest that our internal control over financial reporting was effective. If we cannot conclude that our internal control over financial reporting is effective or if our independent registered public accounting firm is not able to attest that our internal control over financial reporting is effective, we may be subject to regulatory scrutiny, and a loss of public confidence in our internal control over financial reporting which may cause the value of our common stock to decrease. For the fiscal year ended December 31, 2007, we did not have to include Mid-America's operations in our analysis of our internal control over financial reporting. As a result, we cannot assure you that these operations have effective internal controls at December 31, 2007. We will include these operations in our analysis for 2008, so we expect to incur costs and expenses associated with evaluating the internal controls related to the former Mid-America operations and to implement our internal control practices for these operations.

We are subject to various statutes and regulations that may limit our ability to take certain actions.

We operate in a highly regulated industry and are subject to examination, supervision, and comprehensive regulation by various regulatory agencies. Our compliance with these regulations is costly and restricts certain of our activities, including payment of dividends, mergers and acquisitions, investments, loans and interest rates charged, interest rates paid on deposits and locations of offices. We are also subject to capitalization guidelines established by our regulators, which require us to maintain adequate capital to support our growth.

The laws and regulations applicable to the banking industry could change at any time, and we cannot predict the effects of these changes on our business and profitability. Because government regulation greatly affects the business and financial results of all commercial banks and bank holding companies, our cost of compliance could adversely affect our ability to operate profitably.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company's executive offices are located at 211 Commerce Street, Suite 300, Nashville, Tennessee. The Company operates 32 banking locations throughout our market areas, of which for 9 locations the Company leases the land, the building or both. The Company has locations in the Tennessee municipalities of Nashville, Knoxville, Murfreesboro, Dickson, Ashland City, Mt. Juliet, Lebanon, Franklin, Brentwood, Hendersonville, Goodlettsville, Smyrna and Shelbyville. We also have three separate operational locations of which two are leased facilities. These facilities are located in Nashville and Murfreesboro.

ITEM 3. LEGAL PROCEEDINGS

As of the date hereof, there are no material pending legal proceedings to which Pinnacle Financial or any of its subsidiaries is a party or of which any of its or its subsidiaries' properties are subject; nor are there material proceedings known to Pinnacle Financial or any of its subsidiaries to be contemplated by any governmental authority; nor are there material proceedings known to Pinnacle Financial or any of its subsidiaries, pending or contemplated, in which any director, officer or affiliate or any principal security holder of Pinnacle Financial or any of its subsidiaries or any associate of any of the foregoing, is a party adverse to Pinnacle Financial or any of its subsidiaries or has a material interest adverse to Pinnacle Financial or any of its subsidiaries.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

- (a) A special meeting of Pinnacle Financial's shareholders was held on November 27, 2007 to vote on the merger agreement with Mid-America Bancshares, Inc. and to amend the 2004 Equity Incentive Plan. There were 15,553,036 shares outstanding as of October 9, 2007 (the record date for the meeting) of which 10,977,776 shares were represented at the meeting on November 27, 2007.

- (c) Matters voted upon and the results of the voting were as follows:

We held a Special Meeting of Shareholders on November 27, 2007 (the "Special Meeting") to consider and vote on the following matters:

- A proposal to approve the Agreement and Plan of Merger, dated as of August 15, 2007 by and between the Pinnacle Financial and Mid-America ("Proposal #1"); and
- A proposal to approve the adjournment of the Special Meeting, if necessary, to permit the Pinnacle Financial to solicit additional proxies if there were not sufficient votes at the Special Meeting to constitute a quorum or to approve Proposal #1 ("Proposal #2"); and
- A proposal to approve an amendment to Pinnacle's 2004 Equity Incentive Plan to increase the number of shares of Pinnacle common stock reserved for issuance under the plan by 500,000 shares ("Proposal #3").

The following table sets forth the number of votes cast for, against, and abstained with respect to each of the proposals, all of which were approved at the Special Meeting:

Proposal #1:	Number of votes cast "For"	10,937,736
	Number of votes cast "Against"	22,891
	Number of abstentions	17,149
Proposal #2:	Number of votes cast "For"	10,738,068
	Number of votes cast "Against"	202,398
	Number of abstentions	36,310
Proposal #3:	Number of votes cast "For"	8,805,508
	Number of votes cast "Against"	2,117,912
	Number of abstentions	54,356

PART II**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Pinnacle Financial's common stock is traded on the Nasdaq Global Select Market's under the symbol "PNFP" and has traded on that market since July 3, 2006. Prior to that date, Pinnacle Financial's common stock traded on the Nasdaq National Market for the periods presented. The following table shows the high and low sales price information for Pinnacle Financial's common stock for each quarter in 2007 and 2006 as reported on the Nasdaq Global Select Market, or its predecessor the Nasdaq National Market.

	Price Per Share	
	High	Low
2007:		
First quarter	\$33.85	\$29.40
Second quarter	31.48	28.27
Third quarter	31.31	21.62
Fourth quarter	30.93	24.85
2006:		
First quarter	\$28.84	\$24.75
Second quarter	30.92	27.09
Third quarter	37.41	28.93
Fourth quarter	36.17	31.23

As of March 1, 2008, Pinnacle Financial had approximately 3,800 shareholders of record.

Pinnacle Financial has not paid any cash dividends since inception, and it does not anticipate that it will consider paying dividends until Pinnacle National has achieved a level of profitability appropriate to fund such dividends and support asset growth. See ITEM 1. "Business — Supervision and Regulation — Payment of Dividends" and ITEM 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional information on dividend restrictions applicable to Pinnacle Financial.

Pinnacle Financial did not repurchase any shares of its common stock during the quarter ended December 31, 2007.

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ITEM 6. SELECTED FINANCIAL DATA

	2007 ⁽¹⁾	2006 ⁽²⁾	2005	2004	2003
(in thousands, except per share data, ratios and percentages)					
Statement of Financial Condition Data:					
Total assets	\$ 3,794,170	\$ 2,142,187	\$1,016,772	\$ 727,139	\$ 498,421
Loans, net of unearned income	2,749,641	1,497,735	648,024	472,362	297,004
Allowance for loan losses	(28,470)	(16,118)	(7,858)	(5,650)	(3,719)
Total securities	522,685	346,494	279,080	208,170	139,944
Goodwill and core deposit intangibles	260,900	125,673	—	—	—
Deposits and securities sold under agreements to repurchase	3,081,390	1,763,427	875,985	602,655	405,619
Advances from FHLB and other borrowings	141,666	53,726	41,500	53,500	44,500
Subordinated debt	82,476	51,548	30,929	10,310	10,310
Stockholders' equity	466,610	256,017	63,436	57,880	34,336
Income Statement Data:					
Interest income	\$ 150,931	\$ 109,696	\$ 46,308	\$ 27,679	\$ 18,262
Interest expense	75,219	48,743	17,270	7,415	5,363
Net interest income	75,712	60,953	29,038	20,264	12,899
Provision for loan losses	4,720	3,732	2,152	2,948	1,157
Net interest income after provision for loan losses	70,992	57,221	26,886	17,316	11,742
Noninterest income	22,521	15,786	5,394	4,978	3,035
Noninterest expense	60,480	46,624	21,032	14,803	10,796
Income before income taxes	33,033	26,383	11,248	7,491	3,981
Income tax expense	9,992	8,456	3,193	2,172	1,426
Net income	\$ 23,041	\$ 17,927	\$ 8,055	\$ 5,319	\$ 2,555
Per Share Data:					
Earnings per share — basic	\$ 1.43	\$ 1.28	\$ 0.96	\$ 0.69	\$ 0.35
Weighted average shares outstanding — basic	16,100,076	13,954,077	8,408,663	7,750,943	7,384,106
Earnings per share — diluted	\$ 1.34	\$ 1.18	\$ 0.85	\$ 0.61	\$ 0.32
Weighted average shares outstanding — diluted	17,255,543	15,156,837	9,464,500	8,698,139	7,876,006
Book value per share	\$ 20.96	\$ 16.57	\$ 7.53	\$ 6.90	\$ 4.65
Common shares outstanding at end of period	22,264,817	15,446,074	8,426,551	8,389,232	7,384,106
Performance Ratios and Other Data:					
Return on average assets	0.96%	1.01%	0.93%	0.89%	0.66%
Return on average stockholders' equity	8.34%	8.66%	13.23%	12.31%	7.70%
Net interest margin (3)	3.55%	3.90%	3.60%	3.62%	3.53%
Net interest spread (4)	2.88%	3.20%	3.16%	3.34%	3.23%
Noninterest income to average assets	0.94%	0.89%	0.62%	0.83%	0.78%
Noninterest expense to average assets	2.53%	2.61%	2.42%	2.48%	2.78%
Efficiency ratio (5)	61.57%	60.76%	61.08%	58.64%	67.78%
Average loan to average deposit ratio	94.88%	88.73%	81.3%	79.0%	85.5%
Average interest-earning assets to average interest-bearing liabilities	119.46%	122.10%	120.0%	120.0%	118.9%
Average equity to average total assets ratio	11.56%	11.64%	7.00%	7.23%	8.54%
Asset Quality Ratios:					
Allowance for loan losses to nonperforming assets	133.3%	199.9%	1,708.3%	1,006.9%	981.3%
Allowance for loan losses to total loans	1.04%	1.08%	1.21%	1.20%	1.25%
Nonperforming assets to total assets	0.56%	0.37%	0.05%	0.08%	0.08%
Nonaccrual loans to total loans	0.72%	0.47%	0.07%	0.12%	0.13%
Net loan charge-offs (recoveries) to average loans	0.06%	0.05%	(0.01)%	0.27%	0.05%
Capital Ratios:					
Leverage (6)	11.6%	9.5%	9.9%	9.7%	9.7%
Tier 1 risk-based capital	9.5%	10.9%	11.7%	11.7%	11.8%
Total risk-based capital	10.4%	11.8%	12.6%	12.7%	12.8%

- (1) Information for 2007 fiscal year includes the operations of Mid-America, which Pinnacle Financial merged with on November 30, 2007 and reflects approximately 6.7 million shares of Pinnacle Financial common stock issued in connection with the merger.
- (2) Information for 2006 fiscal year includes the operations of Cavalry, which Pinnacle Financial merged with on March 15, 2006 and reflects approximately 6.9 million shares of Pinnacle Financial common stock issued in connection with the merger.
- (3) Net interest margin is the result of net interest income for the period divided by average interest earning assets.

- (4) Net interest spread is the result of the difference between the interest yield earned on interest earning assets less the interest paid on interest bearing liabilities.

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- (5) Efficiency ratio is the result of noninterest expense divided by the sum of net interest income and noninterest income.
- (6) Leverage ratio is computed by dividing Tier 1 capital by average total assets for the fourth quarter of each year.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion of our financial condition at December 31, 2007 and 2006 and our results of operations for each of the three-years ended December 31, 2007. 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. Our rapid organic growth together with our merger with Mid-America Bancshares, Inc. ("Mid-America"), a two-bank holding company in Nashville, Tennessee, on November 30, 2007 and Cavalry Bancorp, Inc. ("Cavalry"), a one-bank holding company located in Murfreesboro, Tennessee, on March 15, 2006 has had a material impact on Pinnacle Financial's financial condition and results of operations. This rapid growth resulted in net income for the year ended December 31, 2007 of \$1.34 per diluted share as compared to \$1.18 and \$0.85 per diluted share for 2006 and 2005, respectively. At December 31, 2007, loans totaled \$2.750 billion, as compared to \$1.498 billion at December 31, 2006, while total deposits increased to \$2.925 billion at December 31, 2007 from \$1.622 billion at December 31, 2006.

Acquisition — Mid-America. On November 30, 2007, we consummated a merger with Mid-America. Pursuant to the merger agreement, Mid-America shareholders received a fixed exchange ratio of 0.4655 shares of our common stock and \$1.50 in cash for each share of Mid-America common stock, or approximately 6.7 million Pinnacle Financial shares and \$21.6 million in cash. We financed the cash portion of the merger consideration with the proceeds of a \$30 million trust preferred securities offering by an affiliated trust. The accompanying consolidated financial statements include the activities of the former Mid-America since November 30, 2007.

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 141, "Accounting for Business Combinations" ("SFAS No. 141"), SFAS No. 142, "Goodwill and Intangible Assets" ("SFAS No. 142") and SFAS No. 147, "Acquisition of Certain Financial Institutions" ("SFAS No. 147"), we recorded at fair value the following assets and liabilities of Mid-America as of November 30, 2007 (in thousands):

Cash and cash equivalents	\$ 60,795
Investment securities — available-for-sale	147,766
Loans, net of an allowance for loan losses of \$8,695	855,887
Goodwill	129,334
Core deposit intangible	8,085
Other assets	49,854
Total assets acquired	<u>1,251,721</u>
Deposits	957,076
Federal Home Loan Bank advances	61,383
Other liabilities	27,107
Total liabilities assumed	<u>1,045,566</u>
Total consideration paid for Mid-America	<u>\$ 206,155</u>

As noted above, total consideration for Mid-America approximates \$206.2 million of which \$205.1 million was in the form of cash, Pinnacle Financial common shares and options to acquire Pinnacle Financial common shares and \$1.1 million in investment banking fees, attorney's fees and other costs related to the acquisition which have been accounted for as a component of the purchase price. We paid \$21.6 million in cash and issued 6,676,580 shares of Pinnacle Financial common stock to the former Mid-America shareholders. In accordance with EITF No. 99-12, "Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination," the consideration shares were valued at \$26.26 per common share which represents the average closing price of our common stock from the two days prior to the merger announcement on August 15, 2007 through the two days after the merger announcement. Aggregate consideration for the common stock issued was approximately \$196.9 million. Additionally, we also assumed several Mid-America equity compensation plans (the "Mid-America Plans") pursuant to which we are obligated to issue 487,835 shares of Pinnacle Financial common stock upon exercise of stock options and stock appreciation rights awarded to certain former Mid-America employees who held outstanding options and stock

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appreciation rights as of November 30, 2007. All of these options and stock appreciation rights were fully vested prior to the merger announcement date and expire at various dates between 2011 and 2017. The exercise prices for these stock options and the grant price for these stock appreciation rights range between \$6.63 per share and \$21.37 per share. In accordance with SFAS No. 141, we considered the fair value of these options and stock appreciation rights in determining the acquisition cost of Mid-America. The fair value of these vested options and stock appreciation rights approximated \$8.2 million which has been included as a component of the aggregate purchase price.

In accordance with SFAS Nos. 141 and 142, we have preliminarily recognized \$8.1 million as a core deposit intangible. This identified intangible is being amortized over ten years using an accelerated method which anticipates the life of the underlying deposits to which the intangible is attributable. For the year ended December 31, 2007, approximately \$81,000 was recognized in the accompanying statement of income as other noninterest expense. Amortization expense associated with this identified intangible will approximate \$600,000 to \$975,000 per year for the next ten years.

We also recorded other adjustments to the carrying value of Mid-America's assets and liabilities in order to reflect the fair value of those net assets in accordance with generally accepted accounting principles, including an \$883,000 discount associated with the loan portfolio, a \$2.7 million premium for Mid-America's certificates of deposit and a \$898,000 premium for Mid-America's Federal Home Loan Bank advances. We also recorded the corresponding deferred tax asset or liability associated with these adjustments. The discounts and premiums related to financial assets and liabilities are being accreted and amortized into our statements of income using a method that approximates the level yield method over the anticipated lives of the underlying financial assets or liabilities. For the year ended December 31, 2007, the accretion and amortization of the fair value discounts and premiums related to the acquired loans, certificates of deposit and FHLB advances increased net interest income by approximately \$528,000. Based on the estimated useful lives of the acquired loans, deposits and FHLB advances, we expect to recognize increases in net interest income related to accretion of these purchase accounting adjustments of \$3.9 million in subsequent years. We are in the process of finalizing the allocation of the purchase price to the acquired net assets noted above. Accordingly, the above allocations should be considered preliminary as of December 31, 2007.

During the year ended December 31, 2007, we incurred merger integration expense related to the merger with Mid-America of \$622,000. These expenses were directly related to the merger, recognized as incurred and reflected on the accompanying consolidated statement of income as merger related expense.

Knoxville expansion. During April of 2007, we announced a de novo expansion of our firm to the Knoxville MSA. At that time, we had hired several new associates from other financial institutions in that market and had negotiated a lease agreement for our main office facility with future plans to construct four additional offices over the next few years. In June of 2007, we opened our first full service branch facility in Knoxville. At December 31, 2007, our Knoxville facility had recorded \$109.2 million in loan balances and \$34.2 million in deposit balances. At December 31, 2007, we employed 22 associates in the Knoxville MSA. We incurred approximately \$1.3 million in loan loss provision and approximately \$2.0 million in noninterest expenses for compensation, occupancy and other expenses related to the Knoxville expansion. As a result, we estimate that the Knoxville expansion lost approximately \$0.09 per fully diluted share during 2007.

Acquisition — Cavalry. On March 15, 2006, we consummated our merger with Cavalry. Pursuant to the merger agreement, we acquired all of Cavalry's outstanding common stock via a tax-free exchange whereby Cavalry shareholders received a fixed exchange ratio of 0.95 shares of our common stock for each share of Cavalry common stock, or approximately 6.9 million Pinnacle Financial shares. The financial information herein includes the activities of the former Cavalry (the "Rutherford County market") since March 15, 2006.

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 141, "Accounting for Business Combinations" ("SFAS No. 141"), SFAS No. 142, "Goodwill and Intangible Assets" ("SFAS No. 142") and SFAS No. 147, "Acquisition of Certain Financial Institutions" ("SFAS No. 147"), we recorded at fair value the following assets and liabilities of Cavalry as of March 15, 2006 (dollars in thousands):

Cash and cash equivalents	\$ 37,420
Investment securities — available-for-sale	39,476
Loans, net of an allowance for loan losses of \$5,102	545,598
Goodwill	114,288
Core deposit intangible	13,168
Other assets	42,937
Total assets acquired	<u>792,887</u>

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Deposits	583,992
Federal Home Loan Bank advances	17,767
Other liabilities	18,851
Total liabilities assumed	620,610
Total consideration paid for Cavalry	\$ 172,277

As noted above, total consideration for Cavalry approximates \$172.3 million of which \$171.1 million was in the form of our common shares and options to acquire our common shares and \$1.2 million in investment banking fees, attorney's fees and other costs related to the purchase of Cavalry. We issued 6,856,298 shares of our common stock to the former Cavalry shareholders. In accordance with EITF 99-12, "Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination," the shares were valued at \$24.53 per common share which represents the average closing price of our common stock from the two days prior to the merger announcement on September 30, 2005 through the two days after the merger announcement. Aggregate consideration for the common stock issued was approximately \$168.2 million. Additionally, we also have assumed the Cavalry Bancorp, Inc. 1999 Stock Incentive Plan (the "Cavalry Plan") pursuant to which we were obligated to issue 195,551 shares of our common stock upon exercise of stock options awarded to certain former Cavalry employees who held outstanding options as of March 15, 2006. All of these options were fully vested prior to the merger announcement date and expire at various dates between 2011 and 2012. The exercise prices for these stock options range between \$10.26 per share and \$13.68 per share. In accordance with SFAS No. 141, we considered the fair value of these options in determining the acquisition cost of Cavalry. The fair value of these vested options approximated \$2.9 million which has been included as a component of the aggregate purchase price.

In accordance with SFAS Nos. 141 and 142, we recognized \$13.2 million as a core deposit intangible. This identified intangible is being amortized over seven years using an accelerated method which anticipates the life of the underlying deposits to which the intangible is attributable. For the years ended December 31, 2007 and 2006, approximately \$2.1 million and \$1.8 million was recognized in the statement of income. Amortization expense associated with the core deposit intangible will approximate \$1.6 million to \$2.0 million per year for the next five years with a lesser amount for the remaining year.

We also recorded other adjustments to the carrying value of Cavalry's assets and liabilities in order to reflect the fair value of those net assets in accordance with U.S. generally accepted accounting principles, including a \$4.8 million discount associated with the loan portfolio, a \$2.9 million premium for Cavalry's certificates of deposit and a \$4.6 million premium for Cavalry's land and buildings. We have also recorded the corresponding deferred tax asset or liability associated with these adjustments. The discounts and premiums related to financial assets and liabilities will be amortized into our statements of income in future periods using a method that approximates the level yield method over the anticipated lives of the underlying financial assets or liabilities. For the years ended December 31, 2007 and 2006, the accretion of the fair value discounts related to the acquired loans and certificates of deposit increased net interest income by approximately \$2.5 million and \$3.7 million, respectively. Based on the estimated useful lives of the acquired loans and deposits, we expect to recognize increases in net interest income related to accretion of these purchase accounting adjustments of \$1.5 million in subsequent years.

We also incurred approximately \$1,636,000 in merger related expenses during the year ended December 31, 2006 directly related to the Cavalry merger. These charges were for our integration of Cavalry and accelerated depreciation and amortization related to software and other technology assets whose useful lives were shortened as a result of the Cavalry acquisition. We incurred no merger related expenses during the year ended December 31, 2007 related to the Cavalry merger.

Results of Operations. Our net interest income increased to \$75.7 million for 2007 compared to \$61.0 million for 2006 compared to \$29.0 million for 2005. The net interest margin (the ratio of net interest income to average earning assets) for 2007 was 3.55% compared to 3.90% for 2006 and 3.60% for the same period in 2005.

Our provision for loan losses was \$4.7 million for 2007 compared to \$3.7 million in 2006 and \$2.2 million in 2005. The provision for loan losses increased primarily due to increases in loan volumes and charge-offs in each year when compared to the previous year.

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Noninterest income for 2007 compared to 2006 increased by \$6.73 million, or 42.7%, which was primarily due to increases in service charges on deposits, investment sales commissions, insurance commissions, trust and other fees. Noninterest income for 2006 compared to 2005 increased by \$10.4 million, or 193%. This increase is largely attributable to the fee businesses associated with the Cavalry acquisition, particularly with regard to service charges on deposit accounts, insurance sales commissions and trust fees.

Our continued growth in 2007 resulted in increased noninterest expense compared to 2006 due to the addition of Mid-America for one month in 2007, our expansion into the Knoxville MSA, increases in salaries and employee benefits, equipment and occupancy expenses and other operating expenses. The number of full-time equivalent employees increased from 404.0 at December 31, 2006 to 702.0 at December 31, 2007. As a result, we experienced increases in compensation and employee benefit expense. Our growth in 2006 resulted in increased noninterest expense compared to 2005 due to the addition of the Rutherford County market, increases in salaries and employee benefits, equipment and occupancy expenses and other operating expenses. The number of full-time equivalent employees increased from 156.5 at December 31, 2005 to 404.0 at December 31, 2006. Additionally, we adopted SFAS No. 123(R) in 2006 which addresses the accounting for employee equity based incentives which also increased our compensation and employee benefit expense in 2007 and 2006 when compared to no expense in 2005. In addition to incurring a full year of the Mid-America expense in 2008, we expect to add additional employees throughout 2008 which will also cause our compensation and employee benefit expense to increase in 2008. Additionally, our branch expansion efforts during the last few years and the addition of the eleven Mid-America branches will also increase noninterest expense. The increased operational expenses for the recently opened branches and the additional planned branch in Knoxville expected to open in third quarter of 2008 will continue to result in increased noninterest expense in future periods. Our efficiency ratio (the ratio of noninterest expense to the sum of net interest income and noninterest income) was 61.6% in 2007 compared to 60.8% in 2006 and 61.1% in 2005. These calculations include the impact of approximately \$622,000 in Mid-America merger related charges in 2007 and \$1,636,000 in Cavalry merger related charges in 2006.

The effective income tax expense rate for 2007 was approximately 30.2% compared to an effective income tax expense rate for 2006 of approximately 32.1% and 28.4% for 2005. The decrease in the effective rate for 2007 compared to 2006 was due to increased investment in bank qualified municipal securities and increased tax savings from our captive insurance subsidiary, PNFP Insurance, Inc. The increase in the effective tax rate between 2006 and 2005 was due to the additional earnings being taxed at a higher rate as the various tax savings initiatives (e.g., municipal bond income) had a lesser impact in 2006 when compared to 2005. Additionally, the impact of our incentive stock options and their treatment pursuant to the adoption of SFAS No. 123(R) contributed to the increase in our effective rate in 2006, but also contributed to the decreased effective rate in 2007 as the tax treatment of incentive stock options will gradually lessen over time as these incentive stock options fully vest. We now award only nonqualified stock options and restricted shares to our associates.

Net income for 2007 was \$23.0 million or 28.5% higher than net income for 2006 of \$17.9 million. Net income for 2006 was \$17.9 million compared to \$8.1 million in 2005, an increase of 123%. Fully-diluted net income per common share was \$1.34 for 2007 compared to \$1.18 for 2006 and \$0.85 for 2005.

Excluding the after-tax (rate of 39.23%) impact of merger related charges in both years, net income for 2007 was \$23.4 million compared to \$18.9 million for 2006, an increase of 23.8%. As a result, adjusted diluted net income per common share was \$1.36 for 2007 compared to \$1.25 for 2006, an increase of 8.8%. Excluding the after-tax (rate of 39.23%) impact of merger related charges, net income for 2006 was \$18.9 million compared to \$8.1 million for 2005, an increase of 135%. As a result, adjusted diluted net income per common share was \$1.25 for 2006 compared to \$0.85 for 2005, an increase of 47%. For a reconciliation of these non-GAAP financial measures to their most directly comparable GAAP financial measure, see "Reconciliation of Non-GAAP financial measures" on page 32.

Financial Condition. Loans increased \$1.252 billion during 2007 of which \$863 million was attributable to the Mid-America acquisition. Thus, the net increase in our loan portfolio attributable to organic growth was \$389 million, or 31.0%. Loans increased \$850 million during 2006 of which \$551 million was attributable to the Cavalry acquisition. Thus, the net increase in our loan portfolio attributable to organic growth was \$299 million in 2006 or 46.1%.

We have successfully grown our total deposits to \$2.925 billion at December 31, 2007 compared to \$1.622 billion at December 31, 2006, an increase of \$1.303 billion, of which \$954 million was attributable to the Mid-America acquisition. As a result, we increased our deposits by \$349 million, excluding the Mid-America acquisition. We grew our total deposits to \$1.622 billion at December 31, 2006 compared to \$810 million at December 31, 2005, an increase of \$812 million, of which \$584 million was attributable to the Cavalry acquisition. As a result, we increased our deposits by \$228 million, excluding the Cavalry acquisition. This growth in deposits had a higher funding cost due to rising rates and increased deposit pricing competition in 2007 and 2006 when compared to 2005.

Capital and Liquidity. At December 31, 2007, our capital ratios, including our bank's capital ratios, met regulatory minimum capital requirements. Additionally, at December 31, 2007, our banks would be considered to be "well-capitalized" pursuant to

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banking regulations. As our banks grow they will require additional capital from us over that which can be earned through operations. We anticipate that we will continue to use various capital raising techniques in order to support the growth of our bank.

In the past, we have been successful in procuring additional capital from the capital markets (via public and private offerings of trust preferred securities and common stock). This additional capital was required to support our growth. As of December 31, 2007, we believe we have access to sufficient capital to support our current growth plans. However, expansion by acquisition of other banks or by branching into a new geographic market could result in issuance of additional capital, including additional common shares.

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 adoption of SFAS No. 123 (revised 2004), "Share Based Payments" ("SFAS No. 123(R)") and the accounting for the Mid-America and Cavalry mergers 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 portfolios, past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's 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. 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 contractual interest payments and the contractual principal payments of a loan will be collected as scheduled in the loan agreement.

An impairment allowance is recognized if the present value of expected future cash flows from 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 deferred loan fees or costs and unamortized premium or discount, and does not reflect any direct write-down of the investment). The impairment is recognized through 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 if the loan is collateral dependent, impairment measurement is based on the fair value of the collateral, less estimated disposal costs. Income is recognized on impaired loans on a cash basis.

The level of allowance maintained is believed by management to be adequate to absorb probable losses in the 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 whether there are 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, the input from our independent loan reviewer, and reviews that may have been conducted by bank regulatory agencies as part of their usual examination process. 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 four segments: commercial, commercial real estate, 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 for industry and various peer bank groups. The estimated loan loss allocation rate for our

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internal system of credit risk grades for commercial and commercial real estate is based on management's experience with similarly graded loans, discussions with banking regulators and our internal loan review processes. We then weight the allocation methodologies for the commercial and commercial real estate portfolios and determine a weighted average allocation for these portfolios.

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. Additionally, consumer and consumer real estate loans are analyzed based on 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.

The estimated loan loss allocation for all four 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 inherent credit losses which may exist, but have not yet been identified, as of the balance sheet date 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 segment is increased or decreased based on the incremental assessment of these various "environmental" factors.

We then test the resulting allowance balance 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 result of our testing, and concludes 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.

Share Based Payments — On January 1, 2006, we adopted SFAS No. 123(R), which addresses the accounting for share-based payment transactions in which a company receives employee services in exchange for equity instruments. SFAS No.123(R) eliminates the ability to account for share-based compensation transactions, as we formerly did, using the intrinsic value method as prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and generally requires that such transactions be accounted for using a fair-value-based method and recognized as an expense.

We adopted SFAS No. 123(R) using the modified prospective method which requires the application of the accounting standard as of January 1, 2006. The accompanying consolidated financial statements for 2007 and 2006 reflect the impact of adopting SFAS No. 123(R). In accordance with the modified prospective method, the consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS No. 123(R). Application of SFAS No. 123(R) required us to assess numerous factors including the historical volatility of our stock price, anticipated option forfeitures and estimates concerning the length of time that our options would remain unexercised. Many of these assessments impact the fair value of the underlying stock option more significantly than others and changes to these assessments in future periods could be significant. We believe the assumptions we have incorporated into our stock option fair value assessments are reasonable.

Accounting for the Mid-America and Cavalry Acquisitions — We recorded the assets and liabilities of Mid-America as of November 30, 2007 and Cavalry as of March 15, 2006 at estimated fair value. Arriving at these fair values required numerous assumptions regarding the economic life of assets, decay rates for liabilities and other factors. We engaged a third party to assist us in valuing certain of the financial assets and liabilities of both Mid-America and Cavalry. We also have engaged a real estate appraisal firm to value the more significant properties that were acquired. We also engaged a firm to analyze the income tax implications of the assets and liabilities acquired as well as the deductibility of the various cash payments we and the former Mid-America and Cavalry made and will make as a result of these mergers. As a result, we consider the values we have assigned to the acquired assets and liabilities to be reasonable and consistent with the application of U.S. generally accepted accounting principles (GAAP). We have concluded our assessment of the acquired Cavalry assets and liabilities. We are still in the process of obtaining and evaluating certain other information with respect to Mid-America. Accordingly, we may have to reassess our Mid-America purchase price allocations. We will conclude the allocation of the Mid-America purchase price to the acquired net assets during 2008.

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

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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 tested annually for impairment, and are tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. Our annual assessment date is September 30. Should we determine in a future period that the goodwill recorded in connection with our acquisitions have been impaired, then a charge to our earnings will be recorded in the period such determination is made.

Results of Operations

Our results for fiscal years 2007, 2006 and 2005 were highlighted by the continued growth in loans and other earning assets and deposits, which resulted in increased revenues and expenses. The following is a summary of our results of operations (dollars in thousands):

	<i>Years ended December 31,</i>		<i>2007-2006 Percent</i>	<i>Year ended December 31,</i>	<i>2006-2005 Percent</i>
	<i>2007</i>	<i>2006</i>	<i>Increase (Decrease)</i>	<i>2005</i>	<i>Increase (Decrease)</i>
Interest income	\$150,931	\$109,696	37.6 %	\$46,308	136.9 %
Interest expense	75,219	48,743	54.3 %	17,270	182.2 %
Net interest income	75,712	60,953	24.2 %	29,038	109.9 %
Provision for loan losses	4,720	3,732	26.5 %	2,152	73.4 %
Net interest income after provision for loan losses	70,992	57,221	24.1 %	26,886	112.8 %
Noninterest income	22,521	15,786	42.7 %	5,394	192.7 %
Noninterest expense	60,480	46,624	29.7 %	21,032	121.7 %
Net income before income taxes	33,033	26,383	25.2 %	11,248	134.6 %
Income tax expense	9,992	8,456	18.2 %	3,193	164.8 %
Net income	\$ 23,041	\$ 17,927	28.5 %	\$ 8,055	122.6 %

Our results for the years ended December 31, 2007 and 2006 included merger related expense. Excluding merger related expense from our net income resulted in diluted net income per common share for the year ended December 31, 2007 of \$1.36 and for the year ended December 31, 2006 of \$1.25. A comparison of these amounts to 2005 and a reconciliation of this non-GAAP financial measure follow:

Reconciliation of Non-GAAP financial measures:

	<i>Year ended December 31, 2007</i>	<i>Year ended December 31, 2006</i>	<i>Year ended December 31, 2005</i>
Net income, as reported	\$ 23,041	\$ 17,927	\$ 8,055
Merger related expense net of tax	378	994	—
Net income excluding merger related expense	\$ 23,419	\$ 18,921	\$ 8,055
Fully-diluted net income per common share, as reported	\$ 1.34	\$ 1.18	\$ 0.85
Fully-diluted net income per common share, excluding merger related expense	\$ 1.36	\$ 1.25	\$ 0.85

The presentation of this non-GAAP financial information is not intended to be considered in isolation or as a substitute for any measure prepared in accordance with GAAP. Because non-GAAP financial measures presented are not measurements determined in accordance with GAAP and are susceptible to varying calculations, these non-GAAP financial measures, as presented, may not be comparable to other similarly titled measures presented by other companies.

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Pinnacle Financial believes that these non-GAAP financial measures excluding the impact of merger related expenses facilitate making period-to-period comparisons, are meaningful indications of its operating performance, and provide investors with additional information to evaluate our past financial results and ongoing operational performance.

Pinnacle Financial's management and board utilizes this non-GAAP financial information to compare our operating performance versus the comparable periods in 2005 and utilized non-GAAP diluted earnings per share for the 2007 and 2006 fiscal years (excluding the merger related expenses) in calculating whether or not we met the performance targets of our 2007 and 2006 Annual Cash Incentive Plans and our earnings per share targets in our restricted stock award agreements.

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 the most significant component of our earnings. For the year ended December 31, 2007, we recorded net interest income of \$75,712,000, which resulted in a net interest margin of 3.55% for the year. For the year ended December 31, 2006, we recorded net interest income of \$60,953,000, which resulted in a net interest margin of 3.90%. For the year ended December 31, 2005, we recorded net interest income of \$29,038,000, which resulted in a net interest margin of 3.60%.

The following table sets 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 total interest-earning assets and total interest-bearing liabilities, net interest spread and net interest margin for each of the years in the three-year period ended December 31, 2007 (dollars in thousands):

	2007			2006			2005		
	Average Balances	Interest	Rates/ Yields	Average Balances	Interest	Rates/ Yields	Average Balances	Interest	Rates/ Yields
Interest-earning assets:									
Loans (1)	\$ 1,723,361	\$129,889	7.54%	\$ 1,226,803	\$ 92,006	7.50%	\$ 562,061	\$35,167	6.26%
Securities:									
Taxable	280,668	13,962	4.97%	254,906	12,615	4.95%	204,532	9,086	4.44%
Tax-exempt (2)	82,001	3,066	4.93%	54,270	2,016	4.90%	31,578	1,116	4.66%
Federal funds sold and other	72,344	4,014	5.57%	53,562	3,059	6.87%	24,541	939	3.90%
Total interest-earning assets	2,158,374	150,931	7.04%	1,589,541	109,696	6.95%	822,712	46,308	5.68%
Nonearning assets									
Intangible assets	135,893			100,107			—		
Other nonearning assets	93,782			89,568			47,322		
Total assets	\$ 2,388,049			\$ 1,779,216			\$ 870,034		
Interest-bearing liabilities:									
Interest-bearing deposits:									
Interest checking	\$ 261,163	\$ 8,309	3.18%	\$ 171,637	\$ 4,074	2.37%	\$ 65,119	\$ 659	1.01%
Savings and money market	535,468	17,618	3.29%	435,082	13,532	3.11%	250,136	4,860	1.94%
Certificates of deposit	727,724	35,745	4.91%	516,394	22,426	4.34%	256,056	8,171	3.19%
Total deposits	1,524,355	61,672	4.05%	1,123,113	40,032	3.56%	571,311	13,690	2.40%
Securities sold under agreements to repurchase	181,621	7,371	4.06%	101,144	4,329	4.28%	54,811	1,315	2.40%
Federal Home Loan Bank advances and other borrowings	44,072	2,211	5.02%	39,728	1,878	4.68%	43,933	1,279	2.91%
Subordinated debt	56,759	3,965	6.98%	37,372	2,504	6.70%	16,361	986	6.02%
Total interest-bearing liabilities	1,806,807	75,219	4.16%	1,301,357	48,743	3.75%	686,416	17,270	2.52%
Noninterest-bearing deposits									
	291,983	—	—	259,585	—	—	120,007	—	—
Total deposits and interest-bearing liabilities	2,098,790	75,219	3.58%	1,560,942	48,743	3.12%	806,423	17,270	2.14%
Other liabilities	13,108			11,105			2,730		
Stockholders' equity	276,151			207,169			60,881		
	\$ 2,388,049			\$ 1,779,216			\$ 870,034		
Net interest income		\$ 75,712		\$ 60,953			\$29,038		
Net interest spread (3)			2.88%			3.20%			3.16%
Net interest margin			3.55%			3.90%			3.60%

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- (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.

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- (3) 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 year ended December 31, 2007 would have been 3.46% compared to a net interest spread for the years ended December 31, 2006 and 2005 of 3.83% and 3.54%, respectively.

As noted above, the net interest margin for 2007 was 3.55% compared to a net interest margin of 3.90% in 2006. The reduction in the net interest margin was significant as the net increases in the yield on interest-earning assets was only 9 basis points compared to the increase in the rate paid on total deposits and interest-bearing liabilities of 46 basis points. The net interest margin for 2005 was 3.60%. Other matters related to the changes in net interest income, net interest yields and rates, and net interest margin between 2007 and 2006 are presented below:

- Our loan yields increased by only 4 basis points between 2007 and 2006 while they increased by 124 basis points between 2006 and 2005. A significant amount of our loan portfolio has variable rate pricing with a large portion of these loans tied to our prime lending rate. Our weighted average prime rate for 2005 was 6.25% compared to 7.94% in 2006 and 7.52% in 2007. Our prime lending rate moves in concert with the Federal Reserve's changes to its Federal funds rate. As a result, the large increase in our prime rate between 2005 and 2006 contributed to the increase in overall loan rates while the decrease in our weighted average prime rate between 2006 and 2007 also impacted our loan rates. Other factors that impact our loan yields in any period are our evaluation of the credit worthiness, collateral and other factors related to the borrower when we agree to make a loan, the term of the loan and the ongoing relationship we have with a particular borrower.
- We have been able to grow our funding base significantly. For asset/liability management purposes, we elected to allocate a greater proportion of such funds to our loan portfolio versus our securities and shorter-term investment portfolio during the three year period noted above. For 2007, average loan balances were 80% of total interest-earning assets compared to 77% in 2006 and 68% in 2005. Loans generally have higher yields than do securities and other shorter-term investments. This change in allocation contributed to the increase in the overall total interest earning asset yields between the three years.
- During 2007, overall deposit rates were higher than those rates for the comparable period in 2006 and 2005. Normally, changes in interest rates paid on such products as interest checking, savings and money market accounts, securities sold under agreements to repurchase and Federal funds purchased will generally increase or decrease in a manner that is consistent with changes in the short-term rate environment. However, during 2007, our short term funding rates were generally higher than in 2006 even though we experienced decreases in our short-term asset and prime rate loan yields. We continue to monitor the pricing of deposit products by our primary competitors. The pricing of our primary competitors required us to increase these rates during the three-year period noted.
- During 2007, the average balances of noninterest bearing deposit balances, interest bearing transaction accounts, savings and money market accounts and securities sold under agreements to repurchase amounted to 61% of our total funding compared to 62% in 2005 and 61% in 2004. These funding sources generally have lower rates than do other funding sources, such as certificates of deposit and other borrowings. Additionally, noninterest bearing deposits comprised only 14% of total funding in 2007, compared to 17% in 2006 and 15% in 2005. Maintaining our noninterest bearing deposit balances in relation to total funding is critical to maintaining and growing our net interest margin. Management places a great deal of emphasis on this particular product.
- Also impacting the net interest margin during 2007 compared to 2006 and 2005 was pricing of our floating rate subordinated indebtedness which comprises approximately \$60 million of our average aggregate subordinated indebtedness as of December 31, 2007, compared to \$30 million at December 31, 2006. The interest rate charged on this indebtedness is generally higher than other funding sources. In October 2007, we issued an additional \$30 million in floating rate subordinated indebtedness to fund the cash component of the Mid-America purchase price. The rate we are required to pay on this indebtedness is 285 points over three-month LIBOR. This spread is higher than similar forms of subordinated indebtedness which were acquired in previous periods reflecting an increase in market pricing for this form of indebtedness which occurred in the last half of 2007.

The current shape of the yield curve represents a challenge for most banks, including Pinnacle National, as we use a significant amount of short-term funding to fund our balance sheet growth. This short-term funding comes in the form of checking accounts, savings accounts, money market accounts, short-term time deposits and securities sold under agreements to repurchase. Rates paid on these short-term deposits correlate to the Fed funds rate and short term treasury rates. During most of 2007, the Fed funds rate was higher than other longer term treasuries (i.e., an inverted yield curve). As a result, for most of 2007 depositors tended to maintain their funds in shorter-term deposit accounts where they could achieve a higher yield on their deposit balances and not

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concern themselves with long-term products because there was not enough rate increase for them to justify the longer maturity. In a more traditional rate environment, depositors typically would either accept a lesser rate for more liquid deposit accounts or choose a higher rate via a longer time deposit.

In spite of the current yield curve, we believe we will increase net interest income through overall growth in earning assets in 2008 compared to 2007. The additional revenues provided by increased loan volumes should be sufficient to overcome any immediate increases in funding costs such that we should be able to increase our current net interest income. Even though our net interest income will likely increase, our net interest margins could decrease due to increasingly competitive deposit pricing in our markets. In the last few months of 2007 and first few months of 2008, the Federal Reserve reduced short-term rates dramatically. We have taken steps to counter the impact of these rate decreases on our floating rate assets (including prime rate loans) by reducing deposit rates to an appropriate level where we believe we can sustain our funding base. We believe it will take more time for our market to begin to price in the full impact of these rate decreases, and for competitive reasons we will not be able to counter the full impact of these rate decreases on our net interest margin. As a result, we believe our net interest margins 2008 will be less than our net interest margin in 2007.

Rate and Volume Analysis. Net interest income increased by \$14,759,000 between the years ended December 31, 2007 and 2006 and by \$31,915,000 between the years ended December 31, 2006 and 2005. The following is an analysis of the changes in our net interest income comparing the changes attributable to rates and those attributable to volumes (dollars in thousands):

	2007 Compared to 2006			2006 Compared to 2005		
	Increase (decrease) due to			Increase (decrease) due to		
	Rate	Volume	Net	Rate	Volume	Net
Interest-earning assets:						
Loans	\$ 491	\$37,392	\$37,883	\$6,970	\$49,869	\$56,839
Securities:						
Taxable	51	1,296	1,347	1,043	2,486	3,529
Tax-exempt	16	1,034	1,050	76	824	900
Federal funds sold	(696)	1,651	955	729	1,391	2,120
Total interest-earning assets	(138)	41,373	41,235	8,818	54,570	63,388
Interest-bearing liabilities:						
Interest-bearing deposits:						
Interest checking	1,390	2,845	4,235	886	2,529	3,415
Savings and money market	783	3,303	4,086	2,927	5,745	8,672
Certificates of deposit	2,943	10,376	13,319	2,945	11,310	14,255
Total deposits	5,116	16,524	21,640	6,758	19,584	26,342
Securities sold under agreements to repurchase	(223)	3,265	3,042	1,031	1,983	3,014
Federal Home Loan Bank advances and other borrowings	135	198	333	798	(199)	599
Subordinated debt	105	1,356	1,461	111	1,407	1,518
Total interest-bearing liabilities	5,134	21,342	26,476	8,698	22,775	31,473
Net interest income	\$(5,272)	\$20,031	\$14,759	\$ 120	\$31,795	\$31,915

Changes in net interest income are attributed to either changes in average balances (volume change) or changes in average rates (rate change) for earning assets and sources of funds on which interest is received or paid. Volume change is calculated as change in volume times the previous rate while rate change is change in rate times the previous volume. The change attributed to rates and volumes (change in rate times change in volume) is considered above as a change in volume.

Provision for Loan Losses. The provision for loan losses represents a charge to earnings necessary to establish an allowance for loan losses that, in our management's evaluation, should be adequate to provide coverage for the probable losses on outstanding loans. The provision for loan losses amounted to \$4,720,000, \$3,732,000 and \$2,152,000 for the years ended December 31, 2007, 2006 and 2005, respectively.

Based upon our management's 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 December 31, 2007. A significant increase in loan growth and increased net-charge offs in 2007 were the primary reasons for the increased provision expense in 2007 when compared to 2006 with similar reasons for the increased provision expense in 2006 when compared to 2005.

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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. 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 our management and are reviewed from time to time by regulators, they are necessarily approximate. There exist factors beyond our control, such as general economic conditions both locally and nationally, which may negatively impact, materially, 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 our growth, while investment services and fees from the origination of mortgage loans 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 and may diminish over time as our lending and industry concentration limits increase.

The following is the makeup of our noninterest income for the years ended December 31, 2007, 2006 and 2005 (dollars in thousands):

	<i>Years ended</i>		<i>2007-2006</i>	<i>Year ended</i>	<i>2006-2005</i>
	<i>December 31,</i>		<i>Percent</i>	<i>December 31,</i>	<i>Percent</i>
	<i>2007</i>	<i>2006</i>	<i>Increase</i>	<i>2005</i>	<i>Increase</i>
			<i>(Decrease)</i>		<i>(Decrease)</i>
<i>Noninterest income:</i>					
Service charges on deposit accounts	\$ 7,941	\$ 4,645	71.0 %	\$ 978	374.9 %
Investment services	3,456	2,463	40.3 %	1,836	34.2 %
Insurance sales commissions	2,487	2,123	17.1 %	—	—
Gains on sales of loans and loan participations, net:					
Fees from the origination and sale of mortgage loans, net of sales commissions	1,619	1,448	11.8 %	1,096	32.1 %
Gains on loan participations sold, net	239	420	(43.1 %)	152	176.3 %
Gain on sale of investment securities, net	16	—	—	114	(100.0 %)
Trust fees	1,908	1,181	61.6 %	—	—
Other noninterest income:					
ATM and other consumer fees	2,822	1,796	57.1 %	90	1895.6 %
Letters of credit fees	293	506	(42.1 %)	527	(4.0 %)
Bank-owned life insurance	631	470	34.3 %	74	535.1 %
Equity in earnings of Collateral Plus, LLC	274	120	128.3 %	216	(44.4 %)
Other noninterest income	835	614	36.0 %	311	97.4 %
Total noninterest income	\$22,521	\$15,786	42.7 %	\$5,394	192.7 %

Service charge income for 2007 increased over that of 2006 due to an increased number of customers utilizing overdraft protection products and an increased per item insufficient fund charge. Service charge income for 2006 increased over that of 2005 due to increased volumes from our Rutherford County market and an increase in the number of Nashville deposit accounts subject to service charges. However, for the Nashville accounts, the increase in service charges in 2006 when compared to 2005 and 2004 was offset by the earnings credit rate provided by Pinnacle National to its commercial deposit customers. This earnings credit rate serves to reduce the deposit service charges for our commercial customers and is based on the average balances of their checking accounts at Pinnacle National.

Also included in noninterest income are commissions and fees from our financial advisory unit, Pinnacle Asset Management, a division of Pinnacle National. At December 31, 2007, Pinnacle Asset Management was receiving commissions and fees in connection with approximately \$878 million in brokerage assets held with Raymond James Financial Services, Inc. compared to \$597 million at December 31, 2006. Additionally, at December 31, 2007, our trust department was receiving fees on approximately \$464 million in assets compared to \$395 million at December 31, 2006. In 2007, we earned \$2.5 million in insurance commissions compared to \$2.1 million in 2006. Following our merger with Cavalry in March of 2006, we began to offer trust services through Pinnacle National's trust division and insurance services through Miller and Loughry Insurance and Services, Inc. which we believe will continue to increase our noninterest income in future periods.

Additionally, mortgage related fees also provided for a significant portion of the increase in noninterest income. These mortgage fees are for loans originated in both the Nashville and Rutherford County markets that are subsequently sold to third-party investors.

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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 rate environment. Also, impacting mortgage origination fees are the number of mortgage originators we have offering these products. These originators are largely commission-based employees. We have steadily increased the number of originators working for us over the years and plan to continue to increase our mortgage origination work force in 2008.

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 December 31, 2007 and pursuant to participation agreements with these correspondents, we had participated approximately \$233.4 million of originated loans to these other banks compared to \$95.4 million at December 31, 2006. These 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 SFAS No. 140, "*Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities — a replacement of Financial Accounting Standards Board ("FASB") Statement No. 125,*" in those transactions whereby the correspondent is receiving a lesser amount of 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. Conversely, should a loan be paid prior to maturity, any remaining unamortized asset 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 \$239,000, \$420,000 and \$152,000 during each of the years in the three-year period ended December 31, 2007 related to the loan participation transactions. 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 general, the Mid-America and Cavalry mergers have resulted in an increase in capital which has resulted in increased lending limits for such items as loans to a single borrower and loans to a single industry such that our need to participate such loans in the future may be reduced. In any event, the timing of participations may cause the level of gains, if any, to vary significantly.

Also included in noninterest income for 2007 and 2005, were net gains of approximately \$16,000 and \$114,000 realized from the sale of available-for-sale securities.

Included in other noninterest income are miscellaneous consumer fees, such as ATM revenues, merchant card and other electronic banking revenues. We experienced a significant increase in these revenues in 2007 and 2006 compared to previous periods due primarily to the merger with Cavalry.

Noninterest income from the increased cash surrender value of bank-owned life insurance increased significantly over the three year period. In connection with the Cavalry merger, we became the owner and beneficiary of several life insurance policies on former Cavalry directors and executives. These policies were acquired by Cavalry in connection with a supplemental retirement plan for these former Cavalry directors and executives.

At the end of 2004, we formed a wholly-owned subsidiary, Pinnacle Credit Enhancement Holdings, Inc. ("PCEH"). PCEH owns a 24.5% interest in Collateral Plus, LLC, which is accounted for under the equity method. Collateral Plus, LLC serves as an intermediary between investors and borrowers in certain financial transactions whereby the borrowers require enhanced collateral in the form of guarantees or letters of credit issued by the investors for the benefit of banks and other financial institutions. Our equity in the earnings of Collateral Plus, LLC for the years ended December 31, 2007, 2006 and 2005 was \$274,000, \$120,000 and \$216,000, respectively.

Additional other noninterest income increased by approximately \$221,000 during 2007 when compared to 2006 and \$303,000 during 2006 when compared to 2005. Most of these revenues are for loan late charges and other fees.

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Noninterest Expense. Noninterest expense consists of salaries and employee benefits, equipment and occupancy expenses, and other operating expenses. The following is the makeup of our noninterest expense for the years ended December 31, 2007, 2006 and 2005 (dollars in thousands):

	<i>Years ended December 31,</i>		<i>2007-2006 Percent Increase (Decrease)</i>	<i>Year ended December 31,</i>	<i>2006-2005 Percent Increase (Decrease)</i>
	<i>2007</i>	<i>2006</i>		<i>2005</i>	
<i>Noninterest expense:</i>					
Salaries and employee benefits:					
Salaries	\$26,304	\$18,017	46.0 %	\$ 8,592	109.7 %
Commissions	1,778	1,298	37.0 %	714	81.8 %
Other compensation, primarily incentives	2,602	4,209	(38.2 %)	2,101	100.3 %
Equity compensation expenses	2,100	1,475	42.4 %	245	502.0 %
Employee benefits and other	3,362	2,470	36.1 %	1,479	67.0 %
Total salaries and employee benefits	36,146	27,469	31.6 %	13,131	109.2 %
Equipment and occupancy	10,261	7,522	36.4 %	3,767	99.7 %
Other real estate	160	—	—	—	—
Marketing and business development	1,677	1,234	35.9 %	698	76.8 %
Postage and supplies	1,995	1,510	32.1 %	618	144.3 %
Amortization of core deposit intangible	2,144	1,783	20.2 %	—	—
Other noninterest expense:					
Accounting and auditing	1,263	742	70.2 %	646	14.9 %
Consultants	269	320	(15.9 %)	123	160.2 %
Legal, including borrower-related charges	437	310	41.0 %	245	26.5 %
OCC exam fees	365	257	42.0 %	182	41.2 %
Directors' fees	233	257	(9.3 %)	229	12.2 %
Insurance, including FDIC assessments	1,278	687	86.0 %	322	113.4 %
Charitable contributions	334	186	79.6 %	113	64.6 %
Other professional fees	158	73	116.4 %	4	1,725.0 %
Other noninterest expense	3,138	2,632	19.2 %	954	175.9 %
Total other noninterest expense	7,475	5,470	36.7 %	2,818	94.1 %
Merger related expense	622	1,636	(62.0 %)	—	—
Total noninterest expense	\$60,480	\$46,624	29.7 %	\$21,032	121.7 %

Expenses have generally increased between the above periods due to our mergers with Mid-America and Cavalry, 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 additional personnel, the opening of additional branches, audit expenses and other expenses which tend to increase in relation to our growth. Additionally, we adopted SFAS No. 123(R) in 2006 which addresses the accounting for employee equity based incentives. Our compensation expense will increase in all future periods as a result of adopting this accounting pronouncement. In 2007 and 2006, approximately \$1.70 million and \$1.01 million, respectively, of compensation expense related to stock options is included in equity compensation expense. The remaining expense in each year is related to our shares of restricted stock that we have issued, but for which the forfeiture restrictions have not yet lapsed.

At December 31, 2007, we employed 702.0 full time equivalent employees compared to 404.0 at December 31, 2006 and 156.5 at the end of 2005. We intend to continue to add employees to our work force for the foreseeable future, which will cause our salary and employee benefits costs to increase in future periods.

We believe that variable pay incentives are a valuable tool in motivating an employee base that is focused on providing our clients effective financial advice and increasing shareholder value. As a result, and unlike many other financial institutions, substantially all of our employees are eligible to participate in an annual cash incentive plan. Under the plan, the targeted level of incentive payments requires the Company to achieve a certain soundness threshold and a targeted earnings per share. To the extent that actual earnings per share are above or below targeted earnings per share, the aggregate incentive payments are increased or decreased. Additionally, our Human Resources and Compensation Committee (the "Committee") of the Board of Directors has the ability to change the parameters of the variable cash award at any time prior to final distribution of the awards in order to take into account current events and circumstances and maximize the benefit of the awards to our firm and to the associates.

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Included in the salary and employee benefits amounts for the years ended December 31, 2007, 2006 and 2005, were \$2,373,000, \$4,104,000 and \$2,031,000, respectively, related to variable cash awards. This expense will fluctuate from year to year and quarter to quarter based on the estimation of achievement of performance targets and the increase in the number of associates eligible to receive the award. In 2007, we achieved our soundness threshold but did not achieve our targeted earnings per share which would have resulted in a minimum payout under the terms of the plan. The Committee approved the payment of cash incentive awards under the 2007 plan at a percentage that was generally higher than that otherwise payable under the terms of the plan, except for five of our executive officers (President and Chief Executive Officer, Chairman of the Board, Chief Administrative Officer, Chief Financial Officer and Chief Credit Officer). In accordance with their request, these executive officers did not receive any cash incentive payments under our 2007 cash incentive plan. As a result, the 2007 award was \$2.4 million or \$1.7 million less than the 2006 award.

For 2006, the actual award to be paid to qualifying associates equaled 120% of their targeted award as our actual earnings for 2006 exceed our 2006 earnings target under the 2006 plan adjusted for the impact of the merger related expenses incurred in connection with the Cavalry acquisition. For 2005, the actual award to be paid to associates equaled 100% of their targeted award. The incentive plan for 2008 is structured similarly to prior year plans in that the award is based on the achievement of soundness and earnings objectives. Because of the relative experience of our associates, our compensation costs are, and we expect will continue to be, higher on a per associate basis than other financial institutions of a similar asset size; however, we believe the experience and engagement of our associates also allows us to employ fewer people than most financial institutions our size.

In connection with our merger with Mid-America, all former associates of Mid-America that were displaced by our merger were granted a retention bonus award provided they worked through a predetermined date. Also, those associates that will continue as Pinnacle associates following the merger are eligible for a retention bonus should they continue their employment through December 31, 2008. We anticipate that this retention bonus award will approximate \$4.6 million and will be treated as a merger related expense in 2008. As a result of these associates agreeing to a retention bonus award, they will not be eligible to participate in any of our other cash or equity incentive award plans until 2009.

Equipment and occupancy expenses in 2007 were greater than the 2006 amount by \$2.7 million. This increase is primarily attributable to our market expansion to Knoxville, Tennessee, our new branch facility in the Donelson area of Nashville which opened in the first quarter of 2007, one month of expenses associated with the eleven Mid-America branches which were acquired on December 1, 2007 and a full year of expenses associated with the Cavalry merger which occurred in March of 2006. Equipment and occupancy expense for 2006 increased by 99.7% over 2005's expenses due primarily to the additional branches and equipment acquired with the Cavalry merger. In January of 2005, we opened an office in Franklin, Tennessee and, in the second quarter of 2005, we opened an office in Hendersonville, Tennessee. We have also increased our leased main office space periodically during the three years ended December 31, 2007. These additions contributed to the increase in our equipment and occupancy expenses throughout the three year period and will contribute to increases in expenses in the future as we construct new facilities, including new facilities currently planned in both the Nashville and Knoxville MSAs.

Marketing and other business development and postage and supplies expenses are higher in 2007 compared to 2006 and 2005 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. The addition of customers from the Mid-America and Cavalry mergers had a direct impact on these increased charges.

Included in noninterest expense for 2007 and 2006 is \$2.1 million and \$1.8 million, respectively, of amortization core deposit intangibles related to the Mid-America and Cavalry mergers. For Mid-America, this identified intangible is being amortized over ten years using an accelerated method which anticipates the life of the underlying deposits to which the intangible is attributable. For Cavalry, this identified intangible is being amortized over seven years using an accelerated method which anticipates the life of the underlying deposits to which the intangible is attributable. Amortization expense associated with these core deposit intangibles will approximate \$2.5 million to \$2.9 million per year for the next five years with lesser amounts for the remaining years.

Additionally, for the year ended December 31, 2007, we incurred \$622,000 of merger related expenses directly associated with the Mid-America merger. The merger related charges consisted of integration costs incurred in connection with the merger, including approximately \$4.6 million of retention bonuses payable to Mid-America associates. We do anticipate additional merger related expenses associated with the Mid-America transaction in 2008 as we fully integrate this acquisition. For the year ended December 31, 2006, we incurred \$1,636,000 of merger related expenses directly associated with the Cavalry merger. The merger related charges consisted of integration costs incurred in connection with the merger, including accelerated depreciation associated with software and other technology assets whose useful lives were shortened as a result of the Cavalry acquisition. We do not anticipate any additional merger related expenses associated with the Cavalry transaction in 2008.

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Other noninterest expenses increased 36.7% in 2007 over 2006 and 94.1% in 2006 over 2005. Most of these increases are attributable to increased audit and accounting fees, legal fees and insurance expenses. Also contributing to the increases are incidental variable costs related to deposit gathering and lending. Examples include expenses related to ATM networks, correspondent bank service charges, check losses, appraisal expenses, closing attorney expenses and other items which have increased significantly as a result of the Cavalry merger.

Our efficiency ratio (ratio of noninterest expense to the sum of net interest income and noninterest income) was 61.6% in 2007 compared to 60.8% in 2006 and to 61.1% in 2005. The efficiency ratio measures the amount of expense that is incurred to generate a dollar of revenue.

Income Taxes. The effective income tax expense rate for the year ended December 31, 2007 was approximately 30.2%, compared to an effective income tax expense rate for years ended December 31, 2006 and 2005 of approximately 32.1% and 28.4%, respectively. The decrease in the effective rate for 2007 compared to 2006 was due to increased investment in bank qualified municipal securities and increased tax savings from our captive insurance subsidiary, PNEP Insurance, Inc. The increase in the effective tax rate between 2006 and 2005 was due primarily to the additional earnings being taxed at a higher rate as the various tax savings initiatives (e.g., municipal bond income) had a lesser impact in 2006 when compared to the previous periods. Additionally, the impact of our incentive stock options and their treatment pursuant to the adoption of SFAS No. 123(R) contributed to the increase in our effective rate in 2006, but also contributed to the decreased effective rate in 2007 as the tax treatment of incentive stock options will gradually lessen over time as these older incentive stock options fully vest and thus become less impactful on our effective tax rate. We now only award nonqualified stock options to our associates.

Financial Condition

Our consolidated balance sheet at December 31, 2007 reflects significant growth since December 31, 2005. Total assets grew from \$1.02 billion at December 31, 2005 to \$2.14 billion at December 31, 2006 to \$3.79 billion at December 31, 2007. Total deposits grew \$1.30 billion during 2007 and \$812 million during 2006. Excluding the deposits acquired with the Mid-America acquisition on November 30, 2007 of \$957 million, total deposits increased by \$346 million in 2007. Excluding the deposits acquired with the Cavalry acquisition on March 15, 2006 of \$584 million, total deposits increased by \$228 million in 2006. We invested substantially all of the additional deposits and other fundings in loans, which grew by \$1.25 billion (of which \$865 million was acquired with the Mid-America acquisition) during 2007 and \$850 million (of which \$551 million was acquired with the Cavalry acquisition) during 2006, and securities, which increased by \$176 million in 2007 (of which \$148 million was acquired with the Mid-America acquisition) and \$67 million in 2006 (of which \$39 million was acquired with the Cavalry acquisition).

Loans. The composition of loans at December 31 for each of the past five years and the percentage (%) of each classification to total loans are summarized as follows (dollars in thousands):

	2007		2006		2005		2004		2003	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Commercial real estate — Mortgage	\$ 728,201	26.5%	\$ 284,302	19.0%	\$148,102	22.9%	\$117,123	24.8%	\$ 68,507	23.1%
Consumer real estate — Mortgage	562,721	20.5%	299,627	20.0%	169,953	26.2%	126,907	26.9%	76,042	25.6%
Construction and land development	517,399	18.8%	253,097	16.9%	67,667	10.5%	23,419	5.0%	11,288	3.8%
Commercial and industrial	838,161	30.5%	608,530	40.6%	239,129	36.9%	189,456	40.1%	129,882	43.7%
Consumer and other loans	103,159	3.7%	52,179	3.5%	23,173	3.6%	15,457	3.3%	11,285	3.8%
Total loans	\$2,749,641	100.0%	\$1,497,735	100.0%	\$648,024	100.0%	\$472,362	100.0%	\$297,004	100.0%

During the year ended December 31, 2007, our loan balances increased by \$1.25 billion, or 83.6%. Approximately \$865 million of this increase was due to the Mid-America acquisition while \$387 million was attributable to organic growth. Our organic growth rate equates to approximately 26% for the year ended December 31, 2007. The Mid-America loan portfolio had a significant impact on our loan portfolio volumes as well as mix of loans as Mid-America had a larger percentage of commercial real estate loans in comparison to our loans.

During the year ended December 31, 2006, and primarily due to the Cavalry merger, we increased the percentage of our outstanding loans in construction and land development loans significantly. These types of loans require that we maintain effective credit and construction monitoring systems. Also as a result of the Cavalry merger, we also increased our resources in this area so that we can attempt to effectively manage this area of exposure through utilization of experienced professionals who are well-trained in this type of lending and who have significant experience in our geographic market.

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The following table classifies our fixed and variable rate loans at December 31, 2007 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):

	<i>Amounts at December 31, 2007</i>			<i>At December 31, 2007</i>	<i>At December 31, 2006</i>
	<i>Fixed Rates</i>	<i>Variable Rates</i>	<i>Totals</i>		
<i>Based on contractual maturity:</i>					
Due within one year	\$ 267,227	\$ 956,620	\$1,223,847	44.5 %	40.9 %
Due in one year to five years	836,154	266,926	1,097,079	39.9 %	39.9 %
Due after five years	142,701	286,014	428,715	15.6 %	19.2 %
Totals	\$1,246,082	\$1,503,559	\$2,749,641	100.0 %	100.0 %
<i>Based on contractual repricing dates:</i>					
Daily floating rate	\$ —	\$1,099,215	\$1,099,215	40.0 %	46.1 %
Due within one year	267,227	316,208	583,435	21.2 %	13.6 %
Due in one year to five years	836,154	55,810	891,963	32.4 %	34.2 %
Due after five years	142,701	32,327	175,028	6.4 %	6.1 %
Totals	\$1,246,802	\$1,503,559	\$2,749,641	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.

Non-Performing Assets. The specific economic and credit risks associated with our loan portfolio include, but are not limited to, a general downturn in the economy which could affect employment rates in our market areas, general real estate market deterioration, interest rate fluctuations, deteriorated or non-existent collateral, title defects, inaccurate appraisals, financial deterioration of borrowers, fraud, and any violation of laws and regulations.

We attempt to reduce these economic and credit risks by adherence to loan to value guidelines for collateralized loans, by investigating the creditworthiness of the borrower and by monitoring the borrower's financial position. Also, we establish and periodically review our lending policies and procedures. Banking regulations limit our exposure by prohibiting loan relationships that exceed 15% of Pinnacle National's statutory capital in the case of loans that are not fully secured by readily marketable or other permissible types of collateral. Furthermore, we have an internal limit for aggregate indebtedness to a single borrower of \$22 million. Our loan policy requires that our board of directors approve any relationships that exceed this internal limit.

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. At December 31, 2007, we had \$19,677,000 in loans on nonaccrual compared to \$7,070,000 at December 31, 2006. The increase in nonperforming loans between December 31, 2006 and December 31, 2007 was primarily related to loans acquired from Mid-America and identified as being impaired and several larger loans identified in the fourth quarter of 2007. As of December 31, 2007, approximately 52% of nonperforming loans were acquired from Mid-America.

At December 31, 2007, we owned \$1,673,000 in real estate which we had acquired from borrowers. Substantially all of this amount relates to homes that are in various stages of construction for which we believe we have adequate collateral. Approximately \$1.2 million of the amount at December 31, 2007 was acquired from Mid-America.

There was approximately \$1.61 million in other loans 90 days past due and still accruing interest at December 31, 2007 compared to \$737,000 in loans at December 31, 2006. At December 31, 2007 and at December 31, 2006, no loans were deemed to be restructured loans. The following table is a summary of our nonperforming assets at December 31 for each of the years in the five year period ended December 31, 2007 (dollars in thousands):

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	<i>At December 31,</i>				
	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
Nonaccrual loans (1)	\$ 19,677	\$ 7,070	\$ 460	\$ 561	\$ 379
Restructured loans	—	—	—	—	—
Other real estate owned	1,673	995	—	—	—
Total nonperforming assets	21,350	8,065	460	561	379
Accruing loans past due 90 days or more	1,613	737	—	146	182
Total nonperforming assets and accruing loans past due 90 days or more	\$ 22,963	\$ 8,802	\$ 460	\$ 707	\$ 561
Total loans outstanding	\$2,749,641	\$1,497,735	\$648,024	\$472,362	\$297,004
Ratio of nonperforming assets and accruing loans past due 90 days or more to total loans outstanding at end of period	0.84%	0.59%	0.07%	0.15%	0.19%
Ratio of nonperforming assets and accruing loans past due 90 days or more to total allowance for loan losses at end of period	80.66%	54.61%	5.85%	12.51%	15.08%

(1) Interest income that would have been recorded in 2007 related to nonaccrual loans was \$485,000 compared to \$283,000 for the year ended December 31, 2006 and \$21,000 for the year ended December 31, 2005, none of which is included in interest income or net income for the applicable periods.

Potential problem assets, which are not included in nonperforming assets, amounted to approximately \$15.3 million, or 0.56% of total loans outstanding at December 31, 2007, compared to \$6.0 million, or 0.24% of total loans outstanding at December 31, 2006. Potential problem assets represent those assets 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.

Allowance for Loan Losses (ALL). We maintain the ALL at a level that our management deems appropriate to adequately cover the probable losses in the loan portfolio. As of December 31, 2007 and December 31, 2006, our allowance for loan losses was \$28,470,000 and \$16,118,000, respectively, which our management deemed to be adequate at each of the respective dates. The significant increase in our ALL was primarily the result of our merger with Mid-America. The judgments and estimates associated with our ALL determination are described under "Critical Accounting Estimates" above.

We periodically analyze our loan position with respect to our borrowers' industries to determine if a concentration of credit risk exists to any one or more industries. We have significant credit exposures arising from loans outstanding and unfunded lines of credit to borrowers in the home building and land subdividing industry, the trucking industry and to lessors of residential and commercial properties. We evaluate our exposure level to these industry groups periodically to determine the amount of additional allowance allocations due to these concentrations.

The following table sets forth, based on management's best estimate, the allocation of the ALL to types of loans as well as the unallocated portion as of December 31 for each of the past five years and the percentage of loans in each category to the total loans (dollars in thousands):

	<i>2007</i>		<i>2006</i>		<i>2005</i>		<i>2004</i>		<i>2003</i>	
	<i>Amount</i>	<i>Percent</i>	<i>Amount</i>	<i>Percent</i>	<i>Amount</i>	<i>Percent</i>	<i>Amount</i>	<i>Percent</i>	<i>Amount</i>	<i>Percent</i>
Commercial real estate — Mortgage	\$ 8,068	26.4%	\$ 4,550	19.0%	\$1,488	22.9%	\$1,205	24.8%	\$ 723	23.1%
Consumer real estate — Mortgage	1,890	20.8%	913	20.0%	1,286	26.2%	869	26.9%	607	25.6%
Construction and land development	4,897	18.7%	2,869	16.9%	690	10.5%	227	5.0%	113	3.8%
Commercial and industrial	11,660	30.4%	6,517	40.6%	2,305	36.9%	1,711	40.1%	1,236	43.7%
Consumer and other loans	1,400	3.7%	870	3.5%	552	3.6%	396	3.3%	320	3.8%
Unallocated	555	NA	399	NA	1,537	NA	1,242	NA	720	NA
Total allowance for loan losses	\$28,470	100.0%	\$16,118	100.0%	\$7,858	100.0%	\$5,650	100.0%	\$3,719	100.0%

In periods prior to 2006, the unallocated portion of the allowance consisted of dollar amounts specifically set aside for certain general factors influencing the allowance. These factors included ratio trends and other factors not specifically allocated to each category. Establishing the percentages for these factors was largely subjective but was supported by economic data, changes made in lending functions, and other support where appropriate. In 2006, the unallocated portion decreased significantly, due to a more comprehensive and refined methodology to assess the adequacy of our allowance for loan losses. As a result, in 2006, the methodology was refined to embed many of the factors previously included in the unallocated portion of the allowance to the

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allocated amounts above for each category. This enhancement established a methodology whereby national and economic factors, concentrations in market segments, loan review and portfolio performance could be assigned to these specific categories.

The following is a summary of changes in the allowance for loan losses for each of the years in the five year period ended December 31, 2007 and the ratio of the allowance for loan losses to total loans as of the end of each period (dollars in thousands):

	<i>For the year ended December 31,</i>				
	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
Balance at beginning of period	\$16,118	\$ 7,858	\$5,650	\$ 3,719	\$2,677
Provision for loan losses	4,720	3,732	2,152	2,948	1,157
Allowance from Mid-America (2007) and Cavalry (2006) acquisitions	8,695	5,102	—	—	—
Charged-off loans:					
Commercial real estate — Mortgage	(22)	—	—	—	—
Consumer real estate — Mortgage	(364)	(46)	(38)	(834)	(123)
Construction and land development	(271)	—	—	—	—
Commercial and industrial	(326)	(436)	(61)	(50)	—
Consumer and other loans	(359)	(336)	(109)	(148)	(44)
Total charged-off loans	(1,342)	(818)	(208)	(1,032)	(167)
Recoveries of previously charged-off loans:					
Commercial real estate — Mortgage	—	—	—	—	—
Consumer real estate — Mortgage	125	—	231	—	—
Commercial real estate — Construction	1	—	—	2	49
Commercial and industrial	51	166	3	—	—
Consumer — Other	102	78	30	13	3
Total recoveries of previously charged-off loans	279	244	264	15	52
Net (charge-offs) recoveries	(1,063)	(574)	56	(1,017)	(115)
Balance at end of period	<u>\$28,470</u>	<u>\$16,118</u>	<u>\$7,858</u>	<u>\$ 5,650</u>	<u>\$3,719</u>
Ratio of allowance for loan losses to total loans outstanding at end of period	<u>1.04%</u>	<u>1.08%</u>	<u>1.21%</u>	<u>1.20%</u>	<u>1.25%</u>
Ratio of net charge-offs (recoveries) to average loans outstanding for the period	<u>0.06%</u>	<u>0.05%</u>	<u>(0.01)%</u>	<u>0.27%</u>	<u>0.05%</u>

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, adverse situations that may affect the borrower's 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. 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. Although the allowance increased by \$12.35 million between December 31, 2007 (of which \$8.70 million was acquired with Mid-America) and December 31, 2006, the ratio of our allowance for loan losses to total loans outstanding decreased to 1.04% at December 31, 2007 compared to 1.08% at December 31, 2006. The reduction in the ratio between the two dates is primarily attributable to improvements in the overall credit quality of our portfolio. In the future, the allowance to total loans outstanding ratio will increase or decrease to the extent the factors that influence our quarterly allowance assessment in their entirety either improve or weaken.

Included in charged-off loans in 2006 was one commercial borrower of approximately \$404,000 which had been on nonaccruing status since the fourth quarter of 2005. Included in the charged-off loans during 2004 were two loans totaling approximately \$884,000, \$834,000 of which had been on nonaccrual status since June of 2004. We recovered approximately \$231,000 of these particular charge-offs in 2005.

Statement of Position 03-03, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer* ("SOP 03-03") addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor's initial investment in loans or debt securities (loans) acquired in a transfer if those differences are attributable, at least in part, to credit quality (i.e., "impaired loans"). SOP 03-03 does not apply to loans originated by us but does apply to the loans we acquired in our mergers with Mid-America and Cavalry. Prior to the merger with Mid-America and due to deteriorating credit conditions during the fourth quarter of 2007, the management of Mid-America identified approximately \$19 million in loans which had weaker credit conditions and charged-off approximately \$8.9 million related to these loans. Subsequently, our assessment indicated that Mid-

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America had \$10.3 million of loans to which the application of the provisions of SOP 03-03 was required as of the merger date with Mid-America. We recorded no further accounting adjustments to these balances as of November 30, 2007. As to the Cavalry merger, Cavalry had approximately \$3.9 million of loans to which the application of the provisions of SOP 03-03 was required. As a result of the application of SOP 03-03, we recorded purchase accounting adjustments to reflect a reduction in loans and the allowance for loan losses of \$1.0 million related to these impaired loans thus reducing the carrying value of these loans to \$2.9 million at March 15, 2006. All of the impaired Mid-America and Cavalry loans were classified as nonperforming at December 31, 2007.

Investments. Our investment portfolio, consisting primarily of Federal agency bonds, state and municipal securities and mortgage-backed securities, amounted to \$522.7 million and \$346.5 million at December 31, 2007 and 2006, respectively.

The following table shows the carrying value of investment securities according to contractual maturity classifications of (1) one year or less, (2) after one year through five years, (3) after five years through ten years, and (4) after ten years. Actual maturities may differ from contractual maturities of mortgage-backed securities because the mortgages underlying the securities may be called or prepaid with or without penalty. Therefore, these securities are not included in the maturity categories noted below as of December 31, 2007 and 2006 (dollars in thousands):

	At December 31,									
	U.S. Treasury securities		U.S. government agency securities		State and Municipal securities		Corporate securities		Totals	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
At December 31, 2007:										
<i>Securities available-for-sale:</i>										
Due in one year or less	\$—	—%	\$16,612	4.3%	\$ 12,463	5.2%	\$ 490	3.4%	\$ 29,565	4.7%
Due in one year to five years	—	—%	43,097	4.5%	27,089	5.3%	1,488	3.9%	71,674	4.8%
Due in five years to ten years	—	—%	6,774	5.1%	45,545	5.6%	—	5.2%	52,319	5.5%
Due after ten years	—	—%	3,180	4.9%	40,809	5.6%	400	5.4%	44,389	5.5%
	\$—	—%	\$69,663	4.5%	\$125,906	5.5%	\$2,378	5.2%	\$197,947	5.2%
<i>Securities held-to-maturity:</i>										
Due in one year or less	\$—	—%	\$ —	—%	\$ 1,578	5.0%	\$ —	—%	\$ 1,578	5.0%
Due in one year to five years	—	—%	15,750	4.2%	6,786	4.4%	—	—%	22,536	4.3%
Due in five years to ten years	—	—%	1,997	4.8%	922	5.0%	—	—%	2,919	4.8%
Due after ten years	—	—%	—	—%	—	—%	—	—%	—	—%
	\$—	—%	\$17,747	4.3%	\$ 9,286	4.6%	\$ —	—%	\$ 27,033	4.4%
At December 31, 2006:										
<i>Securities available-for-sale:</i>										
Due in one year or less	\$—	—%	\$ —	—%	\$ 2,240	4.5%	\$ 398	3.2%	\$ 2,638	4.3%
Due in one year to five years	—	—%	30,105	4.7%	22,121	5.2%	1,427	3.4%	53,653	4.9%
Due in five years to ten years	—	—%	7,524	5.2%	28,848	5.4%	—	—%	36,372	5.4%
Due after ten years	—	—%	—	—%	8,750	5.7%	—	—%	8,750	5.7%
	\$—	—%	\$37,629	4.8%	\$ 61,959	5.3%	\$1,825	3.4%	\$101,413	5.1%
<i>Securities held-to-maturity:</i>										
Due in one year or less	\$—	—%	\$ —	—%	\$ 154	5.6%	\$ —	—%	\$ 154	5.6%
Due in one year to five years	—	—%	15,750	4.2%	5,777	4.9%	—	—%	21,527	4.4%
Due in five years to ten years	—	—%	1,997	4.8%	3,579	5.0%	—	—%	5,576	4.9%
Due after ten years	—	—%	—	—%	—	—%	—	—%	—	—%
	\$—	—%	\$17,747	4.3%	\$ 9,510	5.0%	\$ —	—%	\$ 27,257	4.5%

We computed yields using coupon interest, adding discount accretion or subtracting premium amortization, as appropriate, on a ratable basis over the life of each security. We computed the weighted average yield for each maturity range using the acquisition price of each security in that range.

Deposits and Other Borrowings. We had approximately \$2.93 billion of deposits at December 31, 2007 compared to \$1.62 billion at December 31, 2006. 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 of our securities under agreements to repurchase the security the following day. These agreements (which are typically associated with comprehensive treasury management programs for our commercial clients and provide the client with short-term returns for their excess funds) amounted to \$156.1 million at December 31, 2007 and \$141.0 million at December 31, 2005. Additionally, at December 31, 2007, we had borrowed \$92.8 million in advances from the Federal Home Loan Bank of Cincinnati compared to \$53.7 million at December 31, 2006.

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Traditionally, banks classify their 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 while 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 December 31, 2007 and December 31, 2006 (dollars in thousands):

	<i>December 31,</i> <i>2007</i>	<i>Percent</i>	<i>December 31,</i> <i>2006</i>	<i>Percent</i>
Core funding:				
Noninterest-bearing deposit accounts	\$ 400,120	12.1 %	\$ 300,978	16.1 %
Interest-bearing demand accounts	410,661	12.4 %	236,674	12.7 %
Savings and money market accounts	742,354	22.5 %	485,936	26.0 %
Time deposit accounts less than \$100,000	371,881	11.3 %	158,687	8.5 %
Total core funding	1,925,016	58.2 %	1,182,275	63.3 %
Non-core funding:				
Time deposit accounts greater than \$100,000				
Public funds	104,902	3.2 %	98,286	5.3 %
Brokered deposits	163,188	4.9 %	61,718	3.3 %
Other time deposits	732,213	22.2 %	280,132	15.0 %
Securities sold under agreements to repurchase	156,071	4.7 %	141,016	7.5 %
Federal Home Loan Bank advances and other borrowings	141,666	4.3 %	53,726	2.9 %
Subordinated debt	82,476	2.5 %	51,548	2.8 %
Total non-core funding	1,380,516	41.8 %	686,426	36.7 %
Totals	\$3,305,532	100.0 %	\$1,868,701	100.0 %

The amount of time deposits as of December 31, 2007 amounted to \$1.37 million. The following table shows our time deposits in denominations of under \$100,000 and those of denominations of \$100,000 and 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
<i>Denominations less than \$100,000</i>		
Three months or less	\$ 124,339	4.91%
Over three but less than six months	88,374	4.85%
Over six but less than twelve months	110,856	4.84%
Over twelve months	48,312	4.69%
	371,881	4.84%
<i>Denomination \$100,000 and greater</i>		
Three months or less	446,096	4.71%
Over three but less than six months	204,522	5.04%
Over six but less than twelve months	193,500	5.06%
Over twelve months	156,124	5.04%
	1,000,302	4.90%
Totals	\$1,372,183	4.88%

Subordinated debt and holding company line of credit. 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 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 December 31, 2007, 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 (8.49% at December 31, 2007) which is set each quarter and matures on December 30, 2033. The Trust II Preferred Securities bear a fixed interest rate of 5.848%

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per annum through September 30, 2010 at which time the securities will bear a floating rate set each quarter based on a spread over 3-month LIBOR. 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 (6.88% at December 31, 2007) 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 (7.76% at December 31, 2007) which is set each quarter and mature 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, the Trust Preferred Securities may be redeemed 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 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. Debt issuance costs associated with Trust I of \$120,000 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 were no debt issuance costs associated with Trust II, Trust III or Trust IV.

At December 31, 2007, we had outstanding a \$9 million obligation to a bank secured by the outstanding common stock of Bank of the South. This obligation bears interest at Prime Rate less 1% and is due December 13, 2008. In February of 2008, we entered into a loan agreement related to a \$25 million line of credit with a regional bank. This line of credit will be used to support the growth of Pinnacle National and pay off the aforementioned \$9 million obligation. The \$25 million line of credit has a one year term, contains customary affirmative and negative covenants regarding the operation of our business, a negative pledge on the common stock of Pinnacle National and is priced at 30-day LIBOR plus 125 basis points.

Capital Resources. At December 31, 2007 and 2006, our stockholders' equity amounted to \$466.6 million and \$256.0 million, respectively. The 2007 increase of \$210.6 million was primarily attributable to \$183.5 million of common stock issued in connection with the Mid-America acquisition and \$24.3 million in comprehensive income, which was composed of \$23.0 million in net income and \$1.3 million of net unrealized holding gains associated with our available-for-sale portfolio. The 2006 increase of \$192.6 million was primarily attributable to \$171.1 million of common stock issued in connection with the Cavalry acquisition and \$18.8 million in comprehensive income, which was composed of \$17.9 million in net income and \$853,000 of net unrealized holding gains associated with our available-for-sale portfolio.

Dividends. Pinnacle National is subject to restrictions on the payment of dividends to Pinnacle Financial under federal banking laws and the regulations of the Office of the Comptroller of the Currency. We, in turn, are also subject to limits on payment of dividends to our shareholders by the rules, regulations and policies of federal banking authorities and the laws of the State of Tennessee. We have not paid any dividends to date, nor do we anticipate paying dividends to our shareholders for the foreseeable future. Future dividend policy will depend on Pinnacle National's earnings, capital position, financial condition, anticipated growth rates 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 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 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 100 basis point change up or down in rates from management’s flat interest rate forecast over the next twelve months. The results of our current simulation model would indicate that we are in compliance with our current guidelines at December 31, 2007.

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. The results of our current economic value of equity model would indicate that we are in compliance with our current guidelines at December 31, 2007.

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 December 31, 2007 and 2006, 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

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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. Pinnacle National has pledged under the borrowing agreements with the Federal Home Loan Bank of Cincinnati certain qualifying residential mortgage loans and, pursuant to a blanket lien, all qualifying commercial mortgage loans as collateral. At December 31, 2007, our bank subsidiaries had received advances from the Federal Home Loan Bank of Cincinnati totaling \$92.8 million at the following rates and maturities (dollars in thousands):

	<u>Amount</u>	<u>Interest Rates</u>
2008	\$ 15,554	5.02%
2009	15,000	5.01%
2010	13,250	4.56%
2011	—	NA
2012	30,294	3.51%
Thereafter	18,706	4.02%
Total	<u>\$ 92,804</u>	
<i>Weighted average interest rate</i>		4.26%

Pinnacle National also has accommodations with upstream correspondent banks for unsecured short-term advances. These accommodations have various covenants related to their term and availability, and in most cases must be repaid within less than a month. At December 31, 2007, our bank subsidiaries had borrowed from correspondent banks \$48.9 million under such arrangements.

At December 31, 2007, brokered certificates of deposit approximated \$163.2 million which represented 4.9% of total fundings compared to \$61.7 million and 3.3% at December 31, 2006. We issue these brokered certificates through several different brokerage houses based on competitive bids. Typically, these funds are for varying maturities from nine months to two years and are issued at rates which are competitive to rates we would be required to pay to attract similar deposits from the local market as well as rates for Federal Home Loan Bank of Cincinnati advances of similar maturities. We consider these deposits to be a ready source of liquidity under current market conditions.

Our short-term borrowings (borrowings which mature within the next fiscal year) consist primarily of securities sold under agreements to repurchase (these agreements are typically associated with comprehensive treasury management programs for our clients and provide them with short-term returns for their excess funds), Federal Home Loan Bank of Cincinnati advances and Federal funds purchased. Information concerning our short-term borrowings as of and for each of the years in the three-year period ended December 31, 2007 is as follows (dollars in thousands):

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Amounts outstanding at year-end:			
Securities sold under agreements to repurchase	\$156,071	\$141,016	\$65,834
Federal funds purchased	48,862	—	—
Federal Home Loan Bank advances	92,804	25,000	29,500
Weighted average interest rates at year-end:			
Securities sold under agreements to repurchase	2.81%	4.33%	3.16%

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	2007	2006	2005
Federal funds purchased	3.75%	—	—
Federal Home Loan Bank advances	4.26%	5.36%	3.21%
Maximum amount of borrowings at any month-end:			
Securities sold under agreements to repurchase	\$216,321	\$166,520	\$69,767
Federal funds purchased	48,862	9,985	18,702
Federal Home Loan Bank advances	92,804	25,000	35,500
Average balances for the year:			
Securities sold under agreements to repurchase	\$181,621	\$101,144	\$54,811
Federal funds purchased	5,544	1,260	1,607
Federal Home Loan Bank advances	38,528	6,284	24,208
Weighted average interest rates for the year:			
Securities sold under agreements to repurchase	4.06%	4.28%	2.40%
Federal funds purchased	5.15%	5.26%	3.51%
Federal Home Loan Bank advances	4.97%	4.70%	2.65%

At December 31, 2007, we had no significant commitments for capital expenditures. However, we are in the process of developing our branch network and other office facilities in the Nashville MSA and the Knoxville MSA. As a result, we anticipate that we will enter into contracts to buy property or construct branch facilities and/or lease agreements to lease facilities in the Nashville MSA and Knoxville MSA, including recently entering into agreements to relocate our downtown office facility in Nashville, Tennessee to a new facility projected to open in 2010.

The following table presents additional information about our contractual obligations as of December 31, 2007, which by their terms have contractual maturity and termination dates subsequent to December 31, 2007 (dollars in thousands):

	Next 12 months	13-36 months	37-60 months	More than 60 months	Totals
Contractual obligations:					
Certificates of deposit	\$1,167,747	\$185,837	\$ 18,599	\$ —	\$1,372,183
Securities sold under agreements to repurchase	156,071	—	—	—	156,071
Federal Home Loan Bank advances and other borrowings	64,416	28,250	30,294	18,706	141,666
Subordinated debt	10,310	20,619	51,547	—	82,476
Minimum operating lease commitments	1,846	3,551	2,703	10,227	18,327
Totals	\$1,400,390	\$238,257	\$103,143	\$ 28,933	\$1,770,723

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 December 31, 2007, we had outstanding standby letters of credit of \$98.3 million and unfunded loan commitments outstanding of \$833.9 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. The following table presents additional information about our unfunded commitments as of December 31, 2007, which by their terms have contractual maturity dates subsequent to December 31, 2007 (dollars in thousands):

	Next 12 months	13-36 months	37-60 months	More than 60 months	Totals
Unfunded commitments:					
Lines of credit	\$559,721	\$ 90,174	\$ 44,496	\$ 139,502	\$ 833,893
Letters of credit	84,504	12,301	1,500	—	98,305
Totals	\$644,225	\$ 102,475	\$ 45,996	\$ 139,502	\$ 932,198

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

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" — SFAS No. 157, 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. SFAS No. 157 applies only to fair-value measurements that are already required or permitted by other accounting standards and is expected to increase the consistency of those 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. The effective date for SFAS No. 157 is for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We do not believe SFAS No. 157 will have a significant impact on our consolidated financial statements.

In February of 2007, the FASB issued Statement of Financial Accounting Standard No. 159 ("SFAS 159"), "The Fair Value Option for Financial Assets and Financial Liabilities", which gives entities the option to measure eligible financial assets, and financial liabilities at fair value on an instrument by instrument basis, that are otherwise not permitted to be accounted for at fair value under other accounting standards. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability. Subsequent changes in fair value must be recorded in earnings. This statement is effective as of the beginning of a company's first fiscal year after November 15, 2007. We do not believe SFAS No. 159 will have a significant impact on our consolidated financial statements.

In June 2006, the Emerging Issues Task Force issued EITF No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefits Aspects of Endorsement Split-Dollar Life Insurance Arrangements." The EITF concluded that deferred compensation or postretirement benefit aspects of an endorsement split-dollar life insurance arrangement should be recognized as a liability by the employer and the obligation is not effectively settled by the purchase of a life insurance policy. The effective date is for fiscal years beginning after December 15, 2007. On January 1, 2008, we accounted for this EITF as a change in accounting principle and recorded a liability of \$985,000 along with a corresponding adjustment to beginning retained earnings.

In December 2007, the SEC issued SAB 110, "Share-Based Payment." SAB 110 allows eligible public companies to continue to use a simplified method for estimating the expense of stock options if their own historical experience isn't sufficient to provide a reasonable basis. Under SAB 107, "Share-Based Payment," the simplified method was scheduled to expire for all grants made after December 31, 2007. The SAB describes disclosures that should be provided if a company is using the simplified method for all or a portion of its stock option grants beyond December 31, 2007. The provisions of this bulletin are effective on January 1, 2008. Pinnacle Financial plans to retain use of the simplified method allowed by SAB 110 for determining the expected term component for share options granted during 2008.

In December 2007, the FASB issued SFAS 141R, "Business Combinations." SFAS 141R clarifies the definitions of both a business combination and a business. All business combinations will be accounted for under the acquisition method (previously referred to as the purchase method). This standard defines the acquisition date as the only relevant date for recognition and measurement of the fair value of consideration paid. SFAS 141R requires the acquirer to expense all acquisition related costs. SFAS 141R will also require acquired loans to be recorded net of the allowance for loan losses on the date of acquisition. SFAS 141R defines the measurement period as the time after the acquisition date during which the acquirer may make adjustments to the "provisional" amounts recognized at the acquisition date. This period cannot exceed one year, and any subsequent adjustments made to provisional amounts are done retrospectively and restate prior period data. The provisions of this statement are effective for business combinations during fiscal years beginning after December 15, 2008. Pinnacle Financial has not determined the impact

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that SFAS 141R will have on its financial position and results of operations and believes that such determination will not be meaningful until Pinnacle Financial enters into a business combination.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in consolidated financial statements — An Amendment of ARB No. 51.” SFAS No. 160 requires noncontrolling interests to be treated as a separate component of equity, not as a liability or other item outside of equity. Disclosure requirements include net income and comprehensive income to be displayed for both the controlling and noncontrolling interests and a separate schedule that shows the effects of any transactions with the noncontrolling interests on the equity attributable to the controlling interest. The provisions of this statement are effective for fiscal years beginning after December 15, 2008. This statement should be applied prospectively except for the presentation and disclosure requirements which shall be applied retrospectively for all periods presented. Pinnacle Financial does not expect the impact of SFAS No. 160 on its financial position, results of operations or cash flows to be material.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The response to this Item is included in Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations, on pages 47 through 49 and is incorporated herein by reference.

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ITEM 8. FINANCIAL STATEMENTS

Pinnacle Financial Partners, Inc. and Subsidiaries

Consolidated Financial Statements

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MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Pinnacle Financial Partners, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. Pinnacle Financial Partners, Inc.'s internal control system was designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Pinnacle Financial Partners, Inc.'s management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2007. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. In conducting the Pinnacle Financial Partners, Inc.'s evaluation of the effectiveness of its internal control over financial reporting, the Company has excluded the operations of Mid-America Bancshares, Inc. (Mid-America), which Pinnacle Financial Partners, Inc. merged with on November 30, 2007. At the acquisition date, total assets of Mid-America totaled \$1.252 billion. Further information concerning the acquisition of Mid-America appears in Note 2, Merger with Mid-America Bancshares, Inc., to the accompanying audited consolidated financial statements.

Based on our assessment we believe that, as of December 31, 2007, the Company's internal control over financial reporting is effective based on those criteria.

Pinnacle Financial Partners, Inc.'s independent registered public accounting firm has issued an audit report on Pinnacle Financial Partners Inc.'s internal control over financial reporting. This report appears on page 54 of this Annual Report on Form 10-K.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Pinnacle Financial Partners, Inc.:

We have audited the accompanying consolidated balance sheets of Pinnacle Financial Partners, Inc. and subsidiaries (the Company) as of December 31, 2007 and 2006, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2007 and 2006, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

As discussed in notes 1 and 11 to the consolidated financial statements, the Company changed its method of accounting for uncertainty in income taxes as required by FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* in 2007.

As discussed in notes 1 and 15 to the consolidated financial statements, the Company changed its method of accounting for share-based payments as required by SFAS 123(R), *Share-Based Payments* in 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 5, 2008, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Nashville, Tennessee
March 5, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Pinnacle Financial Partners, Inc.:

We have audited Pinnacle Financial Partners, Inc.'s (the Company) internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in management's accompanying report on internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

The Company acquired Mid-America Bancshares (Mid-America) on November 30, 2007. Total assets of Mid-America totaled \$1.252 billion. Management excluded Mid-America's internal control over financial reporting from its effectiveness of the Company's internal control over financial reporting as of December 31, 2007. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of Mid-America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2007 and 2006, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2007, and our report dated March 5, 2008 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Nashville, Tennessee
March 5, 2008

PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2007	2006
ASSETS		
Cash and noninterest-bearing due from banks	\$ 76,941,931	\$ 43,611,533
Interest-bearing due from banks	24,706,966	1,041,174
Federal funds sold	20,854,966	47,866,143
Cash and cash equivalents	122,503,863	92,518,850
Securities available-for-sale, at fair value	495,651,939	319,237,428
Securities held-to-maturity (fair value of \$26,883,473 and \$26,594,235 at December 31, 2007 and December 31, 2006, respectively)	27,033,356	27,256,876
Mortgage loans held-for-sale	11,251,652	5,654,381
Loans	2,749,640,689	1,497,734,824
Less allowance for loan losses	(28,470,207)	(16,117,978)
Loans, net	2,721,170,482	1,481,616,846
Premises and equipment, net	68,385,946	36,285,796
Investments in unconsolidated subsidiaries and other entities	22,636,029	16,200,684
Accrued interest receivable	18,383,004	11,019,173
Goodwill	243,573,636	114,287,640
Core deposit intangible	17,325,988	11,385,006
Other assets	46,254,566	26,724,183
Total assets	<u>\$3,794,170,461</u>	<u>\$2,142,186,863</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing	\$ 400,120,147	300,977,814
Interest-bearing	410,661,187	236,674,425
Savings and money market accounts	742,354,465	485,935,897
Time	1,372,183,317	598,823,167
Total deposits	2,925,319,116	1,622,411,303
Securities sold under agreements to repurchase	156,070,830	141,015,761
Federal Home Loan Bank advances	92,804,133	53,725,833
Federal Funds purchased	48,862,000	—
Subordinated debt	82,476,000	51,548,000
Accrued interest payable	10,374,538	4,952,422
Other liabilities	11,653,550	12,516,523
Total liabilities	3,327,560,167	1,886,169,842
Stockholders' equity:		
Preferred stock, no par value; 10,000,000 shares authorized; no shares issued and outstanding:	—	—
Common stock, par value \$1.00; 90,000,000 shares authorized; 22,264,817 issued and outstanding at December 31, 2007 and 15,446,074 issued and outstanding at December 31, 2006	22,264,817	15,446,074
Additional paid-in capital	390,977,308	211,502,516
Retained earnings	54,150,679	31,109,324
Accumulated other comprehensive loss, net of taxes	(782,510)	(2,040,893)
Total stockholders' equity	466,610,294	256,017,021
Total liabilities and stockholders' equity	<u>\$3,794,170,461</u>	<u>\$2,142,186,863</u>

See accompanying notes to consolidated financial statements.

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

	For the years ended December 31,		
	2007	2006	2005
Interest income:			
Loans, including fees	\$129,888,784	\$ 92,005,602	\$35,166,671
Securities:			
Taxable	13,961,714	12,614,623	9,086,134
Tax-exempt	3,066,519	2,016,044	1,115,486
Federal funds sold and other	4,014,424	3,059,750	939,369
Total interest income	150,931,441	109,696,019	46,307,660
Interest expense:			
Deposits	61,671,734	40,032,020	13,690,649
Securities sold under agreements to repurchase	7,371,490	4,329,327	1,315,122
Federal funds purchased and other borrowings	6,176,205	4,381,878	2,263,851
Total interest expense	75,219,429	48,743,225	17,269,622
Net interest income	75,712,012	60,952,794	29,038,038
Provision for loan losses	4,719,841	3,732,032	2,151,966
Net interest income after provision for loan losses	70,992,171	57,220,762	26,886,072
Noninterest income:			
Service charges on deposit accounts	7,941,029	4,645,685	977,386
Investment services	3,455,808	2,463,205	1,835,757
Insurance sales commissions	2,486,884	2,122,702	—
Gains on loans and loan participations sold	1,858,077	1,868,184	1,247,898
Trust fees	1,908,440	1,180,839	—
Gains on sales of investment securities, net	16,472	—	114,410
Other noninterest income	4,854,217	3,505,903	1,218,123
Total noninterest income	22,520,927	15,786,518	5,393,574
Noninterest expense:			
Salaries and employee benefits	36,145,588	27,469,275	13,130,779
Equipment and occupancy	10,260,915	7,521,602	3,766,593
Other real estate owned	160,367	—	—
Marketing and other business development	1,676,455	1,234,497	698,232
Postage and supplies	1,995,267	1,510,048	618,060
Amortization of core deposit intangibles	2,144,018	1,783,230	—
Merger related expense	621,883	1,635,831	—
Other noninterest expense	7,475,072	5,469,777	2,818,352
Total noninterest expense	60,479,565	46,624,260	21,032,016
Net income before income taxes	33,033,533	26,383,020	11,247,630
Income tax expense	9,992,178	8,455,987	3,192,362
Net income	\$ 23,041,355	\$ 17,927,033	\$ 8,055,268
Per share information:			
Basic net income per common share	\$ 1.43	\$ 1.28	\$ 0.96
Diluted net income per common share	\$ 1.34	\$ 1.18	\$ 0.85
Weighted average common shares outstanding:			
Basic	16,100,076	13,954,077	8,408,663
Diluted	17,255,543	15,156,837	9,464,500

See accompanying notes to consolidated financial statements.

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

For the each of the years in the three-year period ended December 31, 2007

	Common Stock		Additional Paid-in Capital	Unearned Compensation	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount					
Balances, December 31, 2004	8,389,232	\$8,389,232	\$44,376,307	\$(37,250)	\$5,127,023	\$ 24,863	\$57,880,175
Exercise of employee incentive common stock options and related tax benefits	20,953	20,953	153,808	—	—	—	174,761
Issuance of restricted common shares pursuant to 2004 Equity Incentive Plan	16,366	16,366	360,797	(377,163)	—	—	—
Compensation expense for restricted shares	—	—	—	244,724	—	—	244,724
Comprehensive income:							
Net income	—	—	—	—	8,055,268	—	8,055,268
Net unrealized holding losses on available- for-sale securities, net of deferred tax benefit of \$1,788,761	—	—	—	—	—	(2,918,503)	(2,918,503)
Total comprehensive income							5,136,765
Balances, December 31, 2005	8,426,551	\$ 8,426,551	\$ 44,890,912	\$(169,689)	\$13,182,291	\$(2,893,640)	\$ 63,436,425
Transfer of unearned compensation to additional paid-in capital upon adoption of SFAS 123(R)	—	—	(169,689)	169,689	—	—	—
Exercise of employee incentive common stock options and related tax benefits	130,168	130,168	1,240,724	—	—	—	1,370,892
Issuance of restricted common shares pursuant to 2004 Equity Incentive Plan	22,057	22,057	(22,057)	—	—	—	—
Exercise of director common stock warrants	11,000	11,000	44,000	—	—	—	55,000
Compensation expense for restricted shares	—	—	465,003	—	—	—	465,003
Compensation expense for stock options	—	—	1,009,958	—	—	—	1,009,958
Merger with Cavalry Bancorp, Inc.	6,856,298	6,856,298	164,231,274	—	—	—	171,087,572
Costs to register common stock issued in connection with the merger with Cavalry Bancorp, Inc.	—	—	(187,609)	—	—	—	(187,609)
Comprehensive income:							
Net income	—	—	—	—	17,927,033	—	17,927,033
Net unrealized holding gains on available- for-sale securities, net of deferred tax expense of \$521,886	—	—	—	—	—	852,747	852,747

Total comprehensive income								18,779,780
Balances, December 31, 2006	15,446,074	\$ 15,446,074	\$ 211,502,516	\$ —	\$ 31,109,324	\$ (2,040,893)		\$ 256,017,021
Exercise of employee incentive common stock options, stock appreciation rights and related tax benefits	99,862	99,862	883,429	—	—	—		983,291
Issuance of restricted common shares pursuant to 2004 Equity Incentive Plan	42,301	42,301	(42,301)	—	—	—		—
Compensation expense for restricted shares	—	—	396,378	—	—	—		396,378
Compensation expense for stock options	—	—	1,703,441	—	—	—		1,703,441
Merger with Mid-America Bancshares, Inc.	6,676,580	6,676,580	176,833,242	—	—	—		183,509,822
Costs to register common stock issued in connection with the merger with Mid-America Bancshares, Inc.	—	—	(299,397)	—	—	—		(299,397)
Comprehensive income:								
Net income	—	—	—	—	23,041,355	—		23,041,355
Net unrealized holding gains on available-for-sale securities, net of deferred tax expense of \$762,956	—	—	—	—	—	1,258,383		1,258,383
Total comprehensive income								24,299,738
Balances, December 31, 2007	22,264,817	\$ 22,264,817	\$ 390,977,308	\$ —	\$ 54,150,679	\$ (782,510)		\$ 466,610,294

See accompanying notes to consolidated financial statements.

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

	For the years ended December 31,		
	2007	2006	2005
Operating activities:			
Net income	\$ 23,041,355	\$ 17,927,033	\$ 8,055,268
Adjustments to reconcile net income to net cash provided by operating activities:			
Net amortization of premiums on securities	492,280	629,634	1,130,766
Depreciation and net amortization	3,810,374	1,382,401	1,699,380
Provision for loan losses	4,719,841	3,732,032	2,151,966
Gains on sales of investment securities, net	(16,472)	—	(114,410)
Gain on loans and loan participations sold, net	(1,858,077)	(1,868,184)	(1,247,898)
Stock-based compensation expense	2,099,819	1,474,961	244,724
Deferred tax (benefit) expense	3,977,708	(1,164,336)	(575,755)
Tax benefit on exercise of stock awards	—	—	(50,535)
Excess tax benefit from stock compensation	(105,809)	(131,121)	—
Mortgage loans held for sale:			
Loans originated	(169,808,372)	(131,971,094)	(102,874,134)
Loans sold	169,599,685	134,301,622	100,730,532
Increase in other assets	(17,546,455)	(6,103,122)	(3,155,825)
Increase (decrease) in other liabilities	(2,011,851)	(6,303,665)	2,177,477
Net cash provided by operating activities	<u>16,394,026</u>	<u>11,906,161</u>	<u>8,171,556</u>
Investing activities:			
Activities in available for sale securities:			
Purchases	(78,978,057)	(62,760,686)	(116,361,069)
Sales	770,400	—	6,791,867
Maturities, prepayments and calls	51,518,109	35,568,504	32,935,215
Increase in loans, net	(386,164,624)	(297,565,733)	(175,606,019)
Purchases of premises and equipment and software	(6,071,813)	(4,649,676)	(3,438,916)
Cash and cash equivalents acquired in merger with Cavalry Bancorp, Inc., net of acquisition costs	—	36,230,539	—
Cash and cash equivalents acquired in merger with Mid-America Bancshares, Inc., net of acquisition costs	38,149,471	—	—
Purchases of other assets	(4,905,032)	(6,107,658)	(2,708,000)
Net cash used in investing activities	<u>(385,681,546)</u>	<u>(299,284,710)</u>	<u>(258,386,922)</u>
Financing activities:			
Net increase in deposits	346,584,243	229,745,145	239,423,716
Net increase (decrease) in repurchase agreements	(5,481,091)	75,181,529	33,906,372
Net increase in Federal funds purchased	48,862,000	—	—
Federal Home Loan Bank:			
Issuances	80,000,000	56,000,000	62,000,000
Payments	(102,304,513)	(61,540,828)	(74,000,000)
Proceeds from issuance of subordinated debt	30,928,000	20,619,000	20,619,000
Exercise of common stock warrants	—	55,000	—
Exercise of common stock options and stock appreciation rights	877,482	1,239,771	174,761
Excess tax benefit from stock compensation	105,809	131,121	—
Costs incurred in connection with registration of common stock issued in merger	(299,397)	(187,609)	—
Net cash provided by financing activities	<u>399,272,533</u>	<u>321,243,129</u>	<u>282,123,849</u>
Net increase in cash and cash equivalents	29,985,013	33,864,580	31,908,483
Cash and cash equivalents, beginning of year	92,518,850	58,654,270	26,745,787
Cash and cash equivalents, end of year	<u>\$ 122,503,863</u>	<u>\$ 92,518,850</u>	<u>\$ 58,654,270</u>

See accompanying notes to consolidated financial statements.

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Note 1. Summary of Significant Accounting Policies

Nature of Business — Pinnacle Financial Partners, Inc. (Pinnacle Financial) is a bank holding company whose primary business is conducted by its wholly-owned subsidiary, Pinnacle National Bank (Pinnacle National). Pinnacle National is a commercial bank located in Nashville, Tennessee. Pinnacle National provides a full range of banking services in its primary market areas of Nashville-Davidson-Rutherford-Franklin and Knoxville Metropolitan Statistical Areas.

In addition to Pinnacle National, Pinnacle Financial, for the time period following the merger with Mid-America Bancshares, Inc. (“Mid-America”), through February 29, 2008, conducted banking operations through the two banks formerly owned by Mid-America: PrimeTrust Bank in Nashville, Tennessee and Bank of the South in Mt. Juliet, Tennessee. On February 29, 2008, Pinnacle National purchased all of the assets and assumed all of the liabilities of PrimeTrust Bank and simultaneously sold the charter of PrimeTrust Bank to an unaffiliated third party for \$500,000. Pinnacle Financial also merged Bank of the South into Pinnacle National on that date. References to Pinnacle National as of December 31, 2007 include PrimeTrust Bank and Bank of the South.

Basis of Presentation — These consolidated financial statements include the accounts of Pinnacle Financial and its wholly-owned subsidiaries. PNFP Statutory Trust I, PNFP Statutory Trust II, 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.

Impairment — Long-lived assets, including purchased intangible assets subject to amortization, such as Pinnacle Financial’s 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 for the excess of the carrying amount over the fair value of the asset. Assets to be disposed of are 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 tested annually for impairment and are tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset’s fair value. Pinnacle Financial’s annual assessment date is as of September 30 such that the assessment will be completed during the fourth quarter of each year. Should we determine in a future period that the goodwill recorded in connection with our acquisitions of Mid-America Bancshares, Inc. (“Mid-America”) and Cavalry Bancorp, Inc. (“Cavalry”) has been impaired, then a charge to our earnings will be recorded in the period such determination is made.

Cash Equivalents and Cash Flows — Cash on hand, cash items in process of collection, amounts due from banks, Federal funds sold and securities purchased under agreements to resell, with original maturities within ninety days, are included in cash and cash equivalents. The following supplemental cash flow information addresses certain cash payments and noncash transactions for each of the years in the three-year period ended December 31, 2007 as follows:

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	For the years ended December 31,		
	2007	2006	2005
Cash Payments:			
Interest	\$ 76,735,790	\$ 50,752,304	\$16,154,326
Income taxes	7,900,000	8,280,000	3,802,633
Noncash Transactions:			
Common stock, stock appreciation rights, and options issued to acquire Mid-America Bancshares, Inc. (see note 2)	183,509,822	—	—
Common stock and options issued to acquire Cavalry Bancorp, Inc. (see note 3)	—	171,087,572	—
Loans charged-off to the allowance for loan losses	1,341,890	818,467	207,647
Loans foreclosed upon with repossessions transferred to other assets	481,915	994,781	—

Securities — Securities are classified based on management's intention on the date of purchase. All debt securities classified as available-for-sale are recorded at fair value with any unrealized gains and losses reported in accumulated other comprehensive loss, net of the deferred income tax effects. Securities that Pinnacle Financial has both the positive intent and ability to hold to maturity are classified as held to maturity and are carried at historical cost and adjusted for amortization of premiums and accretion of discounts.

A decline in the fair value of any available-for-sale or held-to-maturity security below cost that is deemed to be other-than-temporary results in a reduction in the carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. To determine whether impairment is other-than-temporary, management considers whether it has the ability and intent to hold the investment until a market price recovery and considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year-end and forecasted performance of the investee.

Interest and dividends on securities, including amortization of premiums and accretion of discounts calculated under the effective interest method, are included in interest income. For certain securities, amortization of premiums and accretion of discounts is computed based on the anticipated life of the security which may not be the stated life of the security. Realized gains and losses from the sale of securities are determined using the specific identification method.

Loans Held for Sale — Loans originated and intended for sale are carried at the lower of cost or estimated fair value as determined on a loan-by-loan basis. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. Realized gains and losses are recognized when legal title to the loans has been transferred to the purchaser and payments have been received and are reflected in the accompanying consolidated statement of income in gains on the sale of loans and loan participations sold.

Loans — Loans are reported at their outstanding principal balances less unearned income, the allowance for loan losses and any deferred fees or costs on originated loans. Interest income on loans is accrued based on the principal balance outstanding. Loan origination fees, net of certain loan origination costs, are deferred and recognized as an adjustment to the related loan yield using a method which approximates the interest method. At December 31, 2007 and 2006, net deferred loan fees of \$2.8 million and net deferred loan fees of \$3.4 million, respectively, were included in loans on the accompanying consolidated balance sheets. Net deferred loan fees at December 31, 2007 includes the unamortized discount of \$875,000 assigned to the loan portfolio acquired from the Mid-America acquisition as more fully discussed in "Note 2 — Merger with Mid-America Bancshares, Inc.". Net deferred loan fees at December 31, 2007 also includes the unamortized discount of \$794,000 assigned to the loan portfolio acquired from the Cavalry acquisition as more fully discussed in "Note 3 — Merger with Cavalry Bancorp, Inc."

The accrual of interest on loans is discontinued when there is a significant deterioration in the financial condition of the borrower and full repayment of principal and interest is not expected or the principal or interest is more than 90 days past due, unless the loan is both well-secured and in the process of collection. Generally, all

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interest accrued but not collected for loans that are placed on nonaccrual status is reversed against current income. Interest income is subsequently recognized only to the extent cash payments are received.

The allowance for loan losses is maintained at a level that management believes to be adequate to absorb probable losses in the loan portfolio. Loan losses are charged against the allowance when they are known. Subsequent recoveries are credited to the allowance. Management's determination of the adequacy of the allowance is based on an evaluation of the portfolio, current economic conditions, volume, growth, composition of the loan portfolio, homogeneous pools of loans, risk ratings of specific loans, historical loan loss factors, identified impaired loans and other factors related to the portfolio. This evaluation is performed quarterly and is inherently subjective, as it requires material estimates that are susceptible to significant change including the amounts and timing of future cash flows expected to be received on any impaired loans. In addition, regulatory agencies, as an integral part of their examination process, will periodically review Pinnacle Financial's allowance for loan losses, and may require Pinnacle Financial to record adjustments to the allowance based on their judgment about information available to them at the time of their examinations.

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. Individually identified 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. Changes to the valuation allowance are recorded as a component of the provision for loan losses.

Transfers of Financial Assets — Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from Pinnacle Financial, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) Pinnacle Financial does not maintain effective control over the transferred assets through an agreement to repurchase them before maturity.

Premises and Equipment and Leaseholds — Premises and equipment are carried at cost less accumulated depreciation and amortization computed principally by the straight-line method over the estimated useful lives of the assets or the expected lease terms for leasehold improvements, whichever is shorter. Useful lives for all premises and equipment range between three and thirty years.

Pinnacle National is the lessee with respect to several office locations. All such leases are being accounted for as operating leases within the accompanying consolidated financial statements. Several of these leases include rent escalation clauses. Pinnacle National expenses the costs associated with these escalating payments over the life of the expected lease term using the straight-line method. At December 31, 2007, the deferred liability associated with these escalating rentals was approximately \$540,000 and is included in other liabilities in the accompanying consolidated balance sheets.

Investments in unconsolidated subsidiaries and other entities — In addition to investments in unconsolidated subsidiaries, Pinnacle Financial maintains certain investments, at cost, with certain regulatory and other entities in which Pinnacle Financial has an ongoing business relationship. These entities include the Federal Reserve Bank of Atlanta, the Bankers' Bank of Atlanta and the Federal Home Loan Bank of Cincinnati. At December 31, 2007 and 2006, the cost of these investments was \$15,655,000 and \$12,794,000, respectively. Pinnacle Financial determined that it is not practicable to estimate the fair value of these investments. Pinnacle Financial has not observed any events or changes in circumstances that would have had an adverse effect on the fair value of the investment. Additionally, Pinnacle Financial has recorded certain unconsolidated investments in other entities, at fair value, of \$1,252,000 and \$65,000 at December 31, 2007 and 2006. During 2007, Pinnacle Financial recorded a loss of \$35,000 due to reductions in the fair value of these investments. These investments are reflected in the accompanying consolidated balance sheets in investments in unconsolidated subsidiaries and other entities.

Securities sold under agreements to repurchase — Pinnacle National routinely sells securities to certain treasury management customers and then repurchases these securities the next day. Securities sold under agreements to repurchase are reflected as a secured borrowing in the accompanying consolidated balance sheets at the amount of cash received in connection with each transaction.

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Other Assets — Included in other assets as of December 31, 2007 and 2006, is approximately \$840,000 and \$765,000, respectively, of computer software related assets, net of amortization. This software supports Pinnacle Financial's primary data systems and relates to amounts paid to vendors for installation and development of such systems. These amounts are amortized on a straight-line basis over periods of three to seven years. For the years ended December 31, 2007, 2006 and 2005, Pinnacle Financial's amortization expense was approximately \$208,000, \$281,000 and \$272,000, respectively. Software maintenance fees are capitalized in other assets and amortized over the term of the maintenance agreement.

Included in other assets at December 31, 2007 and 2006 is \$1,673,000 and \$995,000, respectively, of other real estate owned (OREO). OREO represents properties acquired by Pinnacle National through loan defaults by customers. The property is recorded at the lower of cost or fair value less estimated costs to sell at the date acquired. An allowance for losses on OREO may be maintained for subsequent valuation adjustments on a specific property basis, when necessary. Any gains or losses realized at the time of disposal are reflected in non interest income or non interest expense, as applicable.

Pinnacle National is the owner and beneficiary of various life insurance policies on certain key executives and former Cavalry directors, including policies that were acquired in its merger with Cavalry. These policies are reflected in the accompanying consolidated balance sheets at their respective cash surrender values. At December 31, 2007 and 2006, the aggregate cash surrender value of these policies, which is reflected in other assets, was \$33.4 million and \$14.8 million, respectively.

Also included in other assets at December 31, 2007 and 2006 is \$648,000 and \$770,000, respectively, which is related to loan participations which have been sold to correspondent banks. These amounts represent the present value, net of amortization, of the future net cash flows retained by Pinnacle Financial. These amounts are amortized against net interest income over the life of the loan. Amortization of these amounts was \$361,000, \$127,000 and \$165,000 for the years ended December 31, 2007, 2006 and 2005, respectively.

Derivative Instruments — In accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138 "Accounting for Certain Derivative Instruments and Hedging Activities, an Amendment of SFAS No. 133," all derivative instruments are recorded on the consolidated balance sheet at their respective fair values.

The accounting for changes in fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and if so, on the reason for holding it. If the derivative instrument is not designated as a hedge, the gain or loss on the derivative instrument is recognized in earnings in the period of change. None of the derivatives utilized by Pinnacle Financial have been designated as a hedge.

Investment Services and Trust Fees — Investment services and trust fees are recognized when earned. As of December 31, 2007 and 2006, Pinnacle Financial had accumulated approximately \$878 million and \$597 million, respectively, in brokerage assets under management. Additionally, the trust department had accumulated approximately \$464 million and \$395 million at December 31, 2007 and 2006, respectively, in trust assets under management.

Insurance Sales Commissions — Insurance sales commissions are recognized as of the effective date of the policy and when the premium due under the policy can be reasonably estimated and when the premium is billable to the client, less a provision for commission refunds in the event of policy cancellation prior to termination date.

Income Taxes — Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

The Company adopted FASB Interpretation 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), as of January 1, 2007. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position

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would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. The adoption had no material effect on the Company’s financial statements.

It is Pinnacle Financial’s policy to recognize interest and/or penalties related to income tax matters in income tax expense.

Pinnacle Financial and its wholly-owned subsidiaries file a consolidated income tax return. Each entity provides for income taxes based on its contribution to income or loss of the consolidated group.

Income Per Common Share — Basic earnings per share (“EPS”) is computed by dividing net income by the weighted average common shares outstanding for the period. Diluted EPS reflects the dilution that could occur if securities or other contracts to issue common stock were exercised or converted. The difference between basic and diluted weighted average shares outstanding was attributable to common stock options, 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 earnings per share by application of the treasury stock method.

As of December 31, 2007 there were 2,384,000 stock options and 15,000 stock appreciation rights outstanding to purchase common shares. As of December 31, 2006 there were 1,658,000 stock options outstanding to purchase common shares. Most of these options have exercise prices and compensation costs attributable to current services, which when considered in relation to the average market price of Pinnacle Financial’s common stock, are considered dilutive and are considered in Pinnacle Financial’s diluted income per share calculation for each of the years in the three year period ended December 31, 2007. There were common stock options of 327,000 and 287,000 outstanding as of December 31, 2007 and 2006, respectively, which were considered anti-dilutive and thus have not been considered in the fully-diluted share calculations below. Additionally, as of December 31, 2007, 2006 and 2005, Pinnacle Financial had outstanding warrants to purchase 395,000, 395,000 and 406,000, respectively, of common shares which have been considered in the calculation of Pinnacle Financial’s diluted income per share for each of the years in the three-year period ended December 31, 2007.

The following is a summary of the basic and diluted earnings per share calculation for each of the years in the three-year period ended December 31, 2007:

	2007	2006	2005
Basic earnings per share calculation:			
Numerator — Net income	\$23,041,355	\$17,927,033	\$8,055,268
Denominator — Average common shares outstanding	16,100,076	13,954,077	8,408,663
Basic net income per share	\$ 1.43	\$ 1.28	\$ 0.96
Diluted earnings per share calculation:			
Numerator — Net income	\$23,041,355	\$17,927,033	\$8,055,268
Denominator — Average common shares outstanding	16,100,076	13,954,077	8,408,663
Dilutive shares contingently issuable	1,155,467	1,202,760	1,055,837
Average diluted common shares outstanding	17,255,543	15,156,837	9,464,500
Diluted net income per share	\$ 1.34	\$ 1.18	\$ 0.85

Stock-Based Compensation — On January 1, 2006, Pinnacle Financial adopted Statement of Financial Accounting Standards No. 123 (revised 2004), “Share-Based Payment” (“SFAS No.123(R)”), that addresses the accounting for share-based payment transactions in which a company receives employee services in exchange for equity instruments. SFAS No. 123(R) eliminates the ability to account for share-based compensation transactions, as Pinnacle Financial formerly did, using the intrinsic value method as prescribed by Accounting Principles Board, (“APB”), Opinion No. 25, “Accounting for Stock Issued to Employees,” and generally requires that such transactions be accounted for using a fair-value-based method and recognized as expense in the accompanying consolidated statement of income.

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Pinnacle Financial adopted SFAS No. 123(R) using the modified prospective method which required the application of the accounting standard as of January 1, 2006. The accompanying consolidated financial statements as of and for the two year period ended December 31, 2007 and 2006 reflect the impact of adopting SFAS No. 123(R). In accordance with the modified prospective method, consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS No. 123(R). See Note 15 for further details.

Stock-based compensation expense recognized during the period is based on the value of the portion of stock-based payment awards that are ultimately expected to vest. Stock-based compensation expense recognized in the accompanying consolidated statement of income during 2007 and 2006 included compensation expense for stock-based payment awards granted prior to, but not yet vested, as of January 1, 2006 and for the stock-based awards granted after January 1, 2006, based on the grant date fair value estimated in accordance with SFAS No. 123(R). As stock-based compensation expense recognized in the accompanying consolidated statements of income for 2007 and 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS No. 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. In the pro forma information for 2005, which is also detailed in Note 15 we accounted for forfeitures as they occurred.

Comprehensive Income (Loss) —SFAS No. 130, “Reporting Comprehensive Income” describes comprehensive income as the total of all components of comprehensive income including net income. Other comprehensive income refers to revenues, expenses, gains and losses that under U.S. generally accepted accounting principles are included in comprehensive income but excluded from net income. Currently, Pinnacle Financial’s other comprehensive loss consists of unrealized gains and losses, net of deferred income taxes, on available-for-sale securities.

Note 2. Merger with Mid-America Bancshares, Inc.

On November 30, 2007, Pinnacle Financial consummated its merger with Mid-America Bancshares, Inc. (“Mid-America”), a two-bank holding company located in Nashville, Tennessee. Pursuant to the merger agreement, Pinnacle acquired all Mid-America common stock via an exchange whereby Mid-America shareholders received a fixed exchange ratio of 0.4655 shares of Pinnacle Financial common stock and \$1.50 in cash for each share of Mid-America common stock, or approximately 6.7 million Pinnacle Financial shares and \$21.6 million in cash. The accompanying consolidated financial statements include the activities of the former Mid-America since November 30, 2007.

In accordance with SFAS No. 141, “Accounting for Business Combinations” (“SFAS No. 141”), SFAS No. 142, “Goodwill and Intangible Assets” (“SFAS No. 142”) and SFAS No. 147, “Acquisition of Certain Financial Institutions” (“SFAS No. 147”), Pinnacle Financial recorded at fair value the following assets and liabilities of Mid-America as of November 30, 2007 (in thousands):

Cash and cash equivalents	\$ 60,795
Investment securities — available-for-sale	147,766
Loans, net of an allowance for loan losses of \$8,695	855,887
Goodwill	129,334
Core deposit intangible	8,085
Other assets	49,854
Total assets acquired	<u>1,251,721</u>
Deposits	957,076
Federal Home Loan Bank advances	61,383
Other liabilities	27,107
Total liabilities assumed	<u>1,045,566</u>
Total consideration paid for Mid-America	<u>\$ 206,155</u>

As noted above, total consideration for Mid-America approximates \$206.2 million of which \$183.5 million was in the form of Pinnacle Financial common shares, options, and stock appreciation rights to acquire Pinnacle Financial common shares, \$21.6 million was in the form of cash, and \$1.1 million in investment banking fees,

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attorney's fees and other costs related to the acquisition which have been accounted for as a component of the purchase price. Pinnacle Financial issued 6,676,580 shares of Pinnacle Financial common stock to the former Mid-America shareholders. In accordance with EITF No. 99-12, "Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination," the consideration shares were valued at \$26.26 per common share which represents the average closing price of Pinnacle Financial common stock from the two days prior to the merger announcement on August 15, 2007 through the two days after the merger announcement. Aggregate consideration for the common stock issued was approximately \$196.9 million. Additionally, Pinnacle Financial also has assumed several equity incentive plans, including the Mid-America Bancshares, Inc. 2006 Omnibus Equity Incentive Plan (the "Mid-America Plans") pursuant to which Pinnacle is obligated to issue 487,835 shares of Pinnacle Financial common stock upon exercise of stock options and stock appreciation rights awarded to certain former Mid-America employees who held outstanding options and stock appreciation rights as of November 30, 2007. All of these options and stock appreciation rights were fully vested prior to the merger announcement date and expire at various dates between 2011 and 2017. The exercise prices for these stock options and the grant prices for these stock appreciation rights range between \$6.63 per share and \$21.37 per share. In accordance with SFAS No. 141, Pinnacle Financial has considered the fair value of these options and stock appreciation rights in determining the acquisition cost of Mid-America. The fair value of these vested options and stock appreciation rights approximated \$8.2 million which has been included as a component of the aggregate purchase price.

In accordance with SFAS Nos. 141 and 142, Pinnacle Financial has preliminarily recognized \$8.1 million as a core deposit intangible. This identified intangible is being amortized over ten years using an accelerated method which anticipates the life of the underlying deposits to which the intangible is attributable. For the year ended December 31, 2007, approximately \$81,000 was recognized in the accompanying consolidated statement of income as other noninterest expense. Amortization expense associated with this identified intangible will approximate \$600,000 to \$975,000 per year for the next ten years.

Pinnacle Financial also recorded other adjustments to the carrying value of Mid-America's assets and liabilities in order to reflect the fair value of those net assets in accordance with U.S. generally accepted accounting principles, including an \$883,000 discount associated with the loan portfolio, a \$2.7 million premium for Mid-America's certificates of deposit and a \$898,000 premium for Mid-America's Federal Home Loan Bank advances. Pinnacle Financial also recorded the corresponding deferred tax asset or liability associated with these adjustments. The discounts and premiums related to financial assets and liabilities are being accreted and amortized into our consolidated statements of income using a method that approximates the level yield over the anticipated lives of the underlying financial assets or liabilities. For the year ended December 31, 2007, the accretion and amortization of the fair value discounts and premiums related to the acquired assets and liabilities increased net interest income by approximately \$528,000. Based on the estimated useful lives of the acquired loans, certificates of deposits, and FHLB advances, Pinnacle Financial expects to recognize increases in net interest income related to the accretion of these purchase accounting adjustments of \$3.9 million in subsequent years.

Statement of Position 03-03, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer* ("SOP 03-03") addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor's initial investment in loans or debt securities (loans) acquired in a transfer if those differences are attributable, at least in part, to credit quality. It includes loans acquired in purchase business combinations and applies to all nongovernmental entities, including not-for-profit organizations. The SOP does not apply to loans originated by the entity. Prior to the merger with Mid-America and due to deteriorating credit conditions during the fourth quarter of 2007, the management of Mid-America identified approximately \$19 million in loans which had weaker credit conditions and charged-off approximately \$8.9 million related to these loans. Subsequently, Pinnacle Financial identified \$10.3 million of loans to which the application of the provisions of SOP 03-03 was required. Pinnacle recorded no further purchase accounting adjustments to these balances as of November 30, 2007. At December 31, 2007, the carrying value of these loans was \$10.3 million.

Pinnacle Financial is in the process of finalizing the allocation of the purchase price to the acquired net assets noted above. Accordingly, the above allocations should be considered preliminary as of December 31, 2007.

The following pro forma income statements assume the merger was consummated on January 1, 2006. The pro forma information does not reflect Pinnacle Financial's results of operations that would have actually occurred had the merger been consummated on such date (dollars in thousands).

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	Year ended December 31,	
	2007	2006(1)
	(unaudited)	
Pro Forma Income Statements:		
Net interest income	\$ 104,610	\$ 78,454
Provision for loan losses	14,544	5,005
Noninterest income	29,495	21,141
Noninterest expense	98,437	68,897
Net income before taxes	21,124	25,693
Income tax expense	6,908	7,750
Net income	\$ 14,216	\$ 17,943
Pro Forma Per Share Information:		
Basic net income per common share	\$ 0.64	\$ 0.98
Diluted net income per common share	\$ 0.61	\$ 0.92
Weighted average shares outstanding:		
Basic	22,209,642	18,222,247
Diluted	23,365,109	19,483,299

- (1) In preparation and as a result of the merger during 2007, Mid-America and Pinnacle Financial incurred significant merger related charges of approximately \$3.9 million in the aggregate, primarily for severance benefits, accelerated vesting of defined compensation agreements, investment banker fees, etc. Including these charges would have decreased pro forma net income for the year ended December 31, 2007 by \$2.35 million resulting in net income of \$11,872,000 and a basic and fully diluted pro forma net income per share of \$0.53 and \$0.51, respectively.

During the year ended December 31, 2007, Pinnacle Financial incurred merger integration expense related to the merger with Mid-America of \$622,000. These expenses were directly related to the merger, recognized as incurred and reflected on the accompanying consolidated statement of income as merger related expense.

Following the merger with Mid-America, on February 29, 2008, Pinnacle National purchased all of the assets and assumed all of the liabilities of PrimeTrust Bank and simultaneously sold the charter of PrimeTrust Bank to an unaffiliated third party for \$500,000. Pinnacle Financial also merged Bank of the South into Pinnacle National on that date, leaving Pinnacle National as the sole banking subsidiary of Pinnacle Financial. Goodwill was reduced as a result of the sale of the charter, and therefore no gain was recorded.

Note 3. Merger with Cavalry Bancorp, Inc.

On March 15, 2006, Pinnacle Financial consummated its merger with Cavalry Bancorp, Inc. ("Cavalry"), a one-bank holding company located in Murfreesboro, Tennessee. Pursuant to the merger agreement, Pinnacle acquired all Cavalry common stock via a tax-free exchange whereby Cavalry shareholders received a fixed exchange ratio of 0.95 shares of Pinnacle Financial common stock for each share of Cavalry common stock, or approximately 6.9 million Pinnacle Financial shares. The accompanying consolidated financial statements include the activities of the former Cavalry since March 15, 2006.

In accordance with SFAS No. 141, "Accounting for Business Combinations" ("SFAS No. 141"), SFAS No. 142, "Goodwill and Intangible Assets" ("SFAS No. 142") and SFAS No. 147, "Acquisition of Certain Financial Institutions" ("SFAS No. 147"), Pinnacle Financial recorded at fair value the following assets and liabilities of Cavalry as of March 15, 2006 (in thousands):

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Cash and cash equivalents	\$ 37,420
Investment securities — available-for-sale	39,476
Loans, net of an allowance for loan losses of \$5,102	545,598
Goodwill	114,288
Core deposit intangible	13,168
Other assets	42,937
Total assets acquired	<u>792,887</u>
Deposits	583,992
Federal Home Loan Bank advances	17,767
Other liabilities	18,851
Total liabilities assumed	<u>620,610</u>
Total consideration paid for Cavalry	<u>\$ 172,277</u>

As noted above, total consideration for Cavalry approximates \$172.3 million of which \$171.1 million was in the form of Pinnacle Financial common shares and options to acquire Pinnacle Financial common shares and \$1.2 million in investment banking fees, attorney's fees and other costs related to the acquisition which have been accounted for as a component of the purchase price. Pinnacle Financial issued 6,856,298 shares of Pinnacle Financial common stock to the former Cavalry shareholders. In accordance with EITF No. 99-12, "Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination," the consideration shares were valued at \$24.53 per common share which represents the average closing price of Pinnacle Financial common stock from the two days prior to the merger announcement on September 30, 2005 through the two days after the merger announcement. Aggregate consideration for the common stock issued was approximately \$168.2 million. Additionally, Pinnacle Financial also has assumed the Cavalry Bancorp, Inc. 1999 Stock Incentive Plan (the "Cavalry Plan") pursuant to which Pinnacle is obligated to issue 195,551 shares of Pinnacle Financial common stock upon exercise of stock options awarded to certain former Cavalry employees who held outstanding options as of March 15, 2006. All of these options were fully vested prior to the merger announcement date and expire at various dates between 2011 and 2012. The exercise prices for these stock options range between \$10.26 per share and \$13.68 per share. In accordance with SFAS No. 141, Pinnacle Financial has considered the fair value of these options in determining the acquisition cost of Cavalry. The fair value of these vested options approximated \$2.9 million which has been included as a component of the aggregate purchase price.

In accordance with SFAS Nos. 141 and 142, Pinnacle Financial has recognized \$13.2 million as a core deposit intangible. This identified intangible is being amortized over seven years using an accelerated method which anticipates the life of the underlying deposits to which the intangible is attributable. For the year ended December 31, 2007 and 2006, approximately \$2.1 and \$1.8 million, respectively, was recognized in the accompanying consolidated statements of income as other noninterest expense. Amortization expense associated with this identified intangible will approximate \$1.6 million to \$2.0 million per year for the next five years with a lesser amount for the remaining year.

Pinnacle Financial also recorded other adjustments to the carrying value of Cavalry's assets and liabilities in order to reflect the fair value of those net assets in accordance with U.S. generally accepted accounting principles, including a \$4.8 million discount associated with the loan portfolio, a \$2.9 million premium for Cavalry's certificates of deposit and a \$4.6 million premium for Cavalry's land and buildings. Pinnacle Financial also recorded the corresponding deferred tax asset or liability associated with these adjustments. The discounts and premiums related to financial assets and liabilities are being amortized into our consolidated statements of income using a method that approximates the level yield method over the anticipated lives of the underlying financial assets or liabilities. For the years ended December 31, 2007 and 2006, the accretion of the fair value discounts related to the acquired loans and certificates of deposit increased net interest income by approximately \$2.5 and \$3.7 million, respectively. Based on the estimated useful lives of the acquired loans and deposits, Pinnacle Financial expects to recognize increases in net interest income related to accretion of these purchase accounting adjustments of \$1.5 million in subsequent years.

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Statement of Position 03-03, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer* (“SOP 03-03”) addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor’s initial investment in loans or debt securities (loans) acquired in a transfer if those differences are attributable, at least in part, to credit quality. It includes loans acquired in purchase business combinations and applies to all nongovernmental entities, including not-for-profit organizations. The SOP does not apply to loans originated by the entity. At March 15, 2006, Pinnacle Financial identified \$3.9 million in loans to which the application of the provisions of SOP 03-03 was required. The purchase accounting adjustments reflect a reduction in loans and the allowance for loan losses of \$1.0 million related to Cavalry’s impaired loans, thus reducing the carrying value of these loans to \$2.9 million as of March 15, 2006. At December 31, 2007, the carrying value of these loans had been reduced to \$679,000 due to cash payments received from the borrowers.

During the year ended December 31, 2006, Pinnacle Financial incurred merger integration expense related to the merger with Cavalry of \$1,636,000. These expenses were directly related to the merger, recognized as incurred and reflected on the accompanying consolidated statement of income as merger related expense.

Note 4. Restricted Cash Balances

Regulation D of the Federal Reserve Act requires that banks maintain reserve balances with the Federal Reserve Bank based principally on the type and amount of their deposits. At its option, Pinnacle Financial maintains additional balances to compensate for clearing and other services. For each of the years ended December 31, 2007 and 2006, the average daily balance maintained at the Federal Reserve was approximately \$611,000.

Note 5. Securities

The amortized cost and fair value of securities available-for-sale and held-to-maturity at December 31, 2007 and 2006 are summarized as follows:

	December 31, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale:				
U.S. Treasury securities	\$ —	\$ —	\$ —	\$ —
U.S. Government agency securities	69,481,328	199,761	18,526	69,662,563
Mortgage-backed securities	297,909,174	1,237,808	1,441,636	297,705,346
State and municipal securities	127,220,978	208,241	1,523,412	125,905,807
Corporate notes	2,415,782	—	37,559	2,378,223
	<u>\$497,027,262</u>	<u>\$1,645,810</u>	<u>\$3,021,133</u>	<u>\$495,651,939</u>
Securities held-to-maturity:				
U.S. government agency securities	\$ 17,747,589	\$ 4,436	\$ —	17,752,025
State and municipal securities	9,285,767	23,175	177,494	9,131,448
	<u>\$ 27,033,356</u>	<u>\$ 27,611</u>	<u>\$ 177,494</u>	<u>\$ 26,883,473</u>

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	December 31, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale:				
U.S. Treasury securities	\$ —	\$ —	\$ —	\$ —
U.S. Government agency securities	38,076,428	9,739	457,321	37,628,846
Mortgage-backed securities	220,397,093	455,203	3,028,241	217,824,055
State and municipal securities	62,215,952	131,412	388,124	61,959,240
Corporate notes	1,887,475	—	62,188	1,825,287
	<u>\$322,576,948</u>	<u>\$596,354</u>	<u>\$3,935,874</u>	<u>\$319,237,428</u>
Securities held-to-maturity:				
U.S. government agency securities	\$ 17,747,278	\$ —	\$ 378,528	\$ 17,368,700
State and municipal securities	9,509,648	—	284,113	9,225,535
	<u>\$ 27,256,876</u>	<u>\$ —</u>	<u>\$ 662,641</u>	<u>\$ 26,594,235</u>

Pinnacle Financial realized approximately \$16,000 in net gains from the sale of \$770,000 of available-for-sale securities during the year ended December 31, 2007. There were no losses on the sale of securities during the year ended December 31, 2007. Pinnacle Financial had no sales of investment securities in 2006. Pinnacle Financial realized approximately \$114,000 in net gains from the sale of \$6.8 million of available for sale securities during the year ended December 31, 2005.

At December 31, 2007, approximately \$411,271,000 of Pinnacle Financial's available-for-sale portfolio was pledged to secure public funds and other deposits and securities sold under agreements to repurchase.

The amortized cost and fair value of debt securities as of December 31, 2007 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	\$ 29,574,165	\$ 29,565,012	\$ 1,578,186	\$ 1,571,404
Due in one year to five years	71,667,981	71,674,128	22,535,568	22,403,338
Due in five years to ten years	52,785,286	52,318,514	2,919,602	2,908,731
Due after ten years	45,090,656	44,388,939	—	—
	<u>\$199,118,088</u>	<u>\$197,946,593</u>	<u>\$27,033,356</u>	<u>\$26,883,473</u>

At December 31, 2007 and 2006, included in securities were the following investments with unrealized losses. The information below classifies these investments according to the term of the unrealized loss 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
<i>At</i>						
<i>December 31, 2007:</i>						
U.S. government agency securities	\$ 13,942,078	\$ 25,198	\$ 2,985,600	\$ 14,400	\$ 16,927,678	\$ 39,598
Mortgage-backed securities	51,240,090	181,098	97,593,453	1,260,537	148,833,543	1,441,635
State and municipal securities	54,467,544	1,193,763	35,481,739	486,071	89,949,283	1,679,834
Corporate notes	527,115	300	1,451,108	37,260	1,978,223	37,560
Total temporarily-impaired securities	<u>\$120,176,827</u>	<u>\$1,400,359</u>	<u>\$137,511,900</u>	<u>\$1,798,268</u>	<u>\$257,688,727</u>	<u>\$3,198,627</u>

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At December 31, 2006:

U.S. government agency securities	\$ —	\$ —	\$ 47,988,246	\$ 835,849	\$ 47,988,246	\$ 835,849
Mortgage-backed securities	13,959,080	68,965	149,496,521	2,959,276	163,455,601	3,028,241
State and municipal securities	13,975,595	47,071	35,660,379	625,166	49,635,974	672,237
Corporate notes	—	—	1,825,286	62,188	1,825,286	62,188
Total temporarily-impaired securities	<u>\$27,934,675</u>	<u>\$116,036</u>	<u>\$234,970,432</u>	<u>\$4,482,479</u>	<u>\$262,905,107</u>	<u>\$4,598,515</u>

Management evaluates securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of Pinnacle Financial to retain its investment in the issue for a period of time sufficient to allow for any anticipated recovery in fair value. Because the declines in fair value noted above were attributable to increases in interest rates and not attributable to credit quality and because Pinnacle Financial has the ability and intent to hold all of these investments until a market price recovery or maturity, the impairment of these investments is not deemed to be other-than-temporary.

Note 6. Loans and Allowance for Loan Losses

The composition of loans at December 31, 2007 and 2006 is summarized as follows:

	<u>2007</u>	<u>2006</u>
Commercial real estate — Mortgage	\$ 728,200,839	\$ 284,301,650
Consumer real estate — Mortgage	562,720,828	299,626,769
Construction and land development	517,399,037	253,097,234
Commercial and industrial	838,160,611	608,529,830
Consumer and other	103,159,374	52,179,341
Total Loans	2,749,640,689	1,497,734,824
Allowance for loan losses	(28,470,207)	(16,117,978)
Loans, net	<u>\$2,721,170,482</u>	<u>\$1,481,616,846</u>

Pinnacle Financial periodically analyzes its commercial loan portfolio to determine if a concentration of credit risk exists to any one or more industries. Pinnacle Financial utilizes broadly accepted industry classification systems in order to classify borrowers into various industry classifications. Pinnacle Financial has a credit exposure (loans outstanding plus unfunded lines of credit) exceeding 25% of Pinnacle National's total risk-based capital to borrowers in the following industries at December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Trucking industry	\$109,118,000	\$ 89,862,000
Lessors of nonresidential buildings	249,959,000	133,504,000
Lessors of residential buildings	135,413,000	65,791,000
Land subdividers	283,327,000	164,535,000
New housing operative builders	269,744,000	192,373,000
New single family housing construction	104,980,000	18,900

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Changes in the allowance for loan losses for each of the years in the three-year period ended December 31, 2007 are as follows:

	2007	2006	2005
Balance at beginning of period	\$16,117,978	\$ 7,857,774	\$5,650,014
Charged-off loans	(1,341,890)	(818,467)	(207,647)
Recovery of previously charged-off loans	279,491	244,343	263,441
Allowance from Mid-America acquisition (see note 2)	8,694,787	—	—
Allowance from Cavalry acquisition (see note 3)	—	5,102,296	—
Provision for loan losses	4,719,841	3,732,032	2,151,966
Balance at end of period	<u>\$28,470,207</u>	<u>\$16,117,978</u>	<u>\$7,857,774</u>

At December 31, 2007 and 2006, Pinnacle Financial had certain impaired loans on nonaccruing interest status. The principal balance of these nonaccrual loans amounted to \$19,677,000 and \$7,070,000 at December 31, 2007 and 2006, respectively. In each case, at the date such loans were placed on nonaccrual, Pinnacle Financial reversed all previously accrued interest income against current year earnings. Had these loans been on accruing status, interest income would have been higher by \$485,000, \$283,000 and \$21,000 for each of the years in the three-year period ended December 31, 2007, respectively. For each of years in the three year period ended December 31, 2007, the average balance of nonaccrual loans was \$5,747,000, \$2,735,000 and \$387,000, respectively. As all loans that are deemed impaired were either on nonaccruing interest status during the entire year or were placed on nonaccruing status on the date they were deemed impaired, no interest income has been recognized on any impaired loans during the three year period ended December 31, 2007. At December 31, 2007, Pinnacle Financial allocated approximately \$50,000 of its allowance for loan losses for loans considered to be impaired. At December 31, 2006, Pinnacle Financial did not have an allowance for loans considered to be impaired.

At December 31, 2007, Pinnacle Financial had granted loans and other extensions of credit amounting to approximately \$27,653,000 to certain directors, executive officers, and their related entities, of which \$18,467,000 had been drawn upon. At December 31, 2006, Pinnacle Financial had granted loans and other extensions of credit amounting to approximately \$23,392,000 to certain directors, executive officers, and their related entities, of which approximately \$17,461,000 had been drawn upon. During 2007, \$2,493,000 of new loans were made, \$2,473,000 of loans were purchased through the Mid-America acquisition, and repayments totaled \$1,487,000. During 2006, \$10,640,000 of new loans were made, \$120,000 of loans were purchased through the Cavalry acquisition, and repayments totaled \$860,000. The terms on these loans and extensions are on substantially the same terms customary for other persons for the type of loan involved. None of these loans to certain directors, executive officers, and their related entities, were impaired at December 31, 2007 or 2006.

During the three-year period ended December 31, 2007, Pinnacle Financial sold participations in certain loans to correspondent banks at an interest rate that was less than that of the borrower's rate of interest. In accordance with U.S. generally accepted accounting principles, Pinnacle Financial has reflected a net gain on the sale of these participated loans for each of the years in the three year period ended December 31, 2007 of \$239,000, \$420,000 and \$152,000, respectively, which is attributable to the present value of the future net cash flows of the difference between the interest payments the borrower is projected to pay Pinnacle Financial and the amount of interest that will be owed the correspondent banks based on their participation in the loan. At December 31, 2007, Pinnacle Financial was servicing \$182.5 million of loans for correspondent banks and other entities.

At December 31, 2007 and 2006, Pinnacle Financial had \$11.3 million and \$5.7 million in mortgage loans held-for-sale. During 2007, Pinnacle Financial recognized \$1.6 million in gains on the sale of \$170.0 million in mortgage loans held-for-sale.

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Note 7. Premises and Equipment and Lease Commitments

Premises and equipment at December 31, 2007 and 2006 are summarized as follows:

	<u>Range of Useful Lives</u>	<u>2007</u>	<u>2006</u>
Land	—	\$ 15,365,882	\$ 9,545,667
Buildings	15 to 30 years	41,255,704	19,849,960
Leasehold improvements	15 to 20 years	5,087,210	1,954,028
Furniture and equipment	3 to 15 years	26,910,636	21,350,694
		<u>88,619,432</u>	<u>52,700,349</u>
Accumulated depreciation		<u>(20,233,486)</u>	<u>(16,414,553)</u>
		<u>\$ 68,385,946</u>	<u>\$ 36,285,796</u>

Depreciation and amortization expense was approximately \$3,884,000, \$2,702,000 and \$997,000 for each of the years in the three-year period ended December 31, 2007.

Pinnacle Financial has entered into various operating leases, primarily for office space and branch facilities. Rent expense related to these leases for 2007, 2006 and 2005 totaled \$1,346,000, \$1,161,000 and \$950,000, respectively. At December 31, 2007, the approximate future minimum lease payments due under the aforementioned operating leases for their base term is as follows:

2008	\$ 1,846,000
2009	1,878,000
2010	1,673,000
2011	1,343,000
2012	1,360,000
Thereafter	<u>10,225,651</u>
	<u>\$18,326,837</u>

At December 31, 2007, Pinnacle Financial had \$881,000 recorded as a liability for the present value of future lease payments on a facility acquired in its merger with Mid-America that it intends to close in 2008.

Note 8. Deposits

At December 31, 2007, the scheduled maturities of time deposits are as follows:

2008	\$1,168,105,188
2009	153,890,291
2010	31,986,218
2011	12,512,723
2012	5,688,898
	<u>\$1,372,183,317</u>

Additionally, at December 31, 2007 and 2006, approximately \$1,000,302,000 and \$440,136,000, respectively, of time deposits had been issued in denominations of \$100,000 or greater.

At December 31, 2007, Pinnacle Financial had \$4.9 million of deposit accounts in overdraft status and thus have been reclassified to loans on the accompanying consolidated balance sheet.

Note 9. Federal Home Loan Bank Advances and Other Borrowings

Pinnacle Financial's banking subsidiaries are members of the Federal Home Loan Bank of Cincinnati ("FHLB") and as a result, are eligible for advances from the FHLB, pursuant to the terms of various borrowing agreements, which assists the banking subsidiaries in the funding of their home mortgage and commercial real estate loan portfolios. The banking subsidiaries have pledged certain qualifying residential mortgage loans and, pursuant to a

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blanket lien, all qualifying commercial mortgage loans with an aggregate carrying value of \$257,355,000 as collateral under the borrowing agreements with the FHLB.

At December 31, 2007 and 2006, Pinnacle Financial had received advances from the FHLB totaling \$92,804,000 and \$53,726,000, respectively. At December 31, 2007, the scheduled maturities of these advances and interest rates are as follows:

	<u>Scheduled</u> <u>Maturities</u>	<u>Interest Rate Ranges</u>
2008	\$15,554,292	4.4% to 5.2%
2009	15,000,000	5.0%
2010	13,250,485	4.1% to 5.0%
2011-2020	48,999,356	2.3% to 4.4%
	<u>\$92,804,133</u>	
Weighted average interest rate		4.3%

At December 31, 2007, Pinnacle National has accommodations which allow it to purchase Federal funds from several of its correspondent banks on an overnight basis at prevailing overnight market rates. These accommodations are subject to various restrictions as to their term and availability, and in most cases, must be repaid within less than a month. At December 31, 2007, the balance owed these correspondents amounted to \$48,862,000 under these arrangements. There were no outstanding balances at December 31, 2006 under these arrangements.

At December 31, 2007, Pinnacle Financial had outstanding a \$9 million obligation to a bank secured by the outstanding common stock of Bank of the South. This obligation bears interest at Prime Rate less 1% and is due December 13, 2008. In February of 2008, Pinnacle Financial entered into a loan agreement related to a \$25 million line of credit with a regional bank. This line of credit will be used to support the growth of Pinnacle National and pay off the aforementioned \$9 million obligation. The \$25 million line of credit has a one year term, contains customary affirmative and negative covenants regarding the operation of our and our subsidiaries' business, a negative pledge on the common stock of Pinnacle National and is priced at 30-day LIBOR plus 125 basis points.

At December 31, 2007, Pinnacle Financial had \$34,897,000 in borrowing availability with the FHLB and other correspondent banks with whom its subsidiary banks have arranged lines of credit.

Note 10. Investments in Affiliated Companies

On December 29, 2003, Pinnacle Financial established PNFP Statutory Trust I; on September 15, 2005 Pinnacle Financial established PNFP Statutory Trust II; on September 7, 2006 Pinnacle Financial established PNFP Statutory Trust III; and on October 31, 2007 PNFP Statutory Trust IV was established ("Trust I"; "Trust II"; "Trust III"; "Trust IV" or collectively, the "Trusts"). All are wholly-owned statutory business trusts. Pinnacle Financial is 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. Pinnacle Financial's aggregate \$2,476,000 and \$1,548,000 investment in the Trusts is included in investments in unconsolidated subsidiaries and other entities in the accompanying consolidated balance sheet at December 31, 2007 and 2006, respectively, and the \$82,476,000 and \$51,548,000 obligation of Pinnacle Financial is reflected as subordinated debt at December 31, 2007 and 2006, respectively.

The Trust I Preferred Securities bear a floating interest rate based on a spread over 3-month LIBOR (8.49% at December 31, 2007) which is set each quarter and mature on December 30, 2033. The Trust II Preferred Securities bear a fixed interest rate of 5.848% per annum through September 30, 2010 at which time the securities will bear a floating rate set each quarter based on a spread over 3-month LIBOR. 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 (6.88% at December 31, 2007) 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 (7.76% at December 31, 2007) which is set each quarter and mature on September 30, 2037.

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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. Pinnacle Financial guarantees 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. Pinnacle Financial 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 Pinnacle Financial's ability to pay dividends on our common shares will be restricted.

Subject to approval by the Federal Reserve Bank of Atlanta, the Trust Preferred Securities may be redeemed 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 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.

At December 31, 2007, the scheduled maturities of these Subordinated Debentures are as follows:

	<u>Scheduled Maturities</u>
2008	\$10,310,000
2009	20,619,000
2010	51,547,000
2011-2020	—
	<u>\$82,476,000</u>

The Trust Preferred Securities for the Trusts qualify as Tier I capital under current regulatory definitions subject to certain limitations. Debt issuance costs associated with Trust I of \$120,000 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 were no debt issuance costs associated with Trust II; Trust III or Trust IV.

Combined summary financial information for the Trusts follows (dollars in thousands):

Combined Summary Balance Sheets

	December 31, 2007	December 31, 2006
Asset — Investment in subordinated debentures issued by Pinnacle Financial	\$82,476	\$51,548
Liabilities	\$ —	\$ —
Stockholder's equity — Trust preferred securities	80,000	50,000
Common securities (100% owned by Pinnacle Financial)	2,476	1,548
Total stockholder's equity	82,476	51,548
Total liabilities and stockholder's equity	<u>\$82,476</u>	<u>\$51,548</u>

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Combined Summary Income Statement

	Year ended December 31,		
	2007	2006	2005
<i>Income</i> — Interest income from subordinated debentures issued by Pinnacle Financial	\$3,965	\$2,504	\$986
<i>Net Income</i>	<u>\$3,965</u>	<u>\$2,504</u>	<u>\$986</u>

Combined Summary Statement of Stockholder's Equity

	Trust Preferred Securities	Total Common Stock	Retained Earnings	Stockholder's Equity
Balances, December 31, 2004	\$10,000	\$ 310	\$ —	\$10,310
Net income	—	—	986	986
Issuance of trust preferred securities	20,000	619	—	20,619
Dividends:				
Trust preferred securities	—	—	(956)	(956)
Common paid to Pinnacle Financial	—	—	(30)	(30)
Balances, December 31, 2005	\$30,000	\$ 929	\$ —	\$30,929
Net income	—	—	2,504	2,504
Issuance of trust preferred securities	20,000	619	—	20,619
Dividends:				
Trust preferred securities	—	—	(2,428)	(2,428)
Common paid to Pinnacle Financial	—	—	(76)	(76)
Balances, December 31, 2006	\$50,000	\$1,548	\$ —	\$51,548
Net income	—	—	3,965	3,965
Issuance of trust preferred securities	30,000	928	—	30,928
Dividends:				
Trust preferred securities	—	—	(3,847)	(3,847)
Common paid to Pinnacle Financial	—	—	(118)	(118)
Balances, December 31, 2007	<u>\$80,000</u>	<u>\$2,476</u>	<u>\$ —</u>	<u>\$82,476</u>

Note 11. Income Taxes

FASB Interpretation 48, "Accounting for Income Tax Uncertainties" ("FIN 48") was issued in June 2006 and defines the threshold for recognizing the benefits of tax return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authority. FIN 48 also provides guidance on the derecognition, measurement and classification of income tax uncertainties, along with any related interest and penalties and includes guidance concerning accounting for income tax uncertainties in interim periods. Pinnacle Financial adopted the provisions of FIN 48, on January 1, 2007, and determined there was no need to make an adjustment to retained earnings upon adoption of this Interpretation. As of January 1, 2007, Pinnacle Financial had \$700,000 of unrecognized tax benefits related to Federal income tax matters, of which \$687,000 was utilized during 2007 as uncertainties related to the acquisition of Cavalry were resolved. The remaining \$13,000 was removed during 2007 through an adjustment to goodwill. The reversal of these unrecognized tax benefits did not impact the Company's effective tax rate. As of December 31, 2007, Pinnacle Financial had no unrecognized tax benefits related to Federal or State income tax matters. The Company does not anticipate any material increase or decrease in unrecognized tax benefits during 2008 relative to any tax positions taken prior to December 31, 2007.

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Pinnacle Financial's unrecognized tax benefits at December 31, 2007 are summarized as follows:

	2007
Balance at beginning of year	\$ 700,000
Increases (decreases) in unrecognized tax benefits relating to current period	—
Increases (decreases) in unrecognized tax benefits relating to prior period	(700,000)
Decreases in unrecognized tax benefits relating to settlements with taxing authorities	—
Reductions to unrecognized tax benefits as a result of a lapse of the applicable statute of limitations	—
Balance at end of year	\$ —

As of December 31, 2007, Pinnacle Financial has accrued no interest and no penalties related to uncertain tax positions. It is Pinnacle Financial's policy to recognize interest and/or penalties related to income tax matters in income tax expense.

Pinnacle Financial and its subsidiaries file a consolidated U.S. Federal and state of Tennessee income tax returns. Pinnacle Financial is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ended December 31, 2004 through 2007, and the state of Tennessee for the years ended December 31, 2002 through 2007.

Income tax expense attributable to income from continuing operations for each of the years in the three-year period ended December 31, 2007 consists of the following:

	2007	2006	2005
<i>Current tax expense (benefit):</i>			
Federal	\$6,422,436	\$ 9,073,193	\$3,589,487
State	(407,966)	547,130	178,630
Total current tax expense (benefit)	6,014,470	9,620,323	3,768,117
<i>Deferred tax expense (benefit):</i>			
Federal	3,318,644	(971,418)	(479,072)
State	659,064	(192,918)	(96,683)
Total deferred tax expense (benefit)	3,977,708	(1,164,336)	(575,755)
	\$9,992,178	\$ 8,455,987	\$3,192,362

Pinnacle Financial's income tax expense differs from the amounts computed by applying the Federal income tax statutory rates of 35% in 2007 and 2006 and 34% in 2005 to income before income taxes. A reconciliation of the differences for each of the years in the three-year period ended December 31, 2007 is as follows:

	2007	2006	2005
Income taxes at statutory rate	\$11,561,737	\$9,234,057	\$3,824,194
State tax expense, net of federal tax effect	163,214	230,238	54,085
Federal tax credits	(360,000)	(300,000)	(300,000)
Tax-exempt securities	(889,716)	(602,100)	(339,900)
Insurance premiums	(304,807)	(91,049)	—
Other items	(178,250)	(15,159)	(46,017)
Income tax expense	\$ 9,992,178	\$8,455,987	\$3,192,362

The effective tax rate for all years is impacted by 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

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reporting purposes in the same periods that the credits are recognized in the Company's income tax returns. The credit that is available for each of the years in the three year period ended December 31, 2007 was \$360,000 in 2007 and \$300,000 in 2006 and 2005. Pinnacle Financial believes that it and its subsidiary have complied with the various regulatory provisions of the New Markets Tax Credit program in each of these years. Also, during 2004, Pinnacle National formed a real estate investment trust which provides Pinnacle Financial with an alternative vehicle for raising capital. Additionally, the ownership structure of this real estate investment trust provides certain state income tax benefits to Pinnacle National and Pinnacle Financial.

The components of deferred income taxes included in other assets in the accompanying consolidated balance sheets at December 31, 2007 and 2006 are as follows:

	2007	2006
<i>Deferred tax assets:</i>		
Loan loss allowance	\$11,104,038	\$ 6,654,334
Loans	1,398,865	1,337,983
Securities	485,398	1,251,636
Accrued liability for supplemental retirement agreements	433,049	1,535,688
Deposits	1,156,680	585,568
Restricted stock and stock options	559,888	316,407
FHLB discount	346,402	—
Mid-America organization costs	298,169	—
Net operating loss carryforward	1,662,445	—
Other deferred tax assets	546,491	23,889
Total deferred tax assets	17,991,425	11,705,505
<i>Deferred tax liabilities:</i>		
Depreciation and amortization	5,620,575	1,563,078
Core deposit intangible asset	6,803,830	4,473,076
REIT dividends	266,981	—
FHLB dividends	853,829	770,156
Other deferred tax liabilities	838,845	440,642
Total deferred tax liabilities	14,384,060	7,246,952
<i>Net deferred tax assets</i>	<u>\$ 3,607,365</u>	<u>\$ 4,458,553</u>

At December 31, 2007, Pinnacle Financial had approximately \$4.3 million in Federal net operating loss carryforwards that will begin expiring in 2021 if not used. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets 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. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that Pinnacle Financial will realize the benefit of these deductible differences. However, the amount of the deferred tax asset considered realizable could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

Note 12. 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

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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 December 31, 2007 is as follows:

Commitments to extend credit	\$833,893,000
Standby letters of credit	98,305,000

At December 31, 2007, the fair value of Pinnacle Financial's standby letters of credit was \$234,000. 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.

Various legal claims also arise from time to time in the normal course of business. In the opinion of management, the resolution of claims outstanding at December 31, 2007 will not have a material effect on Pinnacle Financial's consolidated financial statements.

Note 13. Common Stock Warrants

Three executives of Pinnacle Financial (the Chairman of the Board, the President and Chief Executive Officer and the Chief Administrative Officer) along with nine members of Pinnacle Financial's Board of Directors and two other organizers of Pinnacle Financial were awarded warrants to acquire 406,000 shares of common stock at \$5.00 per share. During 2006, 11,000 warrants were exercised and, as a result, 395,000 unexercised warrants were outstanding and exercisable at December 31, 2007 and 2006. The outstanding warrants expire August 17, 2010.

Note 14. Salary Deferral Plans and Cavalry Supplemental Executive Retirement Agreements

Pinnacle Financial has 401(k) retirement plans (the "401k Plans) covering all employees who elect to participate, subject to certain eligibility requirements. The Plans allow employees to defer up to 15% of their salary subject to regulatory limitations with Pinnacle Financial matching 100% of the first 4% in Pinnacle Financial stock during 2007 and 2006. In 2005, the match was calculated at 50% of the first 6% deferred in Pinnacle Financial stock. Subsequent to the merger with Cavalry, from March 15, 2006 through December 29, 2006, certain employees participated in the Cavalry Bancorp 401(k) plan. On December 29, 2006, the Cavalry Bancorp 401(k) plan was merged into the Pinnacle Financial 401(k) plan. Subsequent to the merger with Mid-America, from November 30, 2007 through December 31, 2007, certain employees participated in the Bank of the South 401(k) Plan and the PrimeTrust 401(k) Plan. The Bank of the South 401(k) Plan and the PrimeTrust 401(k) were merged into the Pinnacle Financial 401(k) plan on January 1, 2008. Pinnacle Financial's expense associated with the matching component of the plan(s) for each of the years in the three-year period ended December 31, 2007 was approximately

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\$996,000, \$762,000 and \$259,000, respectively, and is included in the accompanying consolidated statements of income in salaries and employee benefits expense.

Prior to the merger with Pinnacle Financial, Cavalry maintained an employee stock ownership plan for the benefit of certain employees (the "Cavalry ESOP"). The Cavalry ESOP is a noncontributory retirement plan adopted by Cavalry in 1998 for the benefit of certain employees who meet minimum eligibility requirements. Cavalry Bancorp, Inc. was the Plan Sponsor and with the merger with Pinnacle Financial, Pinnacle Financial became the Plan Sponsor on March 15, 2006. On March 15, 2006, the Cavalry ESOP owned approximately 683,000 common shares of Pinnacle Financial. The Cavalry ESOP had no liabilities as of March 15, 2006, thus all of the Pinnacle Financial shares owned by the Cavalry ESOP were available for distribution to the participants in the Cavalry ESOP pursuant to the terms of the plan. The terms of the Cavalry ESOP did not change as a result of the merger with Pinnacle Financial.

Pursuant to the terms of the Cavalry ESOP, participation in the plan has been frozen as of March 15, 2006 and all participants in the plan were fully vested prior to the merger date. All assets of the plan were allocated to the participants pursuant to the plan's provisions. Thus, Pinnacle Financial is not required to make future contributions to the Cavalry ESOP. Distributions to participants are only made upon the termination from employment from Pinnacle Financial or the participant's death, at which time, distributions will be made to the participant's beneficiaries.

Pinnacle National serves as the Trustee of the Cavalry ESOP. During 2007 and 2006, Pinnacle National assessed the Cavalry ESOP no fees as Trustee. Additionally, Pinnacle National incurred administrative expenses of \$27,000 and \$15,000, respectively, primarily auditing and consulting expenses, to maintain the plan.

Prior to the merger with Pinnacle Financial, Cavalry had adopted nonqualified noncontributory supplemental retirement agreements (the "Cavalry SRAs") for certain of the directors and executive officers of Cavalry. Cavalry invested in and, as a result of the Cavalry merger, Pinnacle Financial is the owner of single premium life insurance policies on the life of each participant and is the beneficiary of the policy value. When a participant retires, the accumulated gains on the policy allocated to such participant, if any, will be distributed to the participant in equal installments for 15 years (the "Primary Benefit"). In addition, any annual gains after the retirement date of the participant will be distributed on an annual basis for the lifetime of the participant (the "Secondary Benefit"). As a result of the merger with Pinnacle Financial, all participants became fully vested in the Cavalry SRAs. No new participants have been added to the Cavalry SRAs as a result of the merger with Pinnacle Financial.

The Cavalry SRAs also provides the participants with death benefits, which is a percentage of the net death proceeds for the policy, if any, applicable to the participant. The death benefits are not taxable to Pinnacle Financial or the participant's beneficiary.

Pinnacle Financial recognized approximately \$163,000 in compensation expense in each of the years ended December 31, 2007 and 2006 related to the Cavalry SRAs. During 2007, compensation expense related to the Cavalry SRAs was reduced by \$330,000 due to Pinnacle Financial offering a settlement to all participants in the Cavalry SRAs with eleven participants accepting the settlement. Two individuals remain as participants in the Cavalry SRAs. Additionally, Pinnacle Financial incurred approximately \$6,000 and \$5,000 in administrative expenses to maintain the Cavalry SRA during the years ended December 31, 2007 and 2006, respectively. At December 31, 2007 and 2006, included in other liabilities is \$1,104,000 and \$3,915,000, respectively, which represents the net present value of the future obligations owed the participants in the Cavalry SRAs using a discount rate of 5.0% at December 31, 2007 and 5.5% at December 31, 2006.

Note 15. Stock Options, Stock Appreciation Rights and Restricted Shares

Pinnacle Financial has two equity incentive plans under which it has granted stock options 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 December 31, 2007, there were 728,661 shares available for issue under these plans.

During the first quarter of 2006 and in connection with its merger with Cavalry, Pinnacle Financial assumed a third equity incentive plan, 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 common stock at the 0.95 exchange ratio.

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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. There were 195,551 Pinnacle shares which could 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 were 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. There were 487,835 Pinnacle shares which could be acquired by the participants in the Mid-America Plan at exercise prices that ranged between \$6.63 per share and \$21.37 per share. At December 31, 2007, there were 88,435 shares available for issue under the Mid-America Plans.

Common Stock Options and Stock Appreciation Rights

As of December 31, 2007, of the 2,384,000 stock options and 15,000 stock appreciation rights outstanding, 1,426,000 options were granted with the intention to be incentive stock options qualifying under Section 422 of the Internal Revenue Code for favorable tax treatment to the option holder while 973,000 options would be deemed non-qualified stock options or stock appreciation rights and thus not subject to favorable tax treatment to the option holder. All stock options granted under the Pinnacle equity incentive plans vest in equal increments over five years from the date of grant and are exercisable over a period of ten years from the date of grant. All stock options and stock appreciation rights granted under the Cavalry Plan and Mid-America Plans were fully-vested at the date of those mergers.

A summary of the activity within the equity incentive plans during each of the years in the three year period ended December 31, 2007 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, 2004	1,068,350	\$ 7.03		
Granted	209,482	23.74		
Exercised	(20,953)	5.93		
Forfeited	(14,486)	14.93		
Outstanding at December 31, 2005	1,242,393	\$ 9.78		
Additional stock option grants resulting from assumption of the Cavalry Plan	195,551	10.80		
Granted	365,519	24.00		
Exercised	(130,168)	9.69		
Forfeited	(14,836)	15.45		
Outstanding at December 31, 2006	1,658,459	\$12.93		

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	Number	Weighted- Average Exercise Price	Weighted- Average Contractual Remaining Term (in years)	Aggregate Intrinsic Value (1) (000's)
Additional stock option grants and stock appreciation rights resulting from assumption of the Mid-America Plan	487,835	14.54		
Granted	376,543	30.66		
Stock options exercised	(99,741)	8.68		
Stock appreciation rights exercised(2)	(465)	21.37		
Forfeited	(23,808)	28.00		
Outstanding at December 31, 2007	2,398,823	\$16.84	6.9	\$23,784
Outstanding and expected to vest at December 31, 2007	2,357,000	\$16.67	6.9	\$23,692
Options exercisable at December 31, 2007	1,533,986	\$11.06	6.2	\$20,876

- (1) The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted price of Pinnacle Financial common stock of \$25.42 per common share for the 2.1 million options and stock appreciation rights that were in-the-money at December 31, 2007.
- (2) The 465 stock appreciation rights exercised during 2007 settled for 121 shares of Pinnacle Financial common stock.

During the year ended December 31, 2007, 213,000 option awards vested at an average exercise price of \$17.77 and an intrinsic value of approximately \$1.628 million. On January 18, 2008, Pinnacle Financial granted options to purchase 163,000 common shares to certain employees at an exercise price of \$21.51 per share. These options, which were issued as non-qualified stock options, will vest in varying increments over five years beginning one year after the date of the grant and are exercisable over a period of ten years from the date of grant. Pursuant to SAB 110, "Share-Based Payment," Pinnacle Financial will continue to use the simplified method for estimating the expense of stock compensation during 2008.

During each of the years in the three year period ended December 31, 2007, the aggregate intrinsic value of options and stock appreciation rights exercised under our equity incentive plans was \$2,067,000, \$1,694,000 and \$354,000, respectively, determined as of the date of option exercise. As of December 31, 2007, there was approximately \$6.546 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 3.8 years.

Pinnacle Financial adopted SFAS No. 123(R) using the modified prospective transition method on January 1, 2006. Accordingly, during the years ended December 31, 2007 and 2006, we recorded stock-based compensation expense using the Black-Scholes valuation model for awards granted prior to, but not yet vested, as of January 1, 2006 and for stock-based awards granted after January 1, 2006, based on fair value estimated using the Black-Scholes valuation model. For these awards, we have recognized compensation expense using a straight-line amortization method. As SFAS No. 123(R) requires that stock-based compensation expense be based on awards that are ultimately expected to vest, stock-based compensation for the years ended December 31, 2007 and 2006 has been reduced for estimated forfeitures. The impact on our results of operations (compensation and employee benefits expense) and earnings per share of recording stock-based compensation in accordance with SFAS No. 123(R) (related to stock option awards) for the years ended December 31, 2007 and 2006 was as follows:

	Awards granted with the intention to be classified as incentive stock options	Non-qualified stock option awards	Totals
<i>For the year ended December 31, 2007:</i>			
Stock-based compensation expense	\$481,009	\$1,222,432	\$1,703,441
Deferred income tax benefit	—	479,560	479,560
Impact of stock-based compensation expense after deferred income tax benefit	\$481,009	\$ 742,872	\$1,223,881
Impact on earnings per share:			
Basic — weighted average shares outstanding	\$ 0.03	\$ 0.05	\$ 0.08
Fully diluted — weighted average shares outstanding	\$ 0.03	\$ 0.04	\$ 0.07

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	Awards granted with the intention to be classified as incentive stock options	Non-qualified stock option awards	Totals
<i>For the year ended December 31, 2006:</i>			
Stock-based compensation expense	\$586,924	\$423,034	\$1,009,958
Deferred income tax benefit	—	165,956	165,956
Impact of stock-based compensation expense after deferred income tax benefit	\$586,924	\$257,078	\$ 844,002
Impact on earnings per share:			
Basic — weighted average shares outstanding	\$ 0.04	\$ 0.02	\$ 0.06
Fully diluted — weighted average shares outstanding	\$ 0.04	\$ 0.02	\$ 0.06

For purposes of these calculations, the fair value of options granted for each of the years in the three-year period ended December 31, 2007 was estimated using the Black-Scholes option pricing model and the following assumptions:

	2007	2006	2005
Risk free interest rate	4.70%	4.65%	2.57%
Expected life of options	6.50 years	6.50 years	6.50 years
Expected dividend yield	0.00%	0.00%	0.00%
Expected volatility	21.1%	23.1%	24.1%
Weighted average fair value	\$10.57	\$10.44	\$7.30

Pinnacle Financial's computation of expected volatility is based on weekly historical volatility since September of 2002. Pinnacle Financial used the simplified method in determining the estimated life of stock option issuances. The risk free interest rate of the award is based on the closing market bid for U.S. Treasury securities corresponding to the expected life of the stock option issuances in effect at the time of grant.

Restricted Shares

Additionally, Pinnacle Financial's 2004 Equity Incentive Plan provides for the granting of restricted share awards and other performance or market-based awards, such as stock appreciation rights. There were no market-based awards or stock appreciation rights outstanding as of December 31, 2007 under the 2004 Equity Incentive Plan. During the three-year period ended December 31, 2007, Pinnacle Financial awarded 39,071 shares, 18,057 shares and 16,366 shares, respectively, of restricted common stock to certain Pinnacle Financial associates. The weighted average fair value of these awards as of the date of grant was \$29.01, \$34.96 and \$24.98 per share, respectively. For 25,296 of the restricted shares awarded in 2007, the forfeiture restrictions lapse in three separate tranches should Pinnacle Financial achieve certain earnings and soundness targets over the subsequent three-year period, excluding the impact of any merger related expenses in 2006 and thereafter. For the remaining 13,775 restricted shares awarded, the forfeiture restrictions lapse in five tranches on the anniversary date of the grant. Compensation expense associated with the restricted share awards is recognized over the time period that the restrictions associated with the awards lapse based on a graded vesting schedule such that each tranche is amortized separately. Earnings and soundness targets for the 2006 and 2005 fiscal years were achieved and the restrictions related to 12,753 and 6,734 shares, respectively, were released. Earnings and soundness targets for the 2007 fiscal year for the 2005 awards was achieved and 5,452 shares were released. However, the earnings targets for the 2007 fiscal year for the 2006 and 2007 awards were not achieved. As a result, 14,442 shares that were scheduled to be released were not released. These shares have not been forfeited pending determination of the three year cumulative earnings targets which will be determined at the end of the 2008 and 2009 fiscal years. For each year in the three-year period ended December 31, 2007, Pinnacle Financial recognized approximately \$303,000, \$360,000 and \$245,000, respectively, in compensation costs attributable to these awards.

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During 2007 and 2006, the Board of Directors of Pinnacle Financial awarded 3,230 and 4,400 shares, respectively, of restricted common stock to the outside members of the board in accordance with their board compensation plan. Each board member received an award of 323 and 400 shares in 2007 and 2006, respectively. The restrictions on these shares lapsed 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 during the fiscal year ended December 31, 2007 and 2006. All board members who had been granted these restricted shares met their attendance goals with the exception of one outside board member who resigned his board seat and forfeited his restricted share award during 2006. The weighted average fair value of all restricted share awards granted to our directors as of the date of grant was \$30.99 per share in 2007 and \$26.14 per share in 2006. For the years ended December 31, 2007 and 2006, Pinnacle Financial recognized approximately \$100,000 and \$105,000, respectively, in compensation costs attributable to these awards.

A summary of activity for restricted share awards for the year ended December 31, 2007 and 2006 follows:

<i>(number of share awards)</i>	<i>Executive Management Awards</i>			<i>Board of Director Awards</i>		
	<i>Vested</i>	<i>Unvested</i>	<i>Totals</i>	<i>Vested</i>	<i>Unvested</i>	<i>Totals</i>
Balances at December 31, 2005	8,016	12,196	20,212	—	—	—
Granted	—	18,057	18,057	—	4,400	4,400
Forfeited	—	—	—	—	(400)	(400)
Vested	12,753	(12,753)	—	—	—	—
Balances at December 31, 2006	20,769	17,500	38,269	—	4,000	4,000
Granted	—	39,071	39,071	—	3,230	3,230
Vested	5,452	(5,452)	—	4,000	(4,000)	—
Balances at December 31, 2007	26,221	51,119	77,340	4,000	3,230	7,230

A summary of compensation expense, net of the impact of income taxes, related to restricted stock awards for the three-year period ended December 31, 2007, follows:

	2007	2006	2005
Stock-based compensation expense	\$396,378	\$465,003	\$244,724
Income tax benefit	155,499	182,421	93,705
Impact of stock-based compensation expense, net of income tax benefit	<u>\$240,879</u>	<u>\$282,582</u>	<u>\$151,019</u>
Impact on earnings per share:			
Basic — weighted average shares outstanding	<u>\$ 0.01</u>	<u>\$ 0.02</u>	<u>\$ 0.02</u>
Fully diluted — weighted average shares outstanding	<u>\$ 0.01</u>	<u>\$ 0.02</u>	<u>\$ 0.02</u>

Prior to January 1, 2006, Pinnacle Financial applied APB Opinion No. 25 and related interpretations in accounting for its stock option plans. All option grants carry exercise prices equal to or above the fair value of the common stock on the date of grant. Accordingly, no compensation cost had been recognized for such periods. Had compensation cost for Pinnacle Financial's equity incentive plans been determined based on the fair value at the grant dates for awards under the plans consistent with the method prescribed in SFAS No. 123(R), Pinnacle Financial's net income and net income per share would have been adjusted to the pro forma amounts indicated below for the year ended December 31, 2005:

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

	<u>2005</u>
Net income, as reported	\$8,055,268
Add: Compensation expense recognized in the accompanying consolidated statement of income, net of related tax effects	167,981
Deduct: Total stock-based compensation expense determined under the fair value based method for all awards, net of related tax effects	(859,350)
Pro forma net income	<u>\$7,363,899</u>

Per share information:

Basic net income	As reported	\$ 0.96
	Pro forma	0.88
Diluted net income	As reported	\$ 0.85
	Pro forma	0.78

Note 16. 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. Beginning in 2007, Pinnacle Financial entered 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 qualify as 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 the Company, and results in credit risk to the Company. When the fair value of a derivative instrument contract is negative, the Company owes the customer or counterparty and therefore, has no credit risk.

A summary of Pinnacle Financial's interest rate swaps is included in the following table (in thousands):

	December 31, 2007	
	<u>Notional Amount</u>	<u>Estimated Fair Value</u>
Interest rate swap agreements:		
Pay fixed / receive variable swaps	\$ 25,415	\$ 504
Pay variable / receive fixed swaps	25,415	(504)
Total	<u>\$ 50,830</u>	<u>\$ —</u>

Note 17. Employment Contracts

Pinnacle Financial has entered into, and subsequently amended, four continuously automatic-renewing three-year employment agreements with four of its senior executives, the President and Chief Executive Officer, the Chairman of the Board, the Chief Administrative Officer and the Chief Financial Officer. These agreements, as amended, will always have a three-year term unless any of the parties to the agreements gives notice of intent not to renew the agreement. The agreements specify that in certain defined "Terminating Events," Pinnacle Financial will be obligated to pay each of the four senior executives a certain amount which is based on their annual salaries and bonuses. These Terminating Events include disability, change of control and other events.

In 2006, Pinnacle Financial entered into an employment agreement with one of its directors who served as the former Chief Executive Officer of Cavalry. This agreement had a term that expired on December 31, 2007.

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Pursuant to the employment agreement the director has agreed to a noncompetition and nonsolicitation clause for a period of three years following December 31, 2007.

Pinnacle Financial has business protection agreements with three former executive officers and directors of Mid-America. Under the terms of these agreements, the former executive officer and directors have agreed that they will not actively participate or engage directly or indirectly in a competing business within the Nashville MSA and the counties contiguous to the Nashville MSA until the earlier of (1) voluntary retirement after reaching age 65; (2) any transaction whereby Pinnacle Financial is acquired; or (3) August 31, 2011. In exchange for this agreement, each executive is entitled to receive their future monthly salary while employed or \$10,000 per month after their employment until the occurrence of one of the terminating events.

Note 18. Related Party Transactions

A local public relations company, of which one of Pinnacle Financial's directors is a principal, provides various services for Pinnacle Financial. For each of the years in the three year period ended December 31, 2007, Pinnacle Financial incurred approximately \$309,000, \$195,000 and \$187,000, respectively, in expense for services rendered by this public relations company. Another director is an officer in an insurance firm that serves as an agent in securing insurance in such areas as Pinnacle Financial's property and casualty insurance and other insurance policies.

During 2004, Pinnacle Financial's wholly-owned subsidiary, Pinnacle Credit Enhancement Holdings, Inc. ("PCEH"), acquired a 24.5% membership interest in Collateral Plus, LLC. Collateral Plus, LLC serves as an intermediary between investors and borrowers in certain financial transactions whereby the borrowers require enhanced collateral in the form of guarantees or letters of credit issued by the investors for the benefit of banks and other financial institutions. An employee of Pinnacle National also owns a 24.5% interest in Collateral Plus, LLC. PCEH's 24.5% ownership of Collateral Plus, LLC resulted in pre-tax earnings of \$274,000 in 2007, \$120,000 in 2005 and \$216,000 in 2004.

Also see "Note 6-Loans and Allowance for Loan Losses" concerning loans and other extensions of credit to certain directors, officers, and their related entities.

Note 19. Fair Value of Financial Instruments

The following methods and assumptions were used by Pinnacle Financial in estimating its fair value disclosures for financial instruments. 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 December 31, 2007 and 2006. 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, Due From Banks and Fed Funds Sold - The carrying amounts of cash, due from banks, and federal funds sold approximate their fair value.

Securities — Estimated fair values for securities available for sale and securities held to maturity 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 are equal to carrying values. For fixed rate loans that reprice within one year, fair values are equal to 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

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for impaired loans are estimated using discounted cash flow models or based on the fair value of the underlying collateral.

Deposits, Securities Sold Under Agreements to Repurchase, Advances from the Federal Home Loan Bank 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.

Federal Funds Purchased - The carrying amounts of federal funds purchased approximate their fair value.

Financial derivatives - The carrying amounts of financial derivatives approximate their fair value.

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 and standby letters of 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 December 31, 2007 and 2006 were as follows (in thousands):

	December 31, 2007		December 31, 2006	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<i>Financial assets:</i>				
Cash, due from banks, and Federal funds sold	\$ 122,504	\$ 122,504	\$ 92,519	\$ 92,519
Securities available-for-sale	495,652	495,652	319,237	319,237
Securities held-to-maturity	27,033	26,883	27,257	26,594
Mortgage loans held-for-sale	11,252	11,252	5,654	5,654
Loans, net	2,721,170	2,705,663	1,481,617	1,469,642
Derivative assets	504	504	—	—
<i>Financial liabilities:</i>				
Deposits and securities sold under agreements to repurchase	\$3,081,390	\$3,077,828	\$1,763,427	\$1,761,178
Federal Home Loan Bank advances	92,804	92,576	53,726	53,481
Federal Funds Purchased	48,862	48,862	—	—
Subordinated debt	82,476	83,293	51,548	52,110
Derivative liabilities	504	504	—	—
	Notional Amount		Notional Amount	
<i>Off-balance sheet instruments:</i>				
Commitments to extend credit	\$ 833,893	\$ —	\$ 532,383	\$ —
Standby letters of credit	98,305	234	52,961	159

Note 20. 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 Office of the Comptroller of the Currency. Prior to their consolidation with Pinnacle National on February 29, 2008, the two former Mid-America subsidiaries, PrimeTrust Bank and Bank of the South were also subject to restrictions on the payment of dividends to Pinnacle Financial under federal banking laws and the banking regulations of the State of Tennessee. Pinnacle Financial is also subject to limits on payment

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of dividends to its shareholders by the rules, regulations and policies of federal banking authorities. Pinnacle Financial has not paid any cash dividends since inception, and it does not anticipate that it will consider paying dividends until Pinnacle National generates sufficient capital from operations to support both anticipated asset growth and dividend payments. At December 31, 2007, pursuant to federal banking regulations, Pinnacle National had approximately \$43.9 million of net retained profits from the previous two years available for dividend payments to Pinnacle Financial.

Pinnacle Financial and its banking subsidiaries 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 its banking subsidiaries 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 its banking subsidiaries 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 its banking subsidiaries 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 December 31, 2007 and December 31, 2006, that Pinnacle Financial and Pinnacle National and as of December 31, 2007, PrimeTrust Bank and Bank of the South met all capital adequacy requirements to which they are subject. To be categorized as well-capitalized, Pinnacle National, PrimeTrust Bank and Bank of the South must maintain minimum Total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the following table. Pinnacle Financial and its banking subsidiaries' 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
<i>At December 31, 2007</i>						
Total capital to risk weighted assets:						
Pinnacle Financial	\$322,146	10.4%	\$248,263	8.0%	not applicable	
Pinnacle National	\$214,201	10.1%	\$169,825	8.0%	\$212,282	10.0%
PrimeTrust Bank	\$56,822	10.1%	\$45,026	8.0%	\$56,283	10.0%
Bank of the South	\$41,946	10.4%	\$32,155	8.0%	\$40,193	10.0%
Tier I capital to risk weighted assets:						
Pinnacle Financial	\$293,676	9.5%	\$124,132	4.0%	not applicable	
Pinnacle National	\$194,804	9.2%	\$84,913	4.0%	\$127,369	6.0%
PrimeTrust Bank	\$51,550	9.2%	\$22,513	4.0%	\$33,770	6.0%
Bank of the South	\$38,089	9.5%	\$16,077	4.0%	\$24,116	6.0%
Tier I capital to average assets (*):						
Pinnacle Financial	\$293,676	11.6%	\$101,515	4.0%	not applicable	
Pinnacle National	\$194,804	8.5%	\$91,273	4.0%	\$114,091	5.0%
PrimeTrust Bank	\$51,550	8.3%	\$24,976	4.0%	\$31,220	5.0%
Bank of the South	\$38,089	7.6%	\$19,908	4.0%	\$24,886	5.0%

PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES
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	Actual		Minimum Capital Requirement		Minimum To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	<i>At December 31, 2006</i>					
Total capital to risk weighted assets:						
Pinnacle Financial	\$202,881	11.8%	\$137,638	8.0%	not applicable	
Pinnacle National	\$175,159	10.2%	\$137,340	8.0%	\$171,676	10.0%
Tier I capital to risk weighted assets:						
Pinnacle Financial	\$186,763	10.9%	\$ 68,819	4.0%	not applicable	
Pinnacle National	\$159,031	9.3%	\$ 68,670	4.0%	\$103,005	6.0%
Tier I capital to average assets (*):						
Pinnacle Financial	\$186,763	9.5%	\$ 79,021	4.0%	not applicable	
Pinnacle National	\$159,031	8.1%	\$ 79,056	4.0%	\$ 98,820	5.0%

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

Note 21. Business Segment Information

Pinnacle Financial has four reporting segments comprised of commercial banking, trust and investment services, mortgage origination and insurance services. Pinnacle Financial's primary segment is commercial banking which consists of commercial loan and deposit services as well as the activities of its branch locations. Pinnacle Financial's segments were changed in 2006 as a result of the acquisition of Cavalry to include trust with Pinnacle Financial's investment services segment and to add a new segment for Insurance Services. Trust and investment services include trust services offered by Pinnacle Financial's banking subsidiaries and all brokerage and investment activities. Mortgage origination is also a separate unit and focuses on the origination of residential mortgage loans for sale to investors in the secondary residential mortgage market. Insurance Services reflect the activities of Pinnacle National's wholly owned subsidiary, Miller and Loughry. Miller and Loughry is a general insurance agency located in Murfreesboro, Tennessee and is licensed to sell various commercial and consumer insurance products. The following tables present financial information for each reportable segment as of December 31, 2007 and 2006 and for each year in the three-year period ended December 31, 2007 (dollars in thousands):

	Commercial Banking	Trust and Investment Services	Mortgage Origination	Insurance Services	Total Company
<i>For the year ended December 31, 2007:</i>					
Net interest income	\$75,541	\$ —	\$ 171	\$ —	\$75,712
Provision for loan losses	4,720	—	—	—	4,720
Noninterest income	12,492	4,743	2,792	2,494	22,521
Noninterest expense	52,929	3,484	2,249	1,818	60,480
Income tax expense	8,949	494	280	269	9,992
Net income	\$21,435	\$ 765	\$ 434	\$ 407	\$23,041
<i>For the year ended December 31, 2006:</i>					
Net interest income	\$60,953	\$ —	\$ —	\$ —	\$60,953
Provision for loan losses	3,732	—	—	—	3,732
Noninterest income	8,705	3,316	1,647	2,119	15,787
Noninterest expense	41,930	2,375	976	1,343	46,624
Income tax expense	7,508	369	263	317	8,457
Net income	\$16,488	\$ 572	\$ 408	\$ 459	\$17,927
<i>For the year ended December 31, 2005:</i>					
Net interest income	\$29,038	\$ —	\$ —	\$ —	\$29,038
Provision for loan losses	2,152	—	—	—	2,152
Noninterest income	2,675	1,573	1,146	—	5,394
Noninterest expense	19,315	1,171	546	—	21,032
Income tax expense	2,809	154	230	—	3,193
Net income	\$ 7,437	\$ 248	\$ 370	\$ —	\$ 8,055

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	Commercial Banking	Trust and Investment Services	Mortgage Origination	Insurance Services	Total Company
<i>As of December 31, 2007:</i>					
End of period assets	\$3,773,874	\$400	\$15,074	\$4,822	\$3,794,170
<i>As of December 31, 2006:</i>					
End of period assets	\$2,128,105	\$402	\$ 9,762	\$3,918	\$2,142,187

At December 31, 2007 and 2006, Pinnacle Financial had approximately \$260.9 million and \$125.7 million, respectively, in goodwill and core deposit intangible assets, all of which had been assigned to the Commercial Banking segment.

Note 22. Parent Company Only Financial Information

The following information presents the condensed balance sheets, statements of income, and cash flows of Pinnacle Financial as of December 31, 2007 and 2006 and for each of the years in the three-year period ended December 31, 2007:

CONDENSED BALANCE SHEETS

	2007	2006
Assets:		
Cash	\$ 9,829,126	\$ 24,803,538
Investments in consolidated subsidiaries	538,364,192	—
Investment in unconsolidated subsidiaries:		
PNFP Statutory Trust I	310,000	310,000
PNFP Statutory Trust II	619,000	619,000
PNFP Statutory Trust III	619,000	619,000
PNFP Statutory Trust IV	928,000	—
Other investments	1,255,135	—
Income taxes receivable from subsidiaries	—	1,298,299
Current income tax receivable	8,365,160	1,049,604
Other assets	8,125,827	786,846
	<u>\$568,415,440</u>	<u>\$307,755,021</u>
Liabilities and stockholders' equity:		
Income taxes payable to subsidiaries	\$ 8,916,956	\$ —
Subordinated debt and other borrowings	91,476,000	51,548,000
Other liabilities	1,412,189	190,000
Stockholders' equity	466,610,295	256,017,021
	<u>\$568,415,440</u>	<u>\$307,755,021</u>

CONDENSED STATEMENTS OF INCOME

	2007	2006	2005
Revenues — Interest income	\$ 347,787	\$ 267,154	\$ 133,748
Expenses:			
Interest expense — subordinated debentures	4,012,243	2,504,033	985,645
Stock-based compensation expense	2,099,819	1,474,960	244,724
Other expense	303,827	245,528	58,772
Loss before income taxes and equity in undistributed income of subsidiaries	(6,068,102)	(3,957,367)	(1,155,393)
Income tax benefit	(2,195,146)	(1,632,738)	(438,270)

PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES
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	2007	2006	2005
Loss before equity in undistributed income of subsidiaries	(3,872,956)	(2,324,629)	(717,123)
Equity in undistributed income of subsidiaries	26,914,311	20,251,662	8,772,391
Net income	<u>\$23,041,355</u>	<u>\$17,927,033</u>	<u>\$8,055,268</u>

CONDENSED STATEMENTS OF CASH FLOWS

	2007	2006	2005
Operating activities:			
Net income	\$ 23,041,355	\$ 17,927,033	\$ 8,055,268
Adjustments to reconcile net income to net cash provided (used) by operating activities:			
Stock-based compensation expense	2,099,819	1,474,960	244,724
Increase (decrease) in income tax payable, net	(1,528,956)	(1,921,194)	1,000,352
Decrease (increase) in other assets	77,960	1,118,127	(479,474)
Decrease in other liabilities	495,586	190,000	99,726
Tax benefit from exercise of stock awards	—	—	(50,535)
Excess tax benefit from stock compensation	(105,809)	(131,121)	—
Deferred tax expense (benefit)	67,501	(232,866)	—
Equity in undistributed income of subsidiaries	(26,914,311)	(20,251,662)	(8,772,391)
Net cash provided (used) by operating activities	<u>(2,766,855)</u>	<u>(1,826,723)</u>	<u>97,670</u>
Investing activities —			
Investment in unconsolidated subsidiaries	(928,000)	(619,000)	(619,000)
Investment in consolidated subsidiaries:			
Banking subsidiaries	(20,250,000)	(10,000,000)	(15,500,000)
Other subsidiaries	—	(350,250)	(183,721)
Investments in other entities	(1,189,488)	(65,647)	—
Cash and cash equivalents used in merger with Mid-America	(21,557,773)	—	—
Cash and cash equivalents acquired in merger with Cavalry	—	3,128,116	—
Net cash used by investing activities	<u>(43,925,261)</u>	<u>(7,906,781)</u>	<u>(16,302,721)</u>
Financing activities —			
Proceeds from issuance of subordinated debt	30,928,000	20,619,000	20,619,000
Exercise of common stock warrants	—	55,000	—
Exercise of common stock options	983,292	1,239,771	174,761
Excess tax benefit from stock compensation arrangements	105,809	131,121	—
Costs incurred in connection with registration of common stock issued in mergers	(299,397)	(187,609)	—
Net cash provided by financing activities	<u>31,717,704</u>	<u>21,857,283</u>	<u>20,793,761</u>
Net increase (decrease) in cash	(14,974,412)	12,123,779	4,588,710
Cash, beginning of year	24,803,538	12,679,759	8,091,049
Cash, end of year	<u>\$ 9,829,126</u>	<u>\$ 24,803,538</u>	<u>\$ 12,679,759</u>

During 2007, Pinnacle National paid dividends of \$1,250,000 to Pinnacle Financial. No dividends were paid by Pinnacle National during 2005 or 2006.

Note 23. Quarterly Financial Results (unaudited)

A summary of selected consolidated quarterly financial data for each of the years in the three-year period ended December 31, 2007 follows:

PINNACLE FINANCIAL PARTNERS, INC. AND SUBSIDIARIES
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<i>(in thousands, except per share data)</i>	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2007				
Interest income	\$ 33,739	\$ 35,508	\$ 38,347	\$ 43,338
Net interest income	17,082	17,661	18,960	22,009
Provision for loan losses	788	900	772	2,260
Net income before taxes	8,196	7,828	8,410	8,599
Net income	5,602	5,426	5,772	6,242
<i>Basic net income per share</i>	\$ 0.36	\$ 0.35	\$ 0.37	\$ 0.35
<i>Diluted net income per share</i>	\$ 0.34	\$ 0.33	\$ 0.35	\$ 0.33
2006				
Interest income	\$ 16,811	\$ 28,305	\$ 31,340	\$ 33,241
Net interest income	9,507	16,895	17,159	17,391
Provision for loan losses	387	1,707	587	1,051
Net income before taxes	3,839	6,463	7,942	8,139
Net income	2,612	4,322	5,347	5,646
<i>Basic net income per share</i>	\$ 0.27	\$ 0.28	\$ 0.35	\$ 0.37
<i>Diluted net income per share</i>	\$ 0.24	\$ 0.26	\$ 0.32	\$ 0.34
2005				
Interest income	\$ 9,270	\$ 10,544	\$ 12,379	\$ 14,118
Net interest income	6,503	6,795	7,456	8,287
Provision for loan losses	601	483	366	702
Net income before taxes	2,499	2,762	2,867	3,119
Net income	1,780	1,959	2,078	2,238
<i>Basic net income per share</i>	\$ 0.21	\$ 0.23	\$ 0.25	\$ 0.27
<i>Diluted net income per share</i>	\$ 0.19	\$ 0.21	\$ 0.22	\$ 0.24

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. 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.

Management Report on Internal Control Over Financial Reporting

The report of Pinnacle Financial's management on Pinnacle Financial's internal control over financial reporting is set forth on page 53 of this Annual Report on Form 10-K. The report of Pinnacle Financial's independent registered public accounting firm on Pinnacle Financial's internal control over financial reporting is set forth on page 55 of this Annual Report on Form 10-K.

Changes in Internal Controls

For the three months ended December 31, 2007, Pinnacle Financial continued to expand its internal control system over financial reporting to incorporate procedures specifically related to its merger with Mid-America Bancshares, Inc. We reviewed the financial information obtained from Mid-America from November 30, 2007 through the date such information was integrated into Pinnacle Financial's financial data systems and performed additional procedures with respect to such information in order to determine its accuracy and reliability.

There were no changes in Pinnacle Financial's internal control over financial reporting during Pinnacle Financial's fiscal quarter ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, Pinnacle Financial's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The responses to this Item will be included in Pinnacle Financial's Proxy Statement for the Annual Meeting of Shareholders to be held April 15, 2008, which will be filed on or before March 12, 2008 under the headings "Corporate Governance," "Proposal #1 Election of Directors," "Executive Management Information," "Section 16A Beneficial Ownership Reporting Compliance" and "Security Ownership of Certain Beneficial Owners and Management" and are incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The responses to this Item will be included in Pinnacle Financial's Proxy Statement for the Annual Meeting of Shareholders to be held April 15, 2008, which will be filed on or before March 12, 2008 under the heading, "Executive Compensation" and are incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The responses to this Item will be included in Pinnacle Financial's Proxy Statement for the Annual Meeting of Shareholders to be held April 15, 2008, which will be filed on or before March 12, 2008 under the headings, "Security Ownership of Certain Beneficial Owners and Management," and "Executive Compensation," and are incorporated herein by reference.

The following table summarizes information concerning the Company's equity compensation plans at December 31, 2007:

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in First Column)
Equity compensation plans approved by shareholders:			
2000 Stock Incentive Plan	844,127	\$ 6.19	—
2004 Equity Incentive Plan	982,484	\$27.73	728,661
1999 Cavalry Bancorp, Inc. Stock Option Plan	98,456	\$10.86	—
Bank of the South 2001 Stock Option Plan	68,223	\$17.06	—
PrimeTrust Bank 2001 Statutory-Non-Statutory Stock Option Plan	40,557	\$ 7.52	—
PrimeTrust Bank 2005 Statutory-Non-Statutory Stock Option Plan	113,024	\$12.89	—
Mid-America Bancshares, Inc. 2006 Omnibus Equity Incentive Plan	251,952	\$15.65	88,435
Equity compensation plans not approved by shareholders	N/A	N/A	N/A
Total	2,398,823	\$16.84	817,096

ITEM 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The responses to this Item will be included in Pinnacle Financial's Proxy Statement for the Annual Meeting of Shareholders to be held April 15, 2008, which will be filed on or before March 12, 2008 under the headings, "Security Ownership of Certain Beneficial Owners and Management — Certain Relationships and Related Transactions," "Executive Compensation," and "Corporate Governance-Director Independence" and are incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The responses to this Item will be included in Pinnacle Financial's Proxy Statement for the Annual Meeting of Shareholders to be held April 15, 2008, which will be filed on or before March 12, 2008 under the heading, "Independent Registered Public Accounting Firm" and are incorporated herein by reference.

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ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Exhibits

Exhibit No.	Description
2.1	Merger Agreement, dated September 30, 2005, by and between Pinnacle Financial Partners, Inc. and Cavalry Bancorp, Inc. (schedules and exhibits to which been omitted pursuant to Items 601(b)(2) of Regulations S-K) (1)
2.2	Agreement and Plan of Merger by and between Pinnacle Financial Partners, Inc. and Mid-America Bancshares, Inc. (schedules and exhibits to which been omitted pursuant to Items 601(b)(2) of Regulations S-K) (2)
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3.2	Bylaws (4)
4.1.1	Specimen Common Stock Certificate (5)
4.1.2	See Exhibits 3.1 and 3.2 for provisions of the Charter and Bylaws defining rights of holders of the Common Stock
10.1	Lease Agreement by and between TMP, Inc. (former name of Pinnacle Financial Partners, Inc.) and Commercial Street Associates dated March 16, 2000 (main office) (5)
10.4	Form of Pinnacle Financial Partners, Inc.'s Organizers' Warrant Agreement (5)
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- 10.33 Form of Restricted Stock Agreement for non-employee directors **(12)** *
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10.55	Mid-America Bancshares, Inc. 2006 Equity Incentive Plan *
21.1	Subsidiaries of Pinnacle Financial Partners, Inc.
23.1	Consent of KPMG LLP
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

(*) Management compensatory plan or arrangement

- (1) Registrant hereby incorporates by reference to Registrant's Current Report on Form 8-K filed on October 3, 2005.
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Pinnacle Financial is a party to certain agreements entered into in connection with the offering by PNFP Statutory Trust I, PNFP Statutory Trust II, PNFP Statutory Trust III, and PNFP Statutory Trust IV of an aggregate of \$80,000,000 in trust preferred securities, as more fully described in this Annual Report on Form 10-K. In accordance with Item 601(b)(4)(ii) of Regulation SB, and because the total amount of the trust preferred securities is not in excess of 10% of Pinnacle Financial's total assets, Pinnacle Financial has not filed the various documents and agreements associated with the trust preferred securities herewith. Pinnacle Financial has, however, agreed to furnish copies of the various documents and agreements associated with the trust preferred securities to the Securities and Exchange Commission upon request.



SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

By: /s/ M. Terry Turner
M. Terry Turner
President and Chief Executive Officer

Date: March 7, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>SIGNATURES</u>	<u>TITLE</u>	<u>DATE</u>
<u>/s/ Robert A. McCabe, Jr.</u> Robert A. McCabe, Jr.	Chairman of the Board	March 7, 2008
<u>/s/ M. Terry Turner</u> M. Terry Turner	Director, President and Chief Executive Officer (Principal Executive Officer)	March 7, 2008
<u>/s/ Harold R. Carpenter</u> Harold R. Carpenter	Chief Financial Officer (Principal Financial and Accounting Officer)	March 7, 2008
<u>/s/ Sue R. Atkinson</u> Sue R. Atkinson	Director	March 7, 2008
<u>/s/ H. Gordon Bone</u> H. Gordon Bone	Director	March 7, 2008
<u>/s/ Gregory L. Burns</u> Gregory L. Burns	Director	March 7, 2008
<u>/s/ James C. Cope</u> James C. Cope	Director	March 7, 2008
<u>/s/ Colleen Conway-Welch</u> Colleen Conway-Welch	Director	March 7, 2008
<u>/s/ Clay T. Jackson</u> Clay T. Jackson	Director	March 7, 2008
<u>/s/ William H. Huddleston</u> William H. Huddleston	Director	March 7, 2008
<u>/s/ Ed C. Loughry, Jr.</u> Ed C. Loughry, Jr.	Director	March 7, 2008
<u>/s/ David Major</u> David Major	Director	March 7, 2008
<u>/s/ Hal N. Pennington</u> Hal N. Pennington	Director	March 7, 2008
<u>/s/ Dale W. Polley</u> Dale W. Polley	Director	March 7, 2008

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<u>SIGNATURES</u>	<u>TITLE</u>	<u>DATE</u>
<u>/s/ Wayne J. Riley</u> Wayne J. Riley	Director	March 7, 2008
<u>/s/ Gary Scott</u> Gary Scott	Director	March 7, 2008
<u>/s/ James L. Shaub, II</u> James L. Shaub, II	Director	March 7, 2008
<u>/s/ Reese L. Smith, III</u> Reese L. Smith, III	Director	March 7, 2008

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Pinnacle Financial is a party to certain agreements entered into in connection with the offering by PNFPS Statutory Trust I, PNFPS Statutory Trust II, PNFPS Statutory Trust III, and PNFPS Statutory Trust IV of an aggregate of \$80,000,000 in trust preferred securities, as more fully described in this Annual Report on Form 10-K. In accordance with Item 601(b)(4)(ii) of

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Regulation SB, and because the total amount of the trust preferred securities is not in excess of 10% of Pinnacle Financial's total assets, Pinnacle Financial has not filed the various documents and agreements associated with the trust preferred securities herewith. Pinnacle Financial has, however, agreed to furnish copies of the various documents and agreements associated with the trust preferred securities to the Securities and Exchange Commission upon request.

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**Section 2: EX-10.47 (EX-10.47 2008 NAMED EXECUTIVE OFFICER
COMPENSATION SUMMARY)**

**PINNACLE FINANCIAL PARTNERS, INC.
Named Executive Officer Compensation Summary**

The following table sets forth the current base salaries paid to the Chief Executive Officer and the four other named executive officers of Pinnacle Financial Partners, Inc. (the “Company”) and the amount of the cash bonus paid to these persons in 2008 under the Company’s 2007 Cash Incentive Plan.

Executive Officer	Current Base Salary	2007 Cash Bonus
M. Terry Turner — CEO	\$643,000	\$ —
Robert A. McCabe, Jr. — Chairman of the Board	\$610,000	\$ —
Hugh M. Queener — CAO	\$300,000	\$ —
Harold R. Carpenter — CFO	\$300,000	\$ —
Charles B. McMahan — Sr. Credit Officer	\$200,000	\$ —

In addition to their base salaries, these executive officers are also eligible to:

- Receive cash bonuses under the Company’s 2008 Cash Incentive Plan;
- Participate in a merger-related Special Cash Incentive Plan during 2008;
- Participate in the Company’s equity incentive programs, which currently involves the award of non-qualified stock options and restricted stock pursuant to the Company’s 2004 Equity Incentive Plan; and
- Participate in the Company’s broad-based benefit programs generally available to its employees, including health, disability and life insurance programs and the Company’s 401k plan.

Additionally, Messrs. Turner, McCabe and Queener receive a monthly car allowance.

The foregoing information is summary in nature. Additional information regarding the named executive officer compensation will be provided in the Company’s proxy statement to be filed in connection with the 2008 annual meeting of the Company’s shareholders.

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Section 3: EX-10.48 (EX-10.48 AMENDED EMPLOYMENT AGREEMENT)

EMPLOYMENT AGREEMENT

THIS AGREEMENT is made as of the 1st day of January, 2008, by and among PINNACLE NATIONAL BANK (the "Bank"), a national bank; PINNACLE FINANCIAL PARTNERS, INC., a bank holding company incorporated under the laws of the State of Tennessee (the "Company") (collectively, the Bank and the Company are referred to hereinafter as the "Employer"), and MICHAEL TERRY TURNER, a resident of the State of Tennessee (the "Executive").

RECITALS:

The Employer desires to continue to employ the Executive as President and Chief Executive Officer of the Bank and the Company and the Executive desires to accept such continued employment.

The parties previously entered into an employment agreement, dated as of March 1, 2000, that they wish to amend as set forth herein.

In consideration of the above premises and the mutual agreements hereinafter set forth, the parties hereby agree as follows:

1. DEFINITIONS. Whenever used in this Agreement, the following terms and their variant forms shall have the meaning set forth below:

1.1. "AGREEMENT" shall mean this Agreement and any exhibits incorporated herein together with any amendments hereto made in the manner described in this Agreement.

1.2. "AFFILIATE" shall mean any business entity which controls the Company, is controlled by or is under common control with the Company.

1.3. "BUSINESS OF THE EMPLOYER" shall mean the business conducted by the Employer, which is the business of commercial banking.

1.4. "CAUSE" shall mean:

1.4.1. With respect to termination by the Employer:

(a) a material breach of the terms of this Agreement by the Executive, including, without limitation, failure by the Executive to perform his duties and responsibilities in the manner and to the extent required under this Agreement, which remains uncured after the expiration of thirty (30) days following the delivery of written notice of such breach to the Executive by Employer. Such notice shall (i) specifically identify the duties that the Board of Directors of either the Company or the Bank believes the Executive has failed to perform, (ii) state the facts upon which such Board of Directors made such determination, and (iii) be approved by a resolution passed by two-thirds (2/3) of the directors then in office;

(b) conduct by the Executive that amounts to fraud, dishonesty or willful misconduct in the performance of his duties and responsibilities hereunder;

(c) arrest for, charged in relation to (by criminal information, indictment or otherwise), or conviction of the Executive during the Term of this Agreement of a crime involving breach of trust or moral turpitude;

(d) conduct by the Executive that amounts to gross and willful insubordination or inattention to his duties and responsibilities hereunder; or

(e) conduct by the Executive that results in removal from his position as an officer or executive of Employer pursuant to a written order by any regulatory agency with authority or jurisdiction over Employer.

1.4.2. With respect to termination by the Executive:

(a) a material modification to the Executive's job title(s) or position(s) of responsibility or the scope of his authority or responsibilities under this Agreement without the Executive's written consent;

(b) an adverse change in supervision, including a requirement that the Executive report to a corporate officer instead of reporting directly to the board of directors of the Company or any successor, which change in supervision is effected without the Executive's written consent;

(c) an adverse change in overall supervisory authority which change in supervisory authority is effected without the Executive's written consent;

(d) any change in the Executive's office location such that the Executive is required to report regularly to a location that is beyond a 25-mile radius from the Executive's office location determined immediately after the Effective Date, which change in office location is effected without the Executive's written consent;

(e) any material reduction in salary, bonus opportunity or other benefits provided for in Section 3 or Section 4 below from the level in effect immediately prior to such reduction; and

(f) any giving of notice of non-renewal of this Agreement by the Human Resources Committee of the Board of Directors of Employer.

provided, that within 30 days following the initial occurrence of any of the conditions listed in 1.4.1(a) to (e) above, the Executive shall have provided notice to the Company of the existence of such condition, and the Company shall not have remedied the condition to the reasonable satisfaction of Executive within 30 days of receiving such notice.

1.5. "CHANGE OF CONTROL" means any one of the following events:

(a) the acquisition by any person or persons acting in concert of the then outstanding voting securities of either the Bank or the Company, if, after the transaction, the acquiring person (or persons) owns, controls or holds with power to vote forty percent (40%) or more of any class of voting securities of either the Bank or the Company, as the case may be;

(b) within any twelve-month period (beginning on or after the Effective Date) the persons who were directors of either the Bank or the Company immediately before the beginning of such twelve-month period (the "Incumbent Directors") shall cease to constitute at least a majority of such board of directors; provided that any director who was not a director as of the Effective Date shall be deemed to be an Incumbent Director if that director were elected to such board of directors by, or on the recommendation of or with the approval of, at least two-thirds of the directors who then qualified as Incumbent Directors; and provided further that no director whose initial assumption of office is in connection with an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Securities Exchange Act of 1934) relating to the election of directors shall be deemed to be an Incumbent Director;

(c) a reorganization, merger or consolidation, with respect to which persons who were the stockholders of the Bank or the Company, as the case may be, immediately prior to such reorganization, merger or consolidation do not, immediately thereafter, own more than fifty percent (50%) of the combined voting power entitled to vote in the election of directors of the reorganized, merged or consolidated company's then outstanding voting securities; or

(d) the sale, transfer or assignment of all or substantially all of the assets of the Company and its subsidiaries to any third party.

1.6. "COMPANY INFORMATION" means Confidential Information and Trade Secrets.

1.7. "CONFIDENTIAL INFORMATION" means data and information relating to the business of the Bank or the Company (which does not rise to the status of a Trade Secret) which is or has been disclosed to the Executive or of which the Executive became aware as a consequence of or through the Executive's relationship to the Employer and which has value to the Employer and is not generally known to its competitors. Confidential Information shall not include any data or information that has been voluntarily disclosed to the public by the Employer (except where such public disclosure has been made by the Executive without authorization) or that has been independently developed and disclosed by others, or that otherwise enters the public domain through lawful means.

1.8. "DISABILITY" shall mean the inability of the Executive to perform each of his material duties under this Agreement for the duration of the short-term disability period under the Employer's policy then in effect as certified by a physician chosen by the Employer and reasonably acceptable to the Executive. Executive agrees that to the extent necessary to comply with Section 409A of the Internal Revenue Code (the "Code"), the definition of Disability hereunder shall be amended to the definition of disability required by Section 409A.

1.9. "EFFECTIVE DATE" shall mean the date January 1, 2008.

1.10. "INITIAL TERM" shall mean that period of time commencing on January 1, 2008 (the "Beginning Date") and running until the close of business on the last business day immediately preceding the first anniversary of the Beginning Date.

1.11. "TERM" shall mean the last day of the Initial Term or most recent subsequent renewal period.

1.12. "TRADE SECRETS" means Employer information including, but not limited to, technical or nontechnical data, formulas, patterns, compilations, programs, devices, methods, techniques, drawings, processes, financial data, financial plans, product plans or lists of actual or potential customers or suppliers which:

(a) derives economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and

(b) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

2. DUTIES.

2.1. POSITION. The Executive is employed initially as President and Chief Executive Officer of the Bank and the Company and, subject to the direction of the Board of Directors of the Bank or the Company or its designee(s), shall perform and discharge well and faithfully the duties which may be assigned to him from time to time by the Bank or the Company in connection with the conduct of its business. The duties and responsibilities of the Executive are set forth on EXHIBIT A attached hereto.

2.2. FULL-TIME STATUS. In addition to the duties and responsibilities specifically assigned to the Executive pursuant to Section 2.1 hereof, the Executive shall:

(a) devote substantially all of his time, energy and skill during regular business hours to the performance of the duties of his employment (reasonable vacations and reasonable absences due to illness excepted) and faithfully and industriously perform such duties;

(b) diligently follow and implement all reasonable and lawful management policies and decisions communicated to him by the Board of Directors of either the Bank or the Company; and

(c) timely prepare and forward to the Board of Directors of either the Bank or the Company all reports and accountings as may be requested of the Executive.

2.3. PERMITTED ACTIVITIES. The Executive shall devote his entire business time, attention and energies to the Business of the Employer and shall not during the Term be engaged (whether or not during normal business hours) in any other business or professional activity, whether or not such activity is pursued for gain, profit or other pecuniary advantage; but this shall not be construed as preventing the Executive from:

(a) investing his personal assets in businesses which (subject to clause (b) below) are not in competition with the Business of the Employer and which will not require any services on the part of the Executive in their operation or affairs and in which his participation is solely that of an investor;

(b) purchasing or otherwise acquiring an ownership interest in any entity provided that such interest shall not result in him collectively owning beneficially at any five percent (5%) or more of any entity, or to the extent applicable, five percent (5%) or more of the stock, capital or profits of any entity in competition with the Business of the Employer; and

(c) participating in civic and professional affairs and organizations and conferences, preparing or publishing papers or books or teaching so long as the Board of Directors of either the Bank or the Company approves of such activities prior to the Executive's engaging in them.

Notwithstanding the foregoing provisions of this Section 2.3, the Executive may provide services to any entity and may engage in such additional investment activities to the extent such services and such additional investment activities have been expressly approved in writing by the Board of Directors of either the Bank or the Company.

3. TERM AND TERMINATION.

3.1. TERM. This Agreement shall remain in effect for the Term. While this Agreement remains in effect it shall automatically renew each year on January 1 unless, prior to the November 30 immediately preceding such renewal, the Human Resources Committee of the Employer or the Executive gives written notice to the other of its intent that the automatic renewals shall cease. In the event such notice of non-renewal is properly given, this Agreement and the Term shall expire on the thirtieth (30th) day following the date such written notice is received.

3.2. TERMINATION. During the Term, the employment of the Executive may be terminated only as follows:

3.2.1. By the Employer:

(a) For Cause, upon written notice to the Executive pursuant to Section 1.4.1 hereof, where the notice has been approved by a resolution passed by two-thirds of the directors of either the Bank or the Company then in office;

(b) Without Cause at any time, provided that the Bank shall give the Executive thirty (30) days' prior written notice of its intent to terminate, in which event the Employer shall be required to pay a severance benefit equal to three times the Executive's base salary on the date of termination, payable over the three years following termination in accordance with Employer's normal payroll practices; or

(c) Upon the Disability of Executive at any time, provided that the Employer shall give the Executive thirty (30) days' prior written notice of its intent to terminate, in which event, the Employer shall be required to continue to pay Executive's then current base salary for a period of six (6) months or until the Executive begins receiving payments under the Company's long-term disability policy, whichever occurs first.

3.2.2. By the Executive:

(a) For Cause, in which event the Employer shall be required to pay a severance benefit equal to the Executive's base salary on the date of termination, payable over the twelve months following termination in accordance with Employer's normal payroll practices; or

(b) Without Cause or upon the Disability of the Executive, provided that the Executive shall give the Employer sixty (60) days' prior written notice of his intent to terminate.

3.2.3. At any time upon mutual, written agreement of the parties.

3.2.4. Notwithstanding anything in this Agreement to the contrary, the Term shall end automatically upon the Executive's death.

3.3. CHANGE OF CONTROL. If, within twelve (12) months following a Change of Control, the Employer terminates Executive's employment under the Agreement without cause or the Executive terminates his employment with the Employer under this Agreement for Cause within twelve (12) months following a Change of Control, the Executive, or in the event of his subsequent death, his designated beneficiaries or his estate, as the case may be, shall receive, as liquidated damages, in lieu of all other claims, a severance payment equal to three (3) times the Executives then current Base Salary and target bonus amount to be paid in full on the last day of

the month following the date of termination. The Executive and his immediate family will continue to receive the health insurance plan benefits then in effect for employees of the Company and/or the Bank for a period of three years to include payment of the Employer funded portion of the plan. The Executive will also receive tax assistance, advice and filing preparation services from a qualified accounting firm of his choice for a period of three years at a cost to the Company and/or the Bank not to exceed \$2,500 per year.

3.4. EFFECT OF TERMINATION. Upon termination of the Executive's employment hereunder, the Employer shall have no further obligations to the Executive or the Executive's estate with respect to this Agreement, except for the payment of salary and bonus amounts, if any, accrued pursuant to Sections 4.1 and 4.2 hereof and unpaid as of the effective date of the termination of employment and payments set forth in Sections 3.2.1(b) or (c); Section 3.2.2(a); Section 3.3; Section 3.5 and/or Section 4.4, as applicable. Nothing contained herein shall limit or impinge upon any other rights or remedies of the Employer or the Executive under any other agreement or plan to which the Executive is a party or of which the Executive is a beneficiary.

3.5. TAX INDEMNITY. In the event it shall be determined that any payment or benefits by the Employer to the Executive (a "Payment") would subject the Executive to an excise tax under Section 4999 of the Internal Revenue Code (the "Code") (or any successor federal tax law), or any interest or penalties are incurred or paid by the Executive with respect to such excise tax (any such excise tax, together with any interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to an additional payment from the Employer as is necessary (after taking into account all federal, state and local taxes regardless of type, whether income, excise or otherwise) imposed upon the Executive as a result of the receipt of the payment contemplated by this Agreement) and any reduction in such taxes of the Executive as a result of the payment of the related Excise Tax) to place the Executive in the same after-tax position the Executive would have been in had no Excise Tax been imposed upon or incurred or paid by the Executive (the "Tax Indemnity"). The Employer's outside auditor shall determine, utilizing such reasonable assumptions as it considers necessary, whether a Payment would subject the Executive to the Excise Tax within thirty (30) days after receipt of a written request from the Employer or the Executive in which the requesting party verifies that a Payment has been made and requests an appropriate determination. The requesting party shall provide the other party with a copy of any such written request. The outside auditor shall determine whether a Tax Indemnity obligation exists and, if so, the amount of the Tax Indemnity and shall provide supporting documentation to both the Employer and the Executive. The Employer shall pay the Executive any Tax Indemnity so determined in a lump sum in cash within thirty (30) days following the release of the related determination by the outside auditor; provided, however, that any such payment may be reduced by applicable legal withholdings. In the event that the Internal Revenue Service subsequently assesses an Excise Tax that is greater than the tax previously calculated by the outside auditor, the Employer shall make an additional Tax Indemnity payment, as calculated by the outside auditor in a manner consistent with the provisions of this Section 3.5, to the Executive within thirty (30) days of the date of such assessment.

3.6. SECTION 409A MATTERS. It is intended that (i) each payment or installment of payments provided under this Agreement is a separate “payment” for purposes of Code Section 409A and (ii) that the payments satisfy, to the greatest extent possible, the exemptions from the application of Code Section 409A, including those provided under Treasury Regulations 1.409A-1(b)(4) (regarding short-term deferrals), 1.409A-1(b)(9)(iii) (regarding the two-times, two year exception), and 1.409A-1(b)(9)(v) (regarding reimbursements and other separation pay). Notwithstanding anything to the contrary in this Agreement, if the Employer determines (i) that on the date of Executive’s separation from service or at such other time that the Employer determines to be relevant, the Executive is a “specified employee” (as such term is defined under Treasury Regulation 1.409A-1(i)(1)) of the Employer and (ii) that any payments to be provided to the Executive pursuant to this Agreement are or may become subject to the additional tax under Code Section 409A(a)(1)(B) or any other taxes or penalties imposed under Code Section 409A (“Section 409A Taxes”) if provided at the time otherwise required under this Agreement, then such payments shall be delayed until the date that is six (6) months after the date of the Executive’s separation from service with the Employer, or such shorter period that, as determined by the Employer, is sufficient to avoid the imposition of Section 409A Taxes. Any payments delayed pursuant to this Section 3.6 shall be made in a lump sum on the first day of the seventh month following the Executive’s separation from service, or such earlier date that, as determined by the Employer, is sufficient to avoid the imposition of any Section 409A Taxes.

4. COMPENSATION. The Executive shall receive the following salary and benefits during the Term, except as otherwise provided below:

4.1. BASE SALARY. During the year 2008, the Executive shall be compensated at a base rate of \$643,000 per year (the “Base Salary”). The obligation for payment of Base Salary shall be apportioned between the Company and the Bank as they may agree from time to time in their sole discretion. The Executive’s Base Salary shall be reviewed by the Human Resources Committee of the Board of Directors of the Bank and the Company at least annually, and the Executive shall be entitled to receive annually an increase in such amount, if any, as may be determined by the Human Resources Committee of the Board of Directors of the Bank or the Company based on its evaluation of Executive’s performance. Base Salary shall be payable in accordance with the Employer’s normal payroll practices.

4.2. INCENTIVE COMPENSATION. The Executive shall be entitled to annual bonus compensation, if any, as determined by the Human Resources Committee of the Board of Directors of the Company or the Bank pursuant to any incentive compensation program as may be adopted from time to time by the Company or the Bank.

4.3. STOCK OPTIONS. The Executive shall be eligible for future option grants or stock based awards so long as the Company maintains a stock incentive plan and shall participate in future grants as shall be determined by the Human Resources Committee of the Board of Directors commensurate with the relative levels of participation by all other senior management employees of the Employer.

4.4. HEALTH INSURANCE.

(a) In the event of termination by the Executive for Cause (Section 3.2.2(a)), the Employer shall reimburse Executive for the cost of premium payments paid by the Executive to continue his then existing health insurance for himself and his eligible dependents as provided by the Employer for a period of three (3) months following the date of termination of employment.

(b) In the event of a termination by the Employer without Cause (Section 3.2.1(b)), the Employer shall reimburse the Executive for the cost of premium payments paid by the Executive to continue his then existing health insurance for himself and his eligible dependents as provided by Employer for a period of twelve (12) months following the date of termination of employment.

4.5. AUTOMOBILE. Beginning as of the month in which the Bank receives preliminary charter approval, the Employer will provide Executive with an automobile allowance of \$13,200 per month.

4.6. BUSINESS EXPENSES; MEMBERSHIPS. The Employer specifically agrees to reimburse the Executive for:

(a) reasonable and necessary business (including travel) expenses incurred by him in the performance of his duties hereunder, as consistent with policy approved by the Board of Directors of either the Bank or the Company; and

(b) beginning as of the Effective Date, the dues and business related expenditures, including initiation fees, associated with membership in a single civic association both as selected by the Executive and in professional associations which are commensurate with his position; provided, however, that the Executive shall, as a condition of reimbursement, submit verification of the nature and amount of such expenses in accordance with reimbursement policies from time to time adopted by the Employer and in sufficient detail to comply with rules and regulations promulgated by the Internal Revenue Service.

4.7. VACATION. On a non-cumulative basis, the Executive shall be entitled to four (4) weeks of vacation in each successive twelve-month period during the Term, during which his compensation shall be paid in full.

4.8. LIFE INSURANCE. The Employer will provide the Executive with access to term life insurance coverage, providing a death benefit of not less than \$1,000,000, payable to such beneficiary or beneficiaries as the Executive may designate.

4.9. TAX PREPARATION SERVICES. The Employer will provide the Executive with tax preparation services annually through a qualified accounting firm of the Executive's choice at an annual cost not to exceed \$2,500.

4.10. **BENEFITS.** In addition to the benefits specifically described in this Agreement, the Executive shall be entitled to such benefits as may be available from time to time to executives of the Bank similarly situated to the Executive. All such benefits shall be awarded and administered in accordance with the Bank's standard policies and practices. Such benefits may include, by way of example only, profit-sharing plans, retirement or investment funds, dental, health, life and disability insurance benefits and such other benefits as the Bank deems appropriate.

4.11. **WITHHOLDING.** The Employer may deduct from each payment of compensation hereunder all amounts required to be deducted and withheld in accordance with applicable federal and state income, FICA and other withholding requirements.

5. COMPANY INFORMATION.

5.1. **OWNERSHIP OF COMPANY INFORMATION.** All Company Information received or developed by the Executive while employed by the Employer will remain the sole and exclusive property of the Employer.

5.2. **OBLIGATIONS OF THE EXECUTIVE.** The Executive agrees:

- (a) to hold Company Information in strictest confidence;
- (b) not to use, duplicate, reproduce, distribute, disclose or otherwise disseminate Company Information or any physical embodiments of Company Information; and
- (c) in any event, not to take any action causing or fail to take any action necessary in order to prevent any Company Information from losing its character or ceasing to qualify as Confidential Information or a Trade Secret.

In the event that the Executive is required by law to disclose any Company Information, the Executive will not make such disclosure unless (and then only to the extent that) the Executive has been advised by independent legal counsel that such disclosure is required by law and then only after prior written notice is given to the Company when the Executive becomes aware that such disclosure has been requested and is required by law. This Section 5 shall survive for a period of twelve (12) months following termination of this Agreement for any reason with respect to Confidential Information, and shall survive termination of this Agreement for any reason for so long as is permitted by applicable law, with respect to Trade Secrets.

5.3. **DELIVERY UPON REQUEST OR TERMINATION.** Upon request by the Employer, and in any event upon termination of his employment with the Employer, the Executive will promptly deliver to the Employer all property belonging to the Employer, including, without limitation, all Company Information then in his possession or control. The Executive agrees that the covenant contained in Section 5 of this Agreement are of the essence of

this Agreement; that the covenant is reasonable and necessary to protect the business, interests and properties of the Employer.

6. SEVERABILITY. The parties agree that each of the provisions included in this Agreement is separate, distinct and severable from the other provisions of this Agreement and that the invalidity or unenforceability of any Agreement provision shall not affect the validity or enforceability of any other provision of this Agreement. Further, if any provision of this Agreement is ruled invalid or unenforceable by a court of competent jurisdiction because of a conflict between the provision and any applicable law or public policy, the provision shall be redrawn to make the provision consistent with and valid and enforceable under the law or public policy.

7. NO SET-OFF BY THE EXECUTIVE. The existence of any claim, demand, action or cause of action by the Executive against the Employer, or any Affiliate of the Employer, whether predicated upon this Agreement or otherwise, shall not constitute a defense to the enforcement by the Employer of any of its rights hereunder.

8. NOTICE. All notices and other communications required or permitted under this Agreement shall be in writing and, if mailed by prepaid first-class mail or certified mail, return receipt requested, shall be deemed to have been received on the earlier of the date shown on the receipt or three (3) business days after the postmarked date thereof. In addition, notices hereunder may be delivered by hand or overnight courier, in which event the notice shall be deemed effective when delivered. All notices and other communications under this Agreement shall be given to the parties hereto at the following addresses:

(i) If to the Employer, to it at:

Suite 300
211 Commerce Street
Nashville, TN 37201

(ii) If to the Executive, to him at:

Suite 300
211 Commerce Street
Nashville, TN 37201

Either party may notify the other in writing in the event of a change in the address for such notice.

9. ASSIGNMENT. Neither party hereto may assign or delegate this Agreement or any of its rights and obligations hereunder without the written consent of the other party to this Agreement.

10. **WAIVER.** A waiver by one party to this Agreement of any breach of this Agreement by the other party to this Agreement shall not be effective unless in writing, and no waiver shall operate or be construed as a waiver of the same or another breach on a subsequent occasion.

11. **ARBITRATION.** Any controversy or claim arising out of or relating to this contract, or the breach thereof, shall be settled by binding arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association. Judgment upon the award rendered by the arbitrator may be entered only in a state court of Tennessee or the federal court for the Middle District of Tennessee. The Employer and the Executive agree to share equally the fees and expenses associated with the arbitration proceedings.

12. **ATTORNEYS' FEES.** In the event that the parties have complied with this Agreement with respect to arbitration of disputes and litigation ensues between the parties concerning the enforcement of an arbitration award, the party prevailing in such litigation shall be entitled to receive from the other party all reasonable costs and expenses, including without limitation attorneys' fees, incurred by the prevailing party in connection with such litigation, and the other party shall pay such costs and expenses to the prevailing party promptly upon demand by the prevailing party.

13. **APPLICABLE LAW.** This Agreement shall be construed and enforced under and in accordance with the laws of the State of Tennessee.

14. **INTERPRETATION.** Words importing any gender include all genders. Words importing the singular form shall include the plural and vice versa. The terms "herein", "hereunder", "hereby", "hereto", "hereof" and any similar terms refer to this Agreement. Any captions, titles or headings preceding the text of any article, section or subsection herein are solely for convenience of reference and shall not constitute part of this Agreement or affect its meaning, construction or effect.

15. **ENTIRE AGREEMENT.** This Agreement embodies the entire and final agreement of the parties on the subject matter stated in this Agreement. No amendment or modification of this Agreement shall be valid or binding upon the Employer or the Executive unless made in writing and signed by both parties. All prior understandings and agreements relating to the subject matter of this Agreement, including, but not limited to, that certain employment agreement between the Bank and the Executive previously signed by the parties and also dated as of March 1, 2000, are hereby expressly terminated and superseded.

16. **RIGHTS OF THIRD PARTIES.** Nothing herein expressed is intended to or shall be construed to confer upon or give to any person, firm or other entity, other than the parties hereto and their permitted assigns, any rights or remedies under or by reason of this Agreement.

17. **SURVIVAL.** The obligations of the Executive pursuant to Section 5 shall survive the termination of the employment of the Executive hereunder for the period designated under each of those respective sections.

18. JOINT AND SEVERAL. The obligations of the Bank and the Company to Executive hereunder shall be joint and several.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the Employer and the Executive have executed and delivered this Agreement as of the date first shown above.

THE BANK:

PINNACLE NATIONAL BANK

By: _____
Print Name: HUGH M. QUEENER
Title: SECRETARY, CHIEF ADMINISTRATION
OFFICER

THE COMPANY:

PINNACLE FINANCIAL PARTNERS, INC.

By: _____
Print Name: HUGH M. QUEENER
Title: SECRETARY, CHIEF ADMINISTRATION
OFFICER

THE EXECUTIVE:

MICHAEL TERRY TURNER

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Section 4: EX-10.49 (EX-10.49 AMENDED EMPLOYMENT AGREEMENT)

EMPLOYMENT AGREEMENT

THIS AGREEMENT is made as of the 1st day of January, 2008, by and among PINNACLE NATIONAL BANK (the "Bank"), a national bank; PINNACLE FINANCIAL PARTNERS, INC., a bank holding company incorporated under the laws of the State of Tennessee (the "Company") (collectively, the Bank and the Company are referred to hereinafter as the "Employer"), and ROBERT A. MCCABE, JR., a resident of the State of Tennessee (the "Executive").

RECITALS:

The Employer desires to continue to employ the Executive as Chairman of the Board of the Bank and the Company and the Executive desires to accept such continued employment.

The parties previously entered into an employment agreement, dated as of March 1, 2000, that they wish to amend as set forth herein.

In consideration of the above premises and the mutual agreements hereinafter set forth, the parties hereby agree as follows:

1. DEFINITIONS. Whenever used in this Agreement, the following terms and their variant forms shall have the meaning set forth below:

1.1. "AGREEMENT" shall mean this Agreement and any exhibits incorporated herein together with any amendments hereto made in the manner described in this Agreement.

1.2. "AFFILIATE" shall mean any business entity which controls the Company, is controlled by or is under common control with the Company.

1.3. "BUSINESS OF THE EMPLOYER" shall mean the business conducted by the Employer, which is the business of commercial banking.

1.4. "CAUSE" shall mean:

1.4.1. With respect to termination by the Employer:

(a) a material breach of the terms of this Agreement by the Executive, including, without limitation, failure by the Executive to perform his duties and responsibilities in the manner and to the extent required under this Agreement, which remains uncured after the expiration of thirty (30) days following the delivery of written notice of such breach to the Executive by Employer. Such notice shall (i) specifically identify the duties that the Board of Directors of either the Company or the Bank believes the Executive has failed to perform, (ii) state the facts upon which such Board of Directors made such determination, and (iii) be approved by a resolution passed by two-thirds (2/3) of the directors then in office;

(b) conduct by the Executive that amounts to fraud, dishonesty or willful misconduct in the performance of his duties and responsibilities hereunder;

(c) arrest for, charged in relation to (by criminal information, indictment or otherwise), or conviction of the Executive during the Term of this Agreement of a crime involving breach of trust or moral turpitude;

(d) conduct by the Executive that amounts to gross and willful insubordination or inattention to his duties and responsibilities hereunder; or

(e) conduct by the Executive that results in removal from his position as an officer or executive of Employer pursuant to a written order by any regulatory agency with authority or jurisdiction over Employer.

1.4.2. With respect to termination by the Executive:

(a) a material modification to the Executive's job title(s) or position(s) of responsibility or the scope of his authority or responsibilities under this Agreement without the Executive's written consent;

(b) an adverse change in supervision so that the Executive no longer reports to the person(s) or entity to whom he reported immediately after the Effective Date, which change in supervision is effected without the Executive's written consent;

(c) an adverse change in overall supervisory authority which change in supervisory authority is effected without the Executive's written consent;

(d) any change in the Executive's office location such that the Executive is required to report regularly to a location that is beyond a 25-mile radius from the Executive's office location determined immediately after the Effective Date, which change in office location is effected without the Executive's written consent;

(e) any material reduction in salary, bonus opportunity or other benefits provided for in Section 3 or Section 4 below from the level in effect immediately prior to such reduction; and

(f) any giving of notice of non-renewal of this Agreement by the Human Resources Committee of the Board of Directors of Employer.

provided, that within 30 days following the initial occurrence of any of the conditions listed in 1.4.1(a) to (e) above, the Executive shall have provided notice to the Company of the existence of such condition, and the Company shall not have remedied the condition to the reasonable satisfaction of Executive within 30 days of receiving such notice.

1.5. "CHANGE OF CONTROL" means any one of the following events:

(a) the acquisition by any person or persons acting in concert of the then outstanding voting securities of either the Bank or the Company, if, after the transaction, the acquiring person (or persons) owns, controls or holds with power to vote forty percent (40%) or more of any class of voting securities of either the Bank or the Company, as the case may be;

(b) within any twelve-month period (beginning on or after the Effective Date) the persons who were directors of either the Bank or the Company immediately before the beginning of such twelve-month period (the "Incumbent Directors") shall cease to constitute at least a majority of such board of directors; provided that any director who was not a director as of the Effective Date shall be deemed to be an Incumbent Director if that director were elected to such board of directors by, or on the recommendation of or with the approval of, at least two-thirds of the directors who then qualified as Incumbent Directors; and provided further that no director whose initial assumption of office is in connection with an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Securities Exchange Act of 1934) relating to the election of directors shall be deemed to be an Incumbent Director;

(c) a reorganization, merger or consolidation, with respect to which persons who were the stockholders of the Bank or the Company, as the case may be, immediately prior to such reorganization, merger or consolidation do not, immediately thereafter, own more than fifty percent (50%) of the combined voting power entitled to vote in the election of directors of the reorganized, merged or consolidated company's then outstanding voting securities; or

(d) the sale, transfer or assignment of all or substantially all of the assets of the Company and its subsidiaries to any third party.

1.6. "COMPANY INFORMATION" means Confidential Information and Trade Secrets.

1.7. "CONFIDENTIAL INFORMATION" means data and information relating to the business of the Bank or the Company (which does not rise to the status of a Trade Secret) which is or has been disclosed to the Executive or of which the Executive became aware as a consequence of or through the Executive's relationship to the Employer and which has value to the Employer and is not generally known to its competitors. Confidential Information shall not include any data or information that has been voluntarily disclosed to the public by the Employer (except where such public disclosure has been made by the Executive without authorization) or that has been independently developed and disclosed by others, or that otherwise enters the public domain through lawful means.

1.8. "DISABILITY" shall mean the inability of the Executive to perform each of his material duties under this Agreement for the duration of the short-term disability period under the Employer's policy then in effect as certified by a physician chosen by the Employer and reasonably acceptable to the Executive. Executive agrees that to the extent necessary to comply

with Section 409A of the Internal Revenue Code (the "Code"), the definition of Disability hereunder shall be amended to the definition of disability required by Section 409A.

1.9. "EFFECTIVE DATE" shall mean the date January 1, 2008.

1.10. "INITIAL TERM" shall mean that period of time commencing on January 1, 2008 (the "Beginning Date") and running until the close of business on the last business day immediately preceding the first anniversary of the Beginning Date.

1.11. "TERM" shall mean the last day of the Initial Term or most recent subsequent renewal period.

1.12. "TRADE SECRETS" means Employer information including, but not limited to, technical or nontechnical data, formulas, patterns, compilations, programs, devices, methods, techniques, drawings, processes, financial data, financial plans, product plans or lists of actual or potential customers or suppliers which:

(a) derives economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and

(b) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

2. DUTIES.

2.1. POSITION. The Executive is employed initially as President and Chief Executive Officer of the Bank and the Company and, subject to the direction of the Board of Directors of the Bank or the Company or its designee(s), shall perform and discharge well and faithfully the duties which may be assigned to him from time to time by the Bank or the Company in connection with the conduct of its business. The duties and responsibilities of the Executive are set forth on EXHIBIT A attached hereto.

2.2. FULL-TIME STATUS. In addition to the duties and responsibilities specifically assigned to the Executive pursuant to Section 2.1 hereof, the Executive shall:

(a) devote substantially all of his time, energy and skill during regular business hours to the performance of the duties of his employment (reasonable vacations and reasonable absences due to illness excepted) and faithfully and industriously perform such duties;

(b) diligently follow and implement all reasonable and lawful management policies and decisions communicated to him by the Board of Directors of either the Bank or the Company; and

(c) timely prepare and forward to the Board of Directors of either the Bank or the Company all reports and accountings as may be requested of the Executive.

2.3. PERMITTED ACTIVITIES. The Executive shall devote his entire business time, attention and energies to the Business of the Employer and shall not during the Term be engaged (whether or not during normal business hours) in any other business or professional activity, whether or not such activity is pursued for gain, profit or other pecuniary advantage; but this shall not be construed as preventing the Executive from:

(a) investing his personal assets in businesses which (subject to clause (b) below) are not in competition with the Business of the Employer and which will not require any services on the part of the Executive in their operation or affairs and in which his participation is solely that of an investor;

(b) purchasing or otherwise acquiring an ownership interest in any entity provided that such interest shall not result in him collectively owning beneficially at any five percent (5%) or more of any entity, or to the extent applicable, five percent (5%) or more of the stock, capital or profits of any entity in competition with the Business of the Employer; and

(c) participating in civic and professional affairs and organizations and conferences, preparing or publishing papers or books or teaching so long as the Board of Directors of either the Bank or the Company approves of such activities prior to the Executive's engaging in them.

Notwithstanding the foregoing provisions of this Section 2.3, the Executive may provide services to any entity and may engage in such additional investment activities to the extent such services and such additional investment activities have been expressly approved in writing by the Board of Directors of either the Bank or the Company.

3. TERM AND TERMINATION.

3.1. TERM. This Agreement shall remain in effect for the Term. While this Agreement remains in effect it shall automatically renew each year on January 1 unless, prior to the November 30 immediately preceding such renewal, the Human Resources Committee of the Employer or the Executive gives written notice to the other of its intent that the automatic renewals shall cease. In the event such notice of non-renewal is properly given, this Agreement and the Term shall expire on the thirtieth (30th) day following the date such written notice is received.

3.2. TERMINATION. During the Term, the employment of the Executive may be terminated only as follows:

3.2.1. By the Employer:

(a) For Cause, upon written notice to the Executive pursuant to Section 1.4.1 hereof, where the notice has been approved by a resolution passed by two-thirds of the directors of either the Bank or the Company then in office;

(b) Without Cause at any time, provided that the Bank shall give the Executive thirty (30) days' prior written notice of its intent to terminate, in which

event the Employer shall be required to pay a severance benefit equal to three times the Executive's base salary on the date of termination, payable over the three years following termination in accordance with Employer's normal payroll practices; or

(c) Upon the Disability of Executive at any time, provided that the Employer shall give the Executive thirty (30) days' prior written notice of its intent to terminate, in which event, the Employer shall be required to continue to pay Executive's then current base salary for a period of six (6) months or until the Executive begins receiving payments under the Company's long-term disability policy, whichever occurs first.

3.2.2. By the Executive:

(a) For Cause, in which event the Employer shall be required to pay a severance benefit equal to the Executive's base salary on the date of termination, payable over the twelve months following termination in accordance with Employer's normal payroll practices; or

(b) Without Cause or upon the Disability of the Executive, provided that the Executive shall give the Employer sixty (60) days' prior written notice of his intent to terminate.

3.2.3. At any time upon mutual, written agreement of the parties.

3.2.4. Notwithstanding anything in this Agreement to the contrary, the Term shall end automatically upon the Executive's death.

3.3. CHANGE OF CONTROL. If, within twelve (12) months following a Change of Control, the Employer terminates Executive's employment under the Agreement without cause or the Executive terminates his employment with the Employer under this Agreement for Cause within twelve (12) months following a Change of Control, the Executive, or in the event of his subsequent death, his designated beneficiaries or his estate, as the case may be, shall receive, as liquidated damages, in lieu of all other claims, a severance payment equal to three (3) times the Executives then current Base Salary and target bonus amount to be paid in full on the last day of the month following the date of termination. The Executive and his immediate family will continue to receive the health insurance plan benefits then in effect for employees of the Company and/or the Bank for a period of three years to include payment of the Employer funded portion of the plan. The Executive will also receive tax assistance, advice and filing preparation services from a qualified accounting firm of his choice for a period of three years at a cost to the Company and/or the Bank not to exceed \$2,500 per year.

3.4. EFFECT OF TERMINATION. Upon termination of the Executive's employment hereunder, the Employer shall have no further obligations to the Executive or the Executive's estate with respect to this Agreement, except for the payment of salary and bonus amounts, if any, accrued pursuant to Sections 4.1 and 4.2 hereof and unpaid as of the effective date of the termination of employment and payments set forth in Sections 3.2.1(b) or (c); Section 3.2.2(a); Section 3.3; Section 3.5 and/or Section 4.4, as applicable. Nothing contained herein shall limit or

impinge upon any other rights or remedies of the Employer or the Executive under any other agreement or plan to which the Executive is a party or of which the Executive is a beneficiary.

3.5. TAX INDEMNITY. In the event it shall be determined that any payment or benefits by the Employer to the Executive (a "Payment") would subject the Executive to an excise tax under Section 4999 of the Internal Revenue Code (the "Code") (or any successor federal tax law), or any interest or penalties are incurred or paid by the Executive with respect to such excise tax (any such excise tax, together with any interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to an additional payment from the Employer as is necessary (after taking into account all federal, state and local taxes regardless of type, whether income, excise or otherwise) imposed upon the Executive as a result of the receipt of the payment contemplated by this Agreement) and any reduction in such taxes of the Executive as a result of the payment of the related Excise Tax) to place the Executive in the same after-tax position the Executive would have been in had no Excise Tax been imposed upon or incurred or paid by the Executive (the "Tax Indemnity"). The Employer's outside auditor shall determine, utilizing such reasonable assumptions as it considers necessary, whether a Payment would subject the Executive to the Excise Tax within thirty (30) days after receipt of a written request from the Employer or the Executive in which the requesting party verifies that a Payment has been made and requests an appropriate determination. The requesting party shall provide the other party with a copy of any such written request. The outside auditor shall determine whether a Tax Indemnity obligation exists and, if so, the amount of the Tax Indemnity and shall provide supporting documentation to both the Employer and the Executive. The Employer shall pay the Executive any Tax Indemnity so determined in a lump sum in cash within thirty (30) days following the release of the related determination by the outside auditor; provided, however, that any such payment may be reduced by applicable legal withholdings. In the event that the Internal Revenue Service subsequently assesses an Excise Tax that is greater than the tax previously calculated by the outside auditor, the Employer shall make an additional Tax Indemnity payment, as calculated by the outside auditor in a manner consistent with the provisions of this Section 3.5, to the Executive within thirty (30) days of the date of such assessment.

3.6. SECTION 409A MATTERS. It is intended that (i) each payment or installment of payments provided under this Agreement is a separate "payment" for purposes of Code Section 409A and (ii) that the payments satisfy, to the greatest extent possible, the exemptions from the application of Code Section 409A, including those provided under Treasury Regulations 1.409A-1(b)(4) (regarding short-term deferrals), 1.409A-1(b)(9)(iii) (regarding the two-times, two year exception), and 1.409A-1(b)(9)(v) (regarding reimbursements and other separation pay). Notwithstanding anything to the contrary in this Agreement, if the Employer determines (i) that on the date of Executive's separation from service or at such other time that the Employer determines to be relevant, the Executive is a "specified employee" (as such term is defined under Treasury Regulation 1.409A-1(i)(1)) of the Employer and (ii) that any payments to be provided to the Executive pursuant to this Agreement are or may become subject to the additional tax under Code Section 409A(a)(1)(B) or any other taxes or penalties imposed under Code Section 409A ("Section 409A Taxes") if provided at the time otherwise required under this Agreement, then such payments shall be delayed until the date that is six (6) months after the date of the Executive's separation from service with the Employer, or such shorter period that, as determined by the Employer, is sufficient to avoid the imposition of Section 409A Taxes. Any

payments delayed pursuant to this Section 3.6 shall be made in a lump sum on the first day of the seventh month following the Executive's separation from service, or such earlier date that, as determined by the Employer, is sufficient to avoid the imposition of any Section 409A Taxes.

4. COMPENSATION. The Executive shall receive the following salary and benefits during the Term, except as otherwise provided below:

4.1. BASE SALARY. During the year 2008, the Executive shall be compensated at a base rate of \$610,000 per year (the "Base Salary"). The obligation for payment of Base Salary shall be apportioned between the Company and the Bank as they may agree from time to time in their sole discretion. The Executive's Base Salary shall be reviewed by the Human Resources Committee of the Board of Directors of the Bank and the Company at least annually, and the Executive shall be entitled to receive annually an increase in such amount, if any, as may be determined by the Human Resources Committee of the Board of Directors of the Bank or the Company based on its evaluation of Executive's performance. Base Salary shall be payable in accordance with the Employer's normal payroll practices.

4.2. INCENTIVE COMPENSATION. The Executive shall be entitled to annual bonus compensation, if any, as determined by the Human Resources Committee of the Board of Directors of the Company or the Bank pursuant to any incentive compensation program as may be adopted from time to time by the Company or the Bank.

4.3. STOCK OPTIONS. The Executive shall be eligible for future option grants or stock based awards so long as the Company maintains a stock incentive plan and shall participate in future grants as shall be determined by the Human Resources Committee of the Board of Directors commensurate with the relative levels of participation by all other senior management employees of the Employer.

4.4. HEALTH INSURANCE.

(a) In the event of termination by the Executive for Cause (Section 3.2.2(a)), the Employer shall reimburse Executive for the cost of premium payments paid by the Executive to continue his then existing health insurance for himself and his eligible dependents as provided by the Employer for a period of three (3) months following the date of termination of employment.

(b) In the event of a termination by the Employer without Cause (Section 3.2.1(b)), the Employer shall reimburse the Executive for the cost of premium payments paid by the Executive to continue his then existing health insurance for himself and his eligible dependents as provided by Employer for a period of twelve (12) months following the date of termination of employment.

4.5. AUTOMOBILE. Beginning as of the month in which the Bank receives preliminary charter approval, the Employer will provide Executive with an automobile allowance of \$13,200 per month.

4.6. BUSINESS EXPENSES; MEMBERSHIPS. The Employer specifically agrees to reimburse the Executive for:

(a) reasonable and necessary business (including travel) expenses incurred by him in the performance of his duties hereunder, as consistent with policy approved by the Board of Directors of either the Bank or the Company; and

(b) beginning as of the Effective Date, the dues and business related expenditures, including initiation fees, associated with membership in a single civic association both as selected by the Executive and in professional associations which are commensurate with his position; provided, however, that the Executive shall, as a condition of reimbursement, submit verification of the nature and amount of such expenses in accordance with reimbursement policies from time to time adopted by the Employer and in sufficient detail to comply with rules and regulations promulgated by the Internal Revenue Service.

4.7. VACATION. On a non-cumulative basis, the Executive shall be entitled to four (4) weeks of vacation in each successive twelve-month period during the Term, during which his compensation shall be paid in full.

4.8. LIFE INSURANCE. The Employer will provide the Executive with access to term life insurance coverage, providing a death benefit of not less than \$1,000,000, payable to such beneficiary or beneficiaries as the Executive may designate.

4.9. TAX PREPARATION SERVICES. The Employer will provide the Executive with tax preparation services annually through a qualified accounting firm of the Executive's choice at an annual cost not to exceed \$2,500.

4.10. BENEFITS. In addition to the benefits specifically described in this Agreement, the Executive shall be entitled to such benefits as may be available from time to time to executives of the Bank similarly situated to the Executive. All such benefits shall be awarded and administered in accordance with the Bank's standard policies and practices. Such benefits may include, by way of example only, profit-sharing plans, retirement or investment funds, dental, health, life and disability insurance benefits and such other benefits as the Bank deems appropriate.

4.11. WITHHOLDING. The Employer may deduct from each payment of compensation hereunder all amounts required to be deducted and withheld in accordance with applicable federal and state income, FICA and other withholding requirements.

5. COMPANY INFORMATION.

5.1. OWNERSHIP OF COMPANY INFORMATION. All Company Information received or developed by the Executive while employed by the Employer will remain the sole and exclusive property of the Employer.

5.2. OBLIGATIONS OF THE EXECUTIVE. The Executive agrees:

(a) to hold Company Information in strictest confidence;

(b) not to use, duplicate, reproduce, distribute, disclose or otherwise disseminate Company Information or any physical embodiments of Company Information; and

(c) in any event, not to take any action causing or fail to take any action necessary in order to prevent any Company Information from losing its character or ceasing to qualify as Confidential Information or a Trade Secret.

In the event that the Executive is required by law to disclose any Company Information, the Executive will not make such disclosure unless (and then only to the extent that) the Executive has been advised by independent legal counsel that such disclosure is required by law and then only after prior written notice is given to the Company when the Executive becomes aware that such disclosure has been requested and is required by law. This Section 5 shall survive for a period of twelve (12) months following termination of this Agreement for any reason with respect to Confidential Information, and shall survive termination of this Agreement for any reason for so long as is permitted by applicable law, with respect to Trade Secrets.

5.3. DELIVERY UPON REQUEST OR TERMINATION. Upon request by the Employer, and in any event upon termination of his employment with the Employer, the Executive will promptly deliver to the Employer all property belonging to the Employer, including, without limitation, all Company Information then in his possession or control. The Executive agrees that the covenant contained in Section 5 of this Agreement are of the essence of this Agreement; that the covenant is reasonable and necessary to protect the business, interests and properties of the Employer.

6. SEVERABILITY. The parties agree that each of the provisions included in this Agreement is separate, distinct and severable from the other provisions of this Agreement and that the invalidity or unenforceability of any Agreement provision shall not affect the validity or enforceability of any other provision of this Agreement. Further, if any provision of this Agreement is ruled invalid or unenforceable by a court of competent jurisdiction because of a conflict between the provision and any applicable law or public policy, the provision shall be redrawn to make the provision consistent with and valid and enforceable under the law or public policy.

7. NO SET-OFF BY THE EXECUTIVE. The existence of any claim, demand, action or cause of action by the Executive against the Employer, or any Affiliate of the Employer, whether predicated upon this Agreement or otherwise, shall not constitute a defense to the enforcement by the Employer of any of its rights hereunder.

8. NOTICE. All notices and other communications required or permitted under this Agreement shall be in writing and, if mailed by prepaid first-class mail or certified mail, return receipt requested, shall be deemed to have been received on the earlier of the date shown on the receipt or three (3) business days after the postmarked date thereof. In addition, notices hereunder may be delivered by hand or overnight courier, in which event the notice shall be deemed effective when delivered. All notices and other communications under this Agreement shall be given to the parties hereto at the following addresses:

(i) If to the Employer, to it at:

Suite 300
211 Commerce Street
Nashville, TN 37201

(ii) If to the Executive, to him at:

Suite 300
211 Commerce Street
Nashville, TN 37201

Either party may notify the other in writing in the event of a change in the address for such notice.

9. ASSIGNMENT. Neither party hereto may assign or delegate this Agreement or any of its rights and obligations hereunder without the written consent of the other party to this Agreement.

10. WAIVER. A waiver by one party to this Agreement of any breach of this Agreement by the other party to this Agreement shall not be effective unless in writing, and no waiver shall operate or be construed as a waiver of the same or another breach on a subsequent occasion.

11. ARBITRATION. Any controversy or claim arising out of or relating to this contract, or the breach thereof, shall be settled by binding arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association. Judgment upon the award rendered by the arbitrator may be entered only in a state court of Tennessee or the federal court for the Middle District of Tennessee. The Employer and the Executive agree to share equally the fees and expenses associated with the arbitration proceedings.

12. ATTORNEYS' FEES. In the event that the parties have complied with this Agreement with respect to arbitration of disputes and litigation ensues between the parties concerning the enforcement of an arbitration award, the party prevailing in such litigation shall be entitled to receive from the other party all reasonable costs and expenses, including without limitation attorneys' fees, incurred by the prevailing party in connection with such litigation, and the other party shall pay such costs and expenses to the prevailing party promptly upon demand by the prevailing party.

13. APPLICABLE LAW. This Agreement shall be construed and enforced under and in accordance with the laws of the State of Tennessee.

14. INTERPRETATION. Words importing any gender include all genders. Words importing the singular form shall include the plural and vice versa. The terms "herein", "hereunder", "hereby", "hereto", "hereof" and any similar terms refer to this Agreement. Any captions, titles or headings preceding the text of any article, section or subsection herein are solely for convenience of reference and shall not constitute part of this Agreement or affect its meaning, construction or effect.

15. ENTIRE AGREEMENT. This Agreement embodies the entire and final agreement of the parties on the subject matter stated in this Agreement. No amendment or modification of this Agreement shall be valid or binding upon the Employer or the Executive unless made in writing and signed by both parties. All prior understandings and agreements relating to the subject matter of this Agreement, including, but not limited to, that certain employment agreement between the Bank and the Executive previously signed by the parties and also dated as of March 1, 2000, are hereby expressly terminated and superseded.

16. RIGHTS OF THIRD PARTIES. Nothing herein expressed is intended to or shall be construed to confer upon or give to any person, firm or other entity, other than the parties hereto and their permitted assigns, any rights or remedies under or by reason of this Agreement.

17. SURVIVAL. The obligations of the Executive pursuant to Section 5 shall survive the termination of the employment of the Executive hereunder for the period designated under each of those respective sections.

18. JOINT AND SEVERAL. The obligations of the Bank and the Company to Executive hereunder shall be joint and several.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the Employer and the Executive have executed and delivered this Agreement as of the date first shown above.

THE BANK:

PINNACLE NATIONAL BANK

By: _____

Print Name: HUGH M. QUEENER

Title: SECRETARY, CHIEF ADMINISTRATION
OFFICER

THE COMPANY:

PINNACLE FINANCIAL PARTNERS, INC.

By: _____

Print Name: HUGH M. QUEENER

Title: SECRETARY, CHIEF ADMINISTRATION
OFFICER

THE EXECUTIVE:

ROBERT A. MCCABE, JR.

Section 5: EX-10.50 (EX-10.50 AMENDED EMPLOYMENT AGREEMENT)

EMPLOYMENT AGREEMENT

THIS AGREEMENT is made as of the 1st day of January, 2008, by and among PINNACLE NATIONAL BANK (the "Bank"), a national bank; PINNACLE FINANCIAL PARTNERS, INC., a bank holding company incorporated under the laws of the State of Tennessee (the "Company") (collectively, the Bank and the Company are referred to hereinafter as the "Employer"), and HUGH M. QUEENER, a resident of the State of Tennessee (the "Executive").

RECITALS:

The Employer desires to continue to employ the Executive as Executive Vice President and Chief Administrative Officer of the Bank and the Company and the Executive desires to accept such continued employment.

The parties previously entered into an employment agreement, dated as of March 1, 2000, that they wish to amend as set forth herein.

In consideration of the above premises and the mutual agreements hereinafter set forth, the parties hereby agree as follows:

1. DEFINITIONS. Whenever used in this Agreement, the following terms and their variant forms shall have the meaning set forth below:

1.1. "AGREEMENT" shall mean this Agreement and any exhibits incorporated herein together with any amendments hereto made in the manner described in this Agreement.

1.2. "AFFILIATE" shall mean any business entity which controls the Company, is controlled by or is under common control with the Company.

1.3. "BUSINESS OF THE EMPLOYER" shall mean the business conducted by the Employer, which is the business of commercial banking.

1.4. "CAUSE" shall mean:

1.4.1. With respect to termination by the Employer:

(a) a material breach of the terms of this Agreement by the Executive, including, without limitation, failure by the Executive to perform his duties and responsibilities in the manner and to the extent required under this Agreement, which remains uncured after the expiration of thirty (30) days following the delivery of written notice of such breach to the Executive by Employer. Such notice shall (i) specifically identify the duties that the Board of Directors of either the Company or the Bank believes the Executive has failed to perform, (ii) state the facts upon which such Board of Directors made such determination, and (iii) be approved by a resolution passed by two-thirds (2/3) of the directors then in office;

(b) conduct by the Executive that amounts to fraud, dishonesty or willful misconduct in the performance of his duties and responsibilities hereunder;

(c) arrest for, charged in relation to (by criminal information, indictment or otherwise), or conviction of the Executive during the Term of this Agreement of a crime involving breach of trust or moral turpitude;

(d) conduct by the Executive that amounts to gross and willful insubordination or inattention to his duties and responsibilities hereunder; or

(e) conduct by the Executive that results in removal from his position as an officer or executive of Employer pursuant to a written order by any regulatory agency with authority or jurisdiction over Employer.

1.4.2. With respect to termination by the Executive:

(a) a material modification to the Executive's job title(s) or position(s) of responsibility or the scope of his authority or responsibilities under this Agreement without the Executive's written consent;

(b) an adverse change in supervision so that the Executive no longer reports to the person(s) or entity to whom he reported immediately after the Effective Date, which change in supervision is effected without the Executive's written consent;

(c) an adverse change in overall supervisory authority which change in supervisory authority is effected without the Executive's written consent;

(d) any change in the Executive's office location such that the Executive is required to report regularly to a location that is beyond a 25-mile radius from the Executive's office location determined immediately after the Effective Date, which change in office location is effected without the Executive's written consent;

(e) any material reduction in salary, bonus opportunity or other benefits provided for in Section 3 or Section 4 below from the level in effect immediately prior to such reduction; and

(f) any giving of notice of non-renewal of this Agreement by the Human Resources Committee of the Board of Directors of Employer.

provided, that within 30 days following the initial occurrence of any of the conditions listed in 1.4.1(a) to (e) above, the Executive shall have provided notice to the Company of the existence of such condition, and the Company shall not have remedied the condition to the reasonable satisfaction of Executive within 30 days of receiving such notice.

1.5. "CHANGE OF CONTROL" means any one of the following events:

(a) the acquisition by any person or persons acting in concert of the then outstanding voting securities of either the Bank or the Company, if, after the transaction, the acquiring person (or persons) owns, controls or holds with power to vote forty percent (40%) or more of any class of voting securities of either the Bank or the Company, as the case may be;

(b) within any twelve-month period (beginning on or after the Effective Date) the persons who were directors of either the Bank or the Company immediately before the beginning of such twelve-month period (the "Incumbent Directors") shall cease to constitute at least a majority of such board of directors; provided that any director who was not a director as of the Effective Date shall be deemed to be an Incumbent Director if that director were elected to such board of directors by, or on the recommendation of or with the approval of, at least two-thirds of the directors who then qualified as Incumbent Directors; and provided further that no director whose initial assumption of office is in connection with an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Securities Exchange Act of 1934) relating to the election of directors shall be deemed to be an Incumbent Director;

(c) a reorganization, merger or consolidation, with respect to which persons who were the stockholders of the Bank or the Company, as the case may be, immediately prior to such reorganization, merger or consolidation do not, immediately thereafter, own more than fifty percent (50%) of the combined voting power entitled to vote in the election of directors of the reorganized, merged or consolidated company's then outstanding voting securities; or

(d) the sale, transfer or assignment of all or substantially all of the assets of the Company and its subsidiaries to any third party.

1.6. "COMPANY INFORMATION" means Confidential Information and Trade Secrets.

1.7. "CONFIDENTIAL INFORMATION" means data and information relating to the business of the Bank or the Company (which does not rise to the status of a Trade Secret) which is or has been disclosed to the Executive or of which the Executive became aware as a consequence of or through the Executive's relationship to the Employer and which has value to the Employer and is not generally known to its competitors. Confidential Information shall not include any data or information that has been voluntarily disclosed to the public by the Employer (except where such public disclosure has been made by the Executive without authorization) or that has been independently developed and disclosed by others, or that otherwise enters the public domain through lawful means.

1.8. "DISABILITY" shall mean the inability of the Executive to perform each of his material duties under this Agreement for the duration of the short-term disability period under the Employer's policy then in effect as certified by a physician chosen by the Employer and reasonably acceptable to the Executive. Executive agrees that to the extent necessary to comply

with Section 409A of the Internal Revenue Code (the "Code"), the definition of Disability hereunder shall be amended to the definition of disability required by Section 409A.

1.9. "EFFECTIVE DATE" shall mean the date January 1, 2008.

1.10. "INITIAL TERM" shall mean that period of time commencing on January 1, 2008 (the "Beginning Date") and running until the close of business on the last business day immediately preceding the first anniversary of the Beginning Date.

1.11. "TERM" shall mean the last day of the Initial Term or most recent subsequent renewal period.

1.12. "TRADE SECRETS" means Employer information including, but not limited to, technical or nontechnical data, formulas, patterns, compilations, programs, devices, methods, techniques, drawings, processes, financial data, financial plans, product plans or lists of actual or potential customers or suppliers which:

(a) derives economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and

(b) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

2. DUTIES.

2.1. POSITION. The Executive is employed initially as President and Chief Executive Officer of the Bank and the Company and, subject to the direction of the Board of Directors of the Bank or the Company or its designee(s), shall perform and discharge well and faithfully the duties which may be assigned to him from time to time by the Bank or the Company in connection with the conduct of its business. The duties and responsibilities of the Executive are set forth on EXHIBIT A attached hereto.

2.2. FULL-TIME STATUS. In addition to the duties and responsibilities specifically assigned to the Executive pursuant to Section 2.1 hereof, the Executive shall:

(a) devote substantially all of his time, energy and skill during regular business hours to the performance of the duties of his employment (reasonable vacations and reasonable absences due to illness excepted) and faithfully and industriously perform such duties;

(b) diligently follow and implement all reasonable and lawful management policies and decisions communicated to him by the Board of Directors of either the Bank or the Company; and

(c) timely prepare and forward to the Board of Directors of either the Bank or the Company all reports and accountings as may be requested of the Executive.

2.3. PERMITTED ACTIVITIES. The Executive shall devote his entire business time, attention and energies to the Business of the Employer and shall not during the Term be engaged (whether or not during normal business hours) in any other business or professional activity, whether or not such activity is pursued for gain, profit or other pecuniary advantage; but this shall not be construed as preventing the Executive from:

(a) investing his personal assets in businesses which (subject to clause (b) below) are not in competition with the Business of the Employer and which will not require any services on the part of the Executive in their operation or affairs and in which his participation is solely that of an investor;

(b) purchasing or otherwise acquiring an ownership interest in any entity provided that such interest shall not result in him collectively owning beneficially at any five percent (5%) or more of any entity, or to the extent applicable, five percent (5%) or more of the stock, capital or profits of any entity in competition with the Business of the Employer; and

(c) participating in civic and professional affairs and organizations and conferences, preparing or publishing papers or books or teaching so long as the Board of Directors of either the Bank or the Company approves of such activities prior to the Executive's engaging in them.

Notwithstanding the foregoing provisions of this Section 2.3, the Executive may provide services to any entity and may engage in such additional investment activities to the extent such services and such additional investment activities have been expressly approved in writing by the Board of Directors of either the Bank or the Company.

3. TERM AND TERMINATION.

3.1. TERM. This Agreement shall remain in effect for the Term. While this Agreement remains in effect it shall automatically renew each year on January 1 unless, prior to the November 30 immediately preceding such renewal, the Human Resources Committee of the Employer or the Executive gives written notice to the other of its intent that the automatic renewals shall cease. In the event such notice of non-renewal is properly given, this Agreement and the Term shall expire on the thirtieth (30th) day following the date such written notice is received.

3.2. TERMINATION. During the Term, the employment of the Executive may be terminated only as follows:

3.2.1. By the Employer:

(a) For Cause, upon written notice to the Executive pursuant to Section 1.4.1 hereof, where the notice has been approved by a resolution passed by two-thirds of the directors of either the Bank or the Company then in office;

(b) Without Cause at any time, provided that the Bank shall give the Executive thirty (30) days' prior written notice of its intent to terminate, in which

event the Employer shall be required to pay a severance benefit equal to three times the Executive's base salary on the date of termination, payable over the three years following termination in accordance with Employer's normal payroll practices; or

(c) Upon the Disability of Executive at any time, provided that the Employer shall give the Executive thirty (30) days' prior written notice of its intent to terminate, in which event, the Employer shall be required to continue to pay Executive's then current base salary for a period of six (6) months or until the Executive begins receiving payments under the Company's long-term disability policy, whichever occurs first.

3.2.2. By the Executive:

(a) For Cause, in which event the Employer shall be required to pay a severance benefit equal to the Executive's base salary on the date of termination, payable over the twelve months following termination in accordance with Employer's normal payroll practices; or

(b) Without Cause or upon the Disability of the Executive, provided that the Executive shall give the Employer sixty (60) days' prior written notice of his intent to terminate.

3.2.3. At any time upon mutual, written agreement of the parties.

3.2.4. Notwithstanding anything in this Agreement to the contrary, the Term shall end automatically upon the Executive's death.

3.3. CHANGE OF CONTROL. If, within twelve (12) months following a Change of Control, the Employer terminates Executive's employment under the Agreement without cause or the Executive terminates his employment with the Employer under this Agreement for Cause within twelve (12) months following a Change of Control, the Executive, or in the event of his subsequent death, his designated beneficiaries or his estate, as the case may be, shall receive, as liquidated damages, in lieu of all other claims, a severance payment equal to three (3) times the Executives then current Base Salary and target bonus amount to be paid in full on the last day of the month following the date of termination. The Executive and his immediate family will continue to receive the health insurance plan benefits then in effect for employees of the Company and/or the Bank for a period of three years to include payment of the Employer funded portion of the plan. The Executive will also receive tax assistance, advice and filing preparation services from a qualified accounting firm of his choice for a period of three years at a cost to the Company and/or the Bank not to exceed \$2,500 per year.

3.4. EFFECT OF TERMINATION. Upon termination of the Executive's employment hereunder, the Employer shall have no further obligations to the Executive or the Executive's estate with respect to this Agreement, except for the payment of salary and bonus amounts, if any, accrued pursuant to Sections 4.1 and 4.2 hereof and unpaid as of the effective date of the termination of employment and payments set forth in Sections 3.2.1(b) or (c); Section 3.2.2(a); Section 3.3; Section 3.5 and/or Section 4.4, as applicable. Nothing contained herein shall limit or

impinge upon any other rights or remedies of the Employer or the Executive under any other agreement or plan to which the Executive is a party or of which the Executive is a beneficiary.

3.5. TAX INDEMNITY. In the event it shall be determined that any payment or benefits by the Employer to the Executive (a "Payment") would subject the Executive to an excise tax under Section 4999 of the Internal Revenue Code (the "Code") (or any successor federal tax law), or any interest or penalties are incurred or paid by the Executive with respect to such excise tax (any such excise tax, together with any interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to an additional payment from the Employer as is necessary (after taking into account all federal, state and local taxes regardless of type, whether income, excise or otherwise) imposed upon the Executive as a result of the receipt of the payment contemplated by this Agreement) and any reduction in such taxes of the Executive as a result of the payment of the related Excise Tax) to place the Executive in the same after-tax position the Executive would have been in had no Excise Tax been imposed upon or incurred or paid by the Executive (the "Tax Indemnity"). The Employer's outside auditor shall determine, utilizing such reasonable assumptions as it considers necessary, whether a Payment would subject the Executive to the Excise Tax within thirty (30) days after receipt of a written request from the Employer or the Executive in which the requesting party verifies that a Payment has been made and requests an appropriate determination. The requesting party shall provide the other party with a copy of any such written request. The outside auditor shall determine whether a Tax Indemnity obligation exists and, if so, the amount of the Tax Indemnity and shall provide supporting documentation to both the Employer and the Executive. The Employer shall pay the Executive any Tax Indemnity so determined in a lump sum in cash within thirty (30) days following the release of the related determination by the outside auditor; provided, however, that any such payment may be reduced by applicable legal withholdings. In the event that the Internal Revenue Service subsequently assesses an Excise Tax that is greater than the tax previously calculated by the outside auditor, the Employer shall make an additional Tax Indemnity payment, as calculated by the outside auditor in a manner consistent with the provisions of this Section 3.5, to the Executive within thirty (30) days of the date of such assessment.

3.6. SECTION 409A MATTERS. It is intended that (i) each payment or installment of payments provided under this Agreement is a separate "payment" for purposes of Code Section 409A and (ii) that the payments satisfy, to the greatest extent possible, the exemptions from the application of Code Section 409A, including those provided under Treasury Regulations 1.409A-1(b)(4) (regarding short-term deferrals), 1.409A-1(b)(9)(iii) (regarding the two-times, two year exception), and 1.409A-1(b)(9)(v) (regarding reimbursements and other separation pay). Notwithstanding anything to the contrary in this Agreement, if the Employer determines (i) that on the date of Executive's separation from service or at such other time that the Employer determines to be relevant, the Executive is a "specified employee" (as such term is defined under Treasury Regulation 1.409A-1(i)(1)) of the Employer and (ii) that any payments to be provided to the Executive pursuant to this Agreement are or may become subject to the additional tax under Code Section 409A(a)(1)(B) or any other taxes or penalties imposed under Code Section 409A ("Section 409A Taxes") if provided at the time otherwise required under this Agreement, then such payments shall be delayed until the date that is six (6) months after the date of the Executive's separation from service with the Employer, or such shorter period that, as determined by the Employer, is sufficient to avoid the imposition of Section 409A Taxes. Any

payments delayed pursuant to this Section 3.6 shall be made in a lump sum on the first day of the seventh month following the Executive's separation from service, or such earlier date that, as determined by the Employer, is sufficient to avoid the imposition of any Section 409A Taxes.

4. COMPENSATION. The Executive shall receive the following salary and benefits during the Term, except as otherwise provided below:

4.1. BASE SALARY. During the year 2008, the Executive shall be compensated at a base rate of \$300,000 per year (the "Base Salary"). The obligation for payment of Base Salary shall be apportioned between the Company and the Bank as they may agree from time to time in their sole discretion. The Executive's Base Salary shall be reviewed by the Human Resources Committee of the Board of Directors of the Bank and the Company at least annually, and the Executive shall be entitled to receive annually an increase in such amount, if any, as may be determined by the Human Resources Committee of the Board of Directors of the Bank or the Company based on its evaluation of Executive's performance. Base Salary shall be payable in accordance with the Employer's normal payroll practices.

4.2. INCENTIVE COMPENSATION. The Executive shall be entitled to annual bonus compensation, if any, as determined by the Human Resources Committee of the Board of Directors of the Company or the Bank pursuant to any incentive compensation program as may be adopted from time to time by the Company or the Bank.

4.3. STOCK OPTIONS. The Executive shall be eligible for future option grants or stock based awards so long as the Company maintains a stock incentive plan and shall participate in future grants as shall be determined by the Human Resources Committee of the Board of Directors commensurate with the relative levels of participation by all other senior management employees of the Employer.

4.4. HEALTH INSURANCE.

(a) In the event of termination by the Executive for Cause (Section 3.2.2(a)), the Employer shall reimburse Executive for the cost of premium payments paid by the Executive to continue his then existing health insurance for himself and his eligible dependents as provided by the Employer for a period of three (3) months following the date of termination of employment.

(b) In the event of a termination by the Employer without Cause (Section 3.2.1(b)), the Employer shall reimburse the Executive for the cost of premium payments paid by the Executive to continue his then existing health insurance for himself and his eligible dependents as provided by Employer for a period of twelve (12) months following the date of termination of employment.

4.5. AUTOMOBILE. Beginning as of the month in which the Bank receives preliminary charter approval, the Employer will provide Executive with an automobile allowance of \$13,200 per month.

4.6. BUSINESS EXPENSES; MEMBERSHIPS. The Employer specifically agrees to reimburse the Executive for:

(a) reasonable and necessary business (including travel) expenses incurred by him in the performance of his duties hereunder, as consistent with policy approved by the Board of Directors of either the Bank or the Company; and

(b) beginning as of the Effective Date, the dues and business related expenditures, including initiation fees, associated with membership in a single civic association both as selected by the Executive and in professional associations which are commensurate with his position; provided, however, that the Executive shall, as a condition of reimbursement, submit verification of the nature and amount of such expenses in accordance with reimbursement policies from time to time adopted by the Employer and in sufficient detail to comply with rules and regulations promulgated by the Internal Revenue Service.

4.7. VACATION. On a non-cumulative basis, the Executive shall be entitled to four (4) weeks of vacation in each successive twelve-month period during the Term, during which his compensation shall be paid in full.

4.8. LIFE INSURANCE. The Employer will provide the Executive with access to term life insurance coverage, providing a death benefit of not less than \$650,000, payable to such beneficiary or beneficiaries as the Executive may designate.

4.9. TAX PREPARATION SERVICES. The Employer will provide the Executive with tax preparation services annually through a qualified accounting firm of the Executive's choice at an annual cost not to exceed \$2,500.

4.10. BENEFITS. In addition to the benefits specifically described in this Agreement, the Executive shall be entitled to such benefits as may be available from time to time to executives of the Bank similarly situated to the Executive. All such benefits shall be awarded and administered in accordance with the Bank's standard policies and practices. Such benefits may include, by way of example only, profit-sharing plans, retirement or investment funds, dental, health, life and disability insurance benefits and such other benefits as the Bank deems appropriate.

4.11. WITHHOLDING. The Employer may deduct from each payment of compensation hereunder all amounts required to be deducted and withheld in accordance with applicable federal and state income, FICA and other withholding requirements.

5. COMPANY INFORMATION.

5.1. OWNERSHIP OF COMPANY INFORMATION. All Company Information received or developed by the Executive while employed by the Employer will remain the sole and exclusive property of the Employer.

5.2. OBLIGATIONS OF THE EXECUTIVE. The Executive agrees:

(a) to hold Company Information in strictest confidence;

(b) not to use, duplicate, reproduce, distribute, disclose or otherwise disseminate Company Information or any physical embodiments of Company Information; and

(c) in any event, not to take any action causing or fail to take any action necessary in order to prevent any Company Information from losing its character or ceasing to qualify as Confidential Information or a Trade Secret.

In the event that the Executive is required by law to disclose any Company Information, the Executive will not make such disclosure unless (and then only to the extent that) the Executive has been advised by independent legal counsel that such disclosure is required by law and then only after prior written notice is given to the Company when the Executive becomes aware that such disclosure has been requested and is required by law. This Section 5 shall survive for a period of twelve (12) months following termination of this Agreement for any reason with respect to Confidential Information, and shall survive termination of this Agreement for any reason for so long as is permitted by applicable law, with respect to Trade Secrets.

5.3. DELIVERY UPON REQUEST OR TERMINATION. Upon request by the Employer, and in any event upon termination of his employment with the Employer, the Executive will promptly deliver to the Employer all property belonging to the Employer, including, without limitation, all Company Information then in his possession or control. The Executive agrees that the covenant contained in Section 5 of this Agreement are of the essence of this Agreement; that the covenant is reasonable and necessary to protect the business, interests and properties of the Employer.

6. SEVERABILITY. The parties agree that each of the provisions included in this Agreement is separate, distinct and severable from the other provisions of this Agreement and that the invalidity or unenforceability of any Agreement provision shall not affect the validity or enforceability of any other provision of this Agreement. Further, if any provision of this Agreement is ruled invalid or unenforceable by a court of competent jurisdiction because of a conflict between the provision and any applicable law or public policy, the provision shall be redrawn to make the provision consistent with and valid and enforceable under the law or public policy.

7. NO SET-OFF BY THE EXECUTIVE. The existence of any claim, demand, action or cause of action by the Executive against the Employer, or any Affiliate of the Employer, whether predicated upon this Agreement or otherwise, shall not constitute a defense to the enforcement by the Employer of any of its rights hereunder.

8. NOTICE. All notices and other communications required or permitted under this Agreement shall be in writing and, if mailed by prepaid first-class mail or certified mail, return receipt requested, shall be deemed to have been received on the earlier of the date shown on the receipt or three (3) business days after the postmarked date thereof. In addition, notices hereunder may be delivered by hand or overnight courier, in which event the notice shall be deemed effective when delivered. All notices and other communications under this Agreement shall be given to the parties hereto at the following addresses:

(i) If to the Employer, to it at:

Suite 300
211 Commerce Street
Nashville, TN 37201

(ii) If to the Executive, to him at:

Suite 300
211 Commerce Street
Nashville, TN 37201

Either party may notify the other in writing in the event of a change in the address for such notice.

9. ASSIGNMENT. Neither party hereto may assign or delegate this Agreement or any of its rights and obligations hereunder without the written consent of the other party to this Agreement.

10. WAIVER. A waiver by one party to this Agreement of any breach of this Agreement by the other party to this Agreement shall not be effective unless in writing, and no waiver shall operate or be construed as a waiver of the same or another breach on a subsequent occasion.

11. ARBITRATION. Any controversy or claim arising out of or relating to this contract, or the breach thereof, shall be settled by binding arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association. Judgment upon the award rendered by the arbitrator may be entered only in a state court of Tennessee or the federal court for the Middle District of Tennessee. The Employer and the Executive agree to share equally the fees and expenses associated with the arbitration proceedings.

12. ATTORNEYS' FEES. In the event that the parties have complied with this Agreement with respect to arbitration of disputes and litigation ensues between the parties concerning the enforcement of an arbitration award, the party prevailing in such litigation shall be entitled to receive from the other party all reasonable costs and expenses, including without limitation attorneys' fees, incurred by the prevailing party in connection with such litigation, and the other party shall pay such costs and expenses to the prevailing party promptly upon demand by the prevailing party.

13. APPLICABLE LAW. This Agreement shall be construed and enforced under and in accordance with the laws of the State of Tennessee.

14. INTERPRETATION. Words importing any gender include all genders. Words importing the singular form shall include the plural and vice versa. The terms "herein", "hereunder", "hereby", "hereto", "hereof" and any similar terms refer to this Agreement. Any captions, titles or headings preceding the text of any article, section or subsection herein are solely for convenience of reference and shall not constitute part of this Agreement or affect its meaning, construction or effect.

15. ENTIRE AGREEMENT. This Agreement embodies the entire and final agreement of the parties on the subject matter stated in this Agreement. No amendment or modification of this Agreement shall be valid or binding upon the Employer or the Executive unless made in writing and signed by both parties. All prior understandings and agreements relating to the subject matter of this Agreement, including, but not limited to, that certain employment agreement between the Bank and the Executive previously signed by the parties and also dated as of March 1, 2000, are hereby expressly terminated and superseded.

16. RIGHTS OF THIRD PARTIES. Nothing herein expressed is intended to or shall be construed to confer upon or give to any person, firm or other entity, other than the parties hereto and their permitted assigns, any rights or remedies under or by reason of this Agreement.

17. SURVIVAL. The obligations of the Executive pursuant to Section 5 shall survive the termination of the employment of the Executive hereunder for the period designated under each of those respective sections.

18. JOINT AND SEVERAL. The obligations of the Bank and the Company to Executive hereunder shall be joint and several.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the Employer and the Executive have executed and delivered this Agreement as of the date first shown above.

THE BANK:

PINNACLE NATIONAL BANK

By: _____
Print Name: HUGH M. QUEENER
Title: SECRETARY, CHIEF ADMINISTRATION
OFFICER

THE COMPANY:

PINNACLE FINANCIAL PARTNERS, INC.

By: _____
Print Name: HUGH M. QUEENER
Title: SECRETARY, CHIEF ADMINISTRATION
OFFICER

THE EXECUTIVE:

HUGH M. QUEENER

Section 6: EX-10.51 (EX-10.51 AMENDED EMPLOYMENT AGREEMENT)

EMPLOYMENT AGREEMENT

THIS AGREEMENT is made as of the 1st day of January, 2008, by and among PINNACLE NATIONAL BANK (the "Bank"), a national bank; PINNACLE FINANCIAL PARTNERS, INC., a bank holding company incorporated under the laws of the State of Tennessee (the "Company") (collectively, the Bank and the Company are referred to hereinafter as the "Employer"), and HAROLD R. CARPENTER, a resident of the State of Tennessee (the "Executive").

RECITALS:

The Employer desires to continue to employ the Executive Vice President and Chief Financial Officer of the Bank and the Company and the Executive desires to accept such continued employment.

The parties previously entered into an employment agreement, dated as of March 1, 2000, that they wish to amend as set forth herein.

In consideration of the above premises and the mutual agreements hereinafter set forth, the parties hereby agree as follows:

1. DEFINITIONS. Whenever used in this Agreement, the following terms and their variant forms shall have the meaning set forth below:

1.1. "AGREEMENT" shall mean this Agreement and any exhibits incorporated herein together with any amendments hereto made in the manner described in this Agreement.

1.2. "AFFILIATE" shall mean any business entity which controls the Company, is controlled by or is under common control with the Company.

1.3. "BUSINESS OF THE EMPLOYER" shall mean the business conducted by the Employer, which is the business of commercial banking.

1.4. "CAUSE" shall mean:

1.4.1. With respect to termination by the Employer:

(a) a material breach of the terms of this Agreement by the Executive, including, without limitation, failure by the Executive to perform his duties and responsibilities in the manner and to the extent required under this Agreement, which remains uncured after the expiration of thirty (30) days following the delivery of written notice of such breach to the Executive by Employer. Such notice shall (i) specifically identify the duties that the Board of Directors of either the Company or the Bank believes the Executive has failed to perform, (ii) state the facts upon which such Board of Directors made such determination, and (iii) be approved by a resolution passed by two-thirds (2/3) of the directors then in office;

(b) conduct by the Executive that amounts to fraud, dishonesty or willful misconduct in the performance of his duties and responsibilities hereunder;

(c) arrest for, charged in relation to (by criminal information, indictment or otherwise), or conviction of the Executive during the Term of this Agreement of a crime involving breach of trust or moral turpitude;

(d) conduct by the Executive that amounts to gross and willful insubordination or inattention to his duties and responsibilities hereunder; or

(e) conduct by the Executive that results in removal from his position as an officer or executive of Employer pursuant to a written order by any regulatory agency with authority or jurisdiction over Employer.

1.4.2. With respect to termination by the Executive:

(a) a material modification to the Executive's job title(s) or position(s) of responsibility or the scope of his authority or responsibilities under this Agreement without the Executive's written consent;

(b) an adverse change in supervision so that the Executive no longer reports to the person(s) or entity to whom he reported immediately after the Effective Date, which change in supervision is effected without the Executive's written consent;

(c) an adverse change in overall supervisory authority which change in supervisory authority is effected without the Executive's written consent;

(d) any change in the Executive's office location such that the Executive is required to report regularly to a location that is beyond a 25-mile radius from the Executive's office location determined immediately after the Effective Date, which change in office location is effected without the Executive's written consent;

(e) any material reduction in salary, bonus opportunity or other benefits provided for in Section 3 or Section 4 below from the level in effect immediately prior to such reduction; and

(f) any giving of notice of non-renewal of this Agreement by the Human Resources Committee of the Board of Directors of Employer.

provided, that within 30 days following the initial occurrence of any of the conditions listed in 1.4.1(a) to (e) above, the Executive shall have provided notice to the Company of the existence of such condition, and the Company shall not have remedied the condition to the reasonable satisfaction of Executive within 30 days of receiving such notice.

1.5. "CHANGE OF CONTROL" means any one of the following events:

(a) the acquisition by any person or persons acting in concert of the then outstanding voting securities of either the Bank or the Company, if, after the transaction, the acquiring person (or persons) owns, controls or holds with power to vote forty percent (40%) or more of any class of voting securities of either the Bank or the Company, as the case may be;

(b) within any twelve-month period (beginning on or after the Effective Date) the persons who were directors of either the Bank or the Company immediately before the beginning of such twelve-month period (the "Incumbent Directors") shall cease to constitute at least a majority of such board of directors; provided that any director who was not a director as of the Effective Date shall be deemed to be an Incumbent Director if that director were elected to such board of directors by, or on the recommendation of or with the approval of, at least two-thirds of the directors who then qualified as Incumbent Directors; and provided further that no director whose initial assumption of office is in connection with an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Securities Exchange Act of 1934) relating to the election of directors shall be deemed to be an Incumbent Director;

(c) a reorganization, merger or consolidation, with respect to which persons who were the stockholders of the Bank or the Company, as the case may be, immediately prior to such reorganization, merger or consolidation do not, immediately thereafter, own more than fifty percent (50%) of the combined voting power entitled to vote in the election of directors of the reorganized, merged or consolidated company's then outstanding voting securities; or

(d) the sale, transfer or assignment of all or substantially all of the assets of the Company and its subsidiaries to any third party.

1.6. "COMPANY INFORMATION" means Confidential Information and Trade Secrets.

1.7. "CONFIDENTIAL INFORMATION" means data and information relating to the business of the Bank or the Company (which does not rise to the status of a Trade Secret) which is or has been disclosed to the Executive or of which the Executive became aware as a consequence of or through the Executive's relationship to the Employer and which has value to the Employer and is not generally known to its competitors. Confidential Information shall not include any data or information that has been voluntarily disclosed to the public by the Employer (except where such public disclosure has been made by the Executive without authorization) or that has been independently developed and disclosed by others, or that otherwise enters the public domain through lawful means.

1.8. "DISABILITY" shall mean the inability of the Executive to perform each of his material duties under this Agreement for the duration of the short-term disability period under the Employer's policy then in effect as certified by a physician chosen by the Employer and reasonably acceptable to the Executive. Executive agrees that to the extent necessary to comply

with Section 409A of the Internal Revenue Code (the "Code"), the definition of Disability hereunder shall be amended to the definition of disability required by Section 409A.

1.9. "EFFECTIVE DATE" shall mean the date January 1, 2008.

1.10. "INITIAL TERM" shall mean that period of time commencing on January 1, 2008 (the "Beginning Date") and running until the close of business on the last business day immediately preceding the first anniversary of the Beginning Date.

1.11. "TERM" shall mean the last day of the Initial Term or most recent subsequent renewal period.

1.12. "TRADE SECRETS" means Employer information including, but not limited to, technical or nontechnical data, formulas, patterns, compilations, programs, devices, methods, techniques, drawings, processes, financial data, financial plans, product plans or lists of actual or potential customers or suppliers which:

(a) derives economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and

(b) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

2. DUTIES.

2.1. POSITION. The Executive is employed initially as President and Chief Executive Officer of the Bank and the Company and, subject to the direction of the Board of Directors of the Bank or the Company or its designee(s), shall perform and discharge well and faithfully the duties which may be assigned to him from time to time by the Bank or the Company in connection with the conduct of its business. The duties and responsibilities of the Executive are set forth on EXHIBIT A attached hereto.

2.2. FULL-TIME STATUS. In addition to the duties and responsibilities specifically assigned to the Executive pursuant to Section 2.1 hereof, the Executive shall:

(a) devote substantially all of his time, energy and skill during regular business hours to the performance of the duties of his employment (reasonable vacations and reasonable absences due to illness excepted) and faithfully and industriously perform such duties;

(b) diligently follow and implement all reasonable and lawful management policies and decisions communicated to him by the Board of Directors of either the Bank or the Company; and

(c) timely prepare and forward to the Board of Directors of either the Bank or the Company all reports and accountings as may be requested of the Executive.

2.3. PERMITTED ACTIVITIES. The Executive shall devote his entire business time, attention and energies to the Business of the Employer and shall not during the Term be engaged (whether or not during normal business hours) in any other business or professional activity, whether or not such activity is pursued for gain, profit or other pecuniary advantage; but this shall not be construed as preventing the Executive from:

(a) investing his personal assets in businesses which (subject to clause (b) below) are not in competition with the Business of the Employer and which will not require any services on the part of the Executive in their operation or affairs and in which his participation is solely that of an investor;

(b) purchasing or otherwise acquiring an ownership interest in any entity provided that such interest shall not result in him collectively owning beneficially at any five percent (5%) or more of any entity, or to the extent applicable, five percent (5%) or more of the stock, capital or profits of any entity in competition with the Business of the Employer; and

(c) participating in civic and professional affairs and organizations and conferences, preparing or publishing papers or books or teaching so long as the Board of Directors of either the Bank or the Company approves of such activities prior to the Executive's engaging in them.

Notwithstanding the foregoing provisions of this Section 2.3, the Executive may provide services to any entity and may engage in such additional investment activities to the extent such services and such additional investment activities have been expressly approved in writing by the Board of Directors of either the Bank or the Company.

3. TERM AND TERMINATION.

3.1. TERM. This Agreement shall remain in effect for the Term. While this Agreement remains in effect it shall automatically renew each year on January 1 unless, prior to the November 30 immediately preceding such renewal, the Human Resources Committee of the Employer or the Executive gives written notice to the other of its intent that the automatic renewals shall cease. In the event such notice of non-renewal is properly given, this Agreement and the Term shall expire on the thirtieth (30th) day following the date such written notice is received.

3.2. TERMINATION. During the Term, the employment of the Executive may be terminated only as follows:

3.2.1. By the Employer:

(a) For Cause, upon written notice to the Executive pursuant to Section 1.4.1 hereof, where the notice has been approved by a resolution passed by two-thirds of the directors of either the Bank or the Company then in office;

(b) Without Cause at any time, provided that the Bank shall give the Executive thirty (30) days' prior written notice of its intent to terminate, in which

event the Employer shall be required to pay a severance benefit equal to three times the Executive's base salary on the date of termination, payable over the three years following termination in accordance with Employer's normal payroll practices; or

(c) Upon the Disability of Executive at any time, provided that the Employer shall give the Executive thirty (30) days' prior written notice of its intent to terminate, in which event, the Employer shall be required to continue to pay Executive's then current base salary for a period of six (6) months or until the Executive begins receiving payments under the Company's long-term disability policy, whichever occurs first.

3.2.2. By the Executive:

(a) For Cause, in which event the Employer shall be required to pay a severance benefit equal to the Executive's base salary on the date of termination, payable over the twelve months following termination in accordance with Employer's normal payroll practices; or

(b) Without Cause or upon the Disability of the Executive, provided that the Executive shall give the Employer sixty (60) days' prior written notice of his intent to terminate.

3.2.3. At any time upon mutual, written agreement of the parties.

3.2.4. Notwithstanding anything in this Agreement to the contrary, the Term shall end automatically upon the Executive's death.

3.3. CHANGE OF CONTROL. If, within twelve (12) months following a Change of Control, the Employer terminates Executive's employment under the Agreement without cause or the Executive terminates his employment with the Employer under this Agreement for Cause within twelve (12) months following a Change of Control, the Executive, or in the event of his subsequent death, his designated beneficiaries or his estate, as the case may be, shall receive, as liquidated damages, in lieu of all other claims, a severance payment equal to three (3) times the Executives then current Base Salary and target bonus amount to be paid in full on the last day of the month following the date of termination. The Executive and his immediate family will continue to receive the health insurance plan benefits then in effect for employees of the Company and/or the Bank for a period of three years to include payment of the Employer funded portion of the plan. The Executive will also receive tax assistance, advice and filing preparation services from a qualified accounting firm of his choice for a period of three years at a cost to the Company and/or the Bank not to exceed \$2,500 per year.

3.4. EFFECT OF TERMINATION. Upon termination of the Executive's employment hereunder, the Employer shall have no further obligations to the Executive or the Executive's estate with respect to this Agreement, except for the payment of salary and bonus amounts, if any, accrued pursuant to Sections 4.1 and 4.2 hereof and unpaid as of the effective date of the termination of employment and payments set forth in Sections 3.2.1(b) or (c); Section 3.2.2(a); Section 3.3; Section 3.5 and/or Section 4.4, as applicable. Nothing contained herein shall limit or

impinge upon any other rights or remedies of the Employer or the Executive under any other agreement or plan to which the Executive is a party or of which the Executive is a beneficiary.

3.5. TAX INDEMNITY. In the event it shall be determined that any payment or benefits by the Employer to the Executive (a "Payment") would subject the Executive to an excise tax under Section 4999 of the Internal Revenue Code (the "Code") (or any successor federal tax law), or any interest or penalties are incurred or paid by the Executive with respect to such excise tax (any such excise tax, together with any interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to an additional payment from the Employer as is necessary (after taking into account all federal, state and local taxes regardless of type, whether income, excise or otherwise) imposed upon the Executive as a result of the receipt of the payment contemplated by this Agreement) and any reduction in such taxes of the Executive as a result of the payment of the related Excise Tax) to place the Executive in the same after-tax position the Executive would have been in had no Excise Tax been imposed upon or incurred or paid by the Executive (the "Tax Indemnity"). The Employer's outside auditor shall determine, utilizing such reasonable assumptions as it considers necessary, whether a Payment would subject the Executive to the Excise Tax within thirty (30) days after receipt of a written request from the Employer or the Executive in which the requesting party verifies that a Payment has been made and requests an appropriate determination. The requesting party shall provide the other party with a copy of any such written request. The outside auditor shall determine whether a Tax Indemnity obligation exists and, if so, the amount of the Tax Indemnity and shall provide supporting documentation to both the Employer and the Executive. The Employer shall pay the Executive any Tax Indemnity so determined in a lump sum in cash within thirty (30) days following the release of the related determination by the outside auditor; provided, however, that any such payment may be reduced by applicable legal withholdings. In the event that the Internal Revenue Service subsequently assesses an Excise Tax that is greater than the tax previously calculated by the outside auditor, the Employer shall make an additional Tax Indemnity payment, as calculated by the outside auditor in a manner consistent with the provisions of this Section 3.5, to the Executive within thirty (30) days of the date of such assessment.

3.6. SECTION 409A MATTERS. It is intended that (i) each payment or installment of payments provided under this Agreement is a separate "payment" for purposes of Code Section 409A and (ii) that the payments satisfy, to the greatest extent possible, the exemptions from the application of Code Section 409A, including those provided under Treasury Regulations 1.409A-1(b)(4) (regarding short-term deferrals), 1.409A-1(b)(9)(iii) (regarding the two-times, two year exception), and 1.409A-1(b)(9)(v) (regarding reimbursements and other separation pay). Notwithstanding anything to the contrary in this Agreement, if the Employer determines (i) that on the date of Executive's separation from service or at such other time that the Employer determines to be relevant, the Executive is a "specified employee" (as such term is defined under Treasury Regulation 1.409A-1(i)(1)) of the Employer and (ii) that any payments to be provided to the Executive pursuant to this Agreement are or may become subject to the additional tax under Code Section 409A(a)(1)(B) or any other taxes or penalties imposed under Code Section 409A ("Section 409A Taxes") if provided at the time otherwise required under this Agreement, then such payments shall be delayed until the date that is six (6) months after the date of the Executive's separation from service with the Employer, or such shorter period that, as determined by the Employer, is sufficient to avoid the imposition of Section 409A Taxes. Any

payments delayed pursuant to this Section 3.6 shall be made in a lump sum on the first day of the seventh month following the Executive's separation from service, or such earlier date that, as determined by the Employer, is sufficient to avoid the imposition of any Section 409A Taxes.

4. COMPENSATION. The Executive shall receive the following salary and benefits during the Term, except as otherwise provided below:

4.1. BASE SALARY. During the year 2008, the Executive shall be compensated at a base rate of \$300,000 per year (the "Base Salary"). The obligation for payment of Base Salary shall be apportioned between the Company and the Bank as they may agree from time to time in their sole discretion. The Executive's Base Salary shall be reviewed by the Human Resources Committee of the Board of Directors of the Bank and the Company at least annually, and the Executive shall be entitled to receive annually an increase in such amount, if any, as may be determined by the Human Resources Committee of the Board of Directors of the Bank or the Company based on its evaluation of Executive's performance. Base Salary shall be payable in accordance with the Employer's normal payroll practices.

4.2. INCENTIVE COMPENSATION. The Executive shall be entitled to annual bonus compensation, if any, as determined by the Human Resources Committee of the Board of Directors of the Company or the Bank pursuant to any incentive compensation program as may be adopted from time to time by the Company or the Bank.

4.3. STOCK OPTIONS. The Executive shall be eligible for future option grants or stock based awards so long as the Company maintains a stock incentive plan and shall participate in future grants as shall be determined by the Human Resources Committee of the Board of Directors commensurate with the relative levels of participation by all other senior management employees of the Employer.

4.4. HEALTH INSURANCE.

(a) In the event of termination by the Executive for Cause (Section 3.2.2(a)), the Employer shall reimburse Executive for the cost of premium payments paid by the Executive to continue his then existing health insurance for himself and his eligible dependents as provided by the Employer for a period of three (3) months following the date of termination of employment.

(b) In the event of a termination by the Employer without Cause (Section 3.2.1(b)), the Employer shall reimburse the Executive for the cost of premium payments paid by the Executive to continue his then existing health insurance for himself and his eligible dependents as provided by Employer for a period of twelve (12) months following the date of termination of employment.

4.5. AUTOMOBILE. Beginning as of the month in which the Bank receives preliminary charter approval, the Employer will provide Executive with an automobile allowance of \$0 per month.

4.6. BUSINESS EXPENSES; MEMBERSHIPS. The Employer specifically agrees to reimburse the Executive for:

(a) reasonable and necessary business (including travel) expenses incurred by him in the performance of his duties hereunder, as consistent with policy approved by the Board of Directors of either the Bank or the Company; and

(b) beginning as of the Effective Date, the dues and business related expenditures, including initiation fees, associated with membership in a single civic association both as selected by the Executive and in professional associations which are commensurate with his position; provided, however, that the Executive shall, as a condition of reimbursement, submit verification of the nature and amount of such expenses in accordance with reimbursement policies from time to time adopted by the Employer and in sufficient detail to comply with rules and regulations promulgated by the Internal Revenue Service.

4.7. VACATION. On a non-cumulative basis, the Executive shall be entitled to four (4) weeks of vacation in each successive twelve-month period during the Term, during which his compensation shall be paid in full.

4.8. TAX PREPARATION SERVICES. The Employer will provide the Executive with tax preparation services annually through a qualified accounting firm of the Executive's choice at an annual cost not to exceed \$2,500.

4.9. BENEFITS. In addition to the benefits specifically described in this Agreement, the Executive shall be entitled to such benefits as may be available from time to time to executives of the Bank similarly situated to the Executive. All such benefits shall be awarded and administered in accordance with the Bank's standard policies and practices. Such benefits may include, by way of example only, profit-sharing plans, retirement or investment funds, dental, health, life and disability insurance benefits and such other benefits as the Bank deems appropriate.

4.10. WITHHOLDING. The Employer may deduct from each payment of compensation hereunder all amounts required to be deducted and withheld in accordance with applicable federal and state income, FICA and other withholding requirements.

5. COMPANY INFORMATION.

5.1. OWNERSHIP OF COMPANY INFORMATION. All Company Information received or developed by the Executive while employed by the Employer will remain the sole and exclusive property of the Employer.

5.2. OBLIGATIONS OF THE EXECUTIVE. The Executive agrees:

(a) to hold Company Information in strictest confidence;

(b) not to use, duplicate, reproduce, distribute, disclose or otherwise disseminate Company Information or any physical embodiments of Company Information; and

(c) in any event, not to take any action causing or fail to take any action necessary in order to prevent any Company Information from losing its character or ceasing to qualify as Confidential Information or a Trade Secret.

In the event that the Executive is required by law to disclose any Company Information, the Executive will not make such disclosure unless (and then only to the extent that) the Executive has been advised by independent legal counsel that such disclosure is required by law and then only after prior written notice is given to the Company when the Executive becomes aware that such disclosure has been requested and is required by law. This Section 5 shall survive for a period of twelve (12) months following termination of this Agreement for any reason with respect to Confidential Information, and shall survive termination of this Agreement for any reason for so long as is permitted by applicable law, with respect to Trade Secrets.

5.3. DELIVERY UPON REQUEST OR TERMINATION. Upon request by the Employer, and in any event upon termination of his employment with the Employer, the Executive will promptly deliver to the Employer all property belonging to the Employer, including, without limitation, all Company Information then in his possession or control. The Executive agrees that the covenant contained in Section 5 of this Agreement are of the essence of this Agreement; that the covenant is reasonable and necessary to protect the business, interests and properties of the Employer.

6. SEVERABILITY. The parties agree that each of the provisions included in this Agreement is separate, distinct and severable from the other provisions of this Agreement and that the invalidity or unenforceability of any Agreement provision shall not affect the validity or enforceability of any other provision of this Agreement. Further, if any provision of this Agreement is ruled invalid or unenforceable by a court of competent jurisdiction because of a conflict between the provision and any applicable law or public policy, the provision shall be redrawn to make the provision consistent with and valid and enforceable under the law or public policy.

7. NO SET-OFF BY THE EXECUTIVE. The existence of any claim, demand, action or cause of action by the Executive against the Employer, or any Affiliate of the Employer, whether predicated upon this Agreement or otherwise, shall not constitute a defense to the enforcement by the Employer of any of its rights hereunder.

8. NOTICE. All notices and other communications required or permitted under this Agreement shall be in writing and, if mailed by prepaid first-class mail or certified mail, return receipt requested, shall be deemed to have been received on the earlier of the date shown on the receipt or three (3) business days after the postmarked date thereof. In addition, notices hereunder may be delivered by hand or overnight courier, in which event the notice shall be deemed effective when delivered. All notices and other communications under this Agreement shall be given to the parties hereto at the following addresses:

(i) If to the Employer, to it at:

Suite 300
211 Commerce Street
Nashville, TN 37201

(ii) If to the Executive, to him at:

Suite 300
211 Commerce Street
Nashville, TN 37201

Either party may notify the other in writing in the event of a change in the address for such notice.

9. ASSIGNMENT. Neither party hereto may assign or delegate this Agreement or any of its rights and obligations hereunder without the written consent of the other party to this Agreement.

10. WAIVER. A waiver by one party to this Agreement of any breach of this Agreement by the other party to this Agreement shall not be effective unless in writing, and no waiver shall operate or be construed as a waiver of the same or another breach on a subsequent occasion.

11. ARBITRATION. Any controversy or claim arising out of or relating to this contract, or the breach thereof, shall be settled by binding arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association. Judgment upon the award rendered by the arbitrator may be entered only in a state court of Tennessee or the federal court for the Middle District of Tennessee. The Employer and the Executive agree to share equally the fees and expenses associated with the arbitration proceedings.

12. ATTORNEYS' FEES. In the event that the parties have complied with this Agreement with respect to arbitration of disputes and litigation ensues between the parties concerning the enforcement of an arbitration award, the party prevailing in such litigation shall be entitled to receive from the other party all reasonable costs and expenses, including without limitation attorneys' fees, incurred by the prevailing party in connection with such litigation, and the other party shall pay such costs and expenses to the prevailing party promptly upon demand by the prevailing party.

13. APPLICABLE LAW. This Agreement shall be construed and enforced under and in accordance with the laws of the State of Tennessee.

14. INTERPRETATION. Words importing any gender include all genders. Words importing the singular form shall include the plural and vice versa. The terms "herein", "hereunder", "hereby", "hereto", "hereof" and any similar terms refer to this Agreement. Any captions, titles or headings preceding the text of any article, section or subsection herein are solely for convenience of reference and shall not constitute part of this Agreement or affect its meaning, construction or effect.

15. ENTIRE AGREEMENT. This Agreement embodies the entire and final agreement of the parties on the subject matter stated in this Agreement. No amendment or modification of this

Agreement shall be valid or binding upon the Employer or the Executive unless made in writing and signed by both parties. All prior understandings and agreements relating to the subject matter of this Agreement, including, but not limited to, that certain employment agreement between the Bank and the Executive previously signed by the parties and also dated as of March 1, 2000, are hereby expressly terminated and superseded.

16. RIGHTS OF THIRD PARTIES. Nothing herein expressed is intended to or shall be construed to confer upon or give to any person, firm or other entity, other than the parties hereto and their permitted assigns, any rights or remedies under or by reason of this Agreement.

17. SURVIVAL. The obligations of the Executive pursuant to Section 5 shall survive the termination of the employment of the Executive hereunder for the period designated under each of those respective sections.

18. JOINT AND SEVERAL. The obligations of the Bank and the Company to Executive hereunder shall be joint and several.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the Employer and the Executive have executed and delivered this Agreement as of the date first shown above.

THE BANK:

PINNACLE NATIONAL BANK

By: _____

Print Name: HUGH M. QUEENER
Title: SECRETARY, CHIEF ADMINISTRATION
OFFICER

THE COMPANY:

PINNACLE FINANCIAL PARTNERS, INC.

By: _____

Print Name: HUGH M. QUEENER
Title: SECRETARY, CHIEF ADMINISTRATION
OFFICER

THE EXECUTIVE:

HAROLD R. CARPENTER

Section 7: EX-10.52 (EX-10.52 BANK OF THE SOUTH 2001 STOCK OPTION PLAN)

Bank of the South

2001 STOCK OPTION PLAN

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BANK OF THE SOUTH 2001 STOCK OPTION PLAN

The Board of Directors of Bank of the South hereby adopts the Bank of the South 2001 Stock Option Plan as follows:

Article 1

Purposes of the Plan

The purpose of this Bank of the South 2001 Stock Option Plan (the "Plan") is to further the long term stability and financial success of Bank of the South (the "Company") by attracting and retaining key employees and directors of the Company through the use of stock incentives. It is believed that ownership of Company Stock will stimulate the efforts of those employees and directors of the Company upon whose judgment and interest the Company is and will be largely dependent for the successful conduct of its business. It is also believed that awards granted to such persons under this Plan will strengthen their desire to remain with the Company and will further the identification of those individuals' interests with those of the Company's shareholders.

Article 2

Certain Definitions and Terms

As used in the Plan, the following terms have the meanings indicated:

Section 2.1 Award. "Award" means the grant of an Option under the Plan.

Section 2.2 Board. "Board" means the board of directors of the Company.

Section 2.3 Change of Control. "Change of Control" means:

- 2.3.1 The acquisition, other than from the Company, by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either the then outstanding shares of Company Stock or the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors, but excluding for this purpose, any such acquisition by the Company or any of its subsidiaries, or any employee benefit plan (or related trust) of the Company or its subsidiaries, or any corporation with respect to which, following such acquisition, more than 50% of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by the individuals and entities who were the beneficial owners, respectively, of the Common Stock and voting securities of the Company immediately prior to such acquisition in
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substantially the same proportion as their ownership, immediately prior to such acquisition, of the then outstanding shares of Common Stock of the Company or the combined voting power of all of the then outstanding voting securities of the Company entitled to vote generally in the election of directors, as the case may be; or

- 2.3.2 Individuals who, as of the date hereof, constitute the Board (as of the date hereof the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board, provided that any individual becoming a director subsequent to the date hereof whose election or nomination for election by the Company’s shareholders was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the Directors of the Company (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act); or
- 2.3.3 Approval by the shareholders of the Company of a reorganization, merger or consolidation, in each case, with respect to which the individuals and entities who were the respective beneficial owners of the Common Stock and voting securities of the Company immediately prior to such reorganization, merger or consolidation do not, following such reorganization, merger or consolidation, beneficially own, directly or indirectly, more than 50% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such reorganization, merger or consolidation, or a complete liquidation or dissolution of the Company or of its sale or other disposition of all or substantially all of the assets of the Company.

Section 2.4 Code. “Code” means the Internal Revenue Code of 1986, as amended.

Section 2.5 Company. “Company” means Bank of the South, a Tennessee banking corporation, and any successor in interest thereto.

Section 2.6 Company Stock. “Company Stock” means common stock, par value \$1.00 per share (“Common Stock”), of the Company. If the par value of the Company Stock is changed, or in the event of a change in the capital structure of the Company (as provided in *Section 8.3*), the shares resulting from such a change shall be deemed to be Company Stock within the meaning of the Plan.

Section 2.7 Date of Grant. “Date of Grant” means the date on which an Award is granted by the Board.

Section 2.8 Disability. “Disability” or “Disabled” means, as to an Incentive Stock Option, a Disability within the meaning of Code section 22(e)(3). As to all other Awards, the Committee shall determine whether a Disability exists and such determination shall be conclusive.

Section 2.9 Exchange Act. “Exchange Act” means the Securities Exchange Act of 1934, as amended.

Section 2.10 Fair Market Value. “Fair Market Value” means, if the Company Stock is not publicly traded, the value of a share of Common Stock determined in good faith by the Board. If Company Stock is publicly traded, the term means, on any given date, the average of the high and low price on such date, or if shares were not traded on that date, the last date on which shares were traded, as reported in the Wall Street Journal for the stock exchange on which the shares are traded.

Section 2.11 Incentive Stock Option. “Incentive Stock Option” means an Option intended to meet the requirements of, and qualify for favorable Federal income tax treatment under, Code section 422.

Section 2.12 Nonstatutory Stock Option. “Nonstatutory Stock Option” means an Option, which does not meet the requirements of Code section 422, or even if meeting the requirements of Code section 422, is not intended to be an Incentive Stock Option and is so designated.

Section 2.13 Option. “Option” means a right to purchase Company Stock granted under the Plan, at a price determined in accordance with the Plan.

Section 2.14 Parent. “Parent” means, with respect to any corporation, a present or future “parent corporation” of that corporation within the meaning of Code section 424(e).

Section 2.15 Participant. “Participant” means any eligible employee or director of the Company or any Parent or Subsidiary who receives an Award under the Plan.

Section 2.16 Restricted Stock. “Restricted Stock” means shares received pursuant to any Award that are made subject to specific restrictions on voting, transferability or other matters and set forth in a specific agreement (“Restricted Stock Agreement”).

Section 2.17 Stock Option Committee. “Stock Option Committee” or “Committee” means the committee or committees appointed by the Board as described under *Article 6* or, if no committee has been appointed, the Board of Directors.

Section 2.18 Subsidiary. “Subsidiary” means, with respect to any corporation, a present or future “subsidiary corporation” of that corporation within the meaning of Code section 424(f).

Section 2.19 Ten Percent Holder. “10% Shareholder” means a person who owns, directly or indirectly, stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any Parent or Subsidiary of the Company. Indirect ownership of stock shall be determined in accordance with Code section 424(d).

Article 3

General Terms of the Plan

Section 3.1 Incentive and Nonstatutory Stock Options. Options granted under the Plan may be Incentive Stock Options or Nonstatutory Stock Options.

Section 3.2 Stock. Subject to *Section 8.3* of the Plan, there shall be reserved for issuance under the Plan an aggregate of Three Hundred Sixty Thousand (360,000) shares of Company Stock, which shall be authorized, but unissued shares, including shares of the Company Stock that have been reacquired by the Company. Shares allocable to Options or portions thereof granted under the Plan that expire or otherwise terminate unexercised shall again be available for an Award under the Plan.

Section 3.3 Eligibility.

- 3.3.1 Any employee of the Company (or Parent or Subsidiary of the Company) who, in the judgment of the Committee has contributed or can be expected to contribute to the profits or growth of the Company (or Parent or Subsidiary) shall be eligible to receive Incentive Stock Options under the Plan. Directors of the Company who are employees and are not members of the Committee are eligible to participate in the Plan. The Committee shall have the power and complete discretion, as provided in *Article 6*, to select eligible employees to receive Awards and to determine for each employee the terms and conditions, the nature of the award and the number of shares to be allocated to each employee as part of each Award.
 - 3.3.2 Any employee or director of the Company (or Parent or Subsidiary of the Company), whether or not an employee of the Company or any Parent or Subsidiary, who, in the judgment of the Committee has contributed or can be expected to contribute to the profits or growth of the Company (or Parent or Subsidiary) shall be eligible to receive Nonstatutory Stock Options under the Plan. The Committee shall have the power and complete discretion, as provided in *Article 6*, to select participants to receive Awards and to determine for each Participant the terms and conditions, the nature of the award and the number of shares to be allocated to each Participant as part of each Award.
 - 3.3.3 The grant of an Award shall not obligate the Company or any Parent or Subsidiary of the Company to pay an employee any particular amount of remuneration, to continue the employment of the employee after the grant or to make further grants to the employee at any time thereafter.
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Article 4

Grant and Exercise of Stock Options

Section 4.1 Stock Option Grants. Whenever the Committee deems it appropriate to grant Options, notice shall be given to the eligible Participant stating the number of shares for which Options are granted, the Option price per share, whether the Options are Incentive Stock Options or Nonstatutory Stock Options, and the conditions to which the grant and exercise of the Options are subject. This, notice, when duly accepted in writing by the Participant, shall become a stock option agreement between the Company and the Participant. Any grant hereunder shall be subject to the forfeiture provision set out in Section 4.5.

Section 4.2 Exercise Price. The exercise price of shares of Company Stock covered by an Incentive Stock Option shall be not less than 100% of the Fair Market Value of such shares on the Date of Grant. If the Participant is a 10% Shareholder and the Option is an Incentive Stock Option, the exercise price shall be not less than 110% of the Fair Market Value of such shares on the Date of Grant. The exercise price of Company Stock covered by a Nonstatutory Option shall be set by the Board of Directors on the Date of Grant.

Section 4.3 Full and Partial Exercise. Options may be exercised in whole or in part at such times as may be specified by the Committee in the Participant's stock option agreement; provided that the exercise provisions for Incentive Stock Options shall in all events not be more liberal than the following provisions:

- 4.3.1 No Incentive Stock Option may be exercised after the first to occur of (x) ten years (or, in the case of an Incentive Stock Option granted to a 10% Shareholder, five years) from the Date of Grant, (y) three months from the employee's retirement or termination of employment with the Company and its Parent and Subsidiary corporations for reasons other than Disability or death, or (z) one year from the employee's termination of employment on account of Disability or death.
 - 4.3.2 Except as otherwise provided in this paragraph, no Incentive Stock Option may be exercised unless the employee is employed by the Company or a Parent or Subsidiary of the Company at the time of the exercise (or was so employed not more than three months before the time of the exercise) and has been employed by the Company or a Parent or Subsidiary of the Company at all times since the Date of Grant. If an employee's employment is terminated other than by reason of his Disability or death at a time when the employee holds an Incentive Stock Option that is exercisable (in whole or in part), the employee may exercise any or all of the exercisable portion of the Incentive Stock Option (to the extent exercisable on the date of termination) within three months after the employee's termination of employment. If an employee's employment is terminated by reason of his Disability at a time when the employee holds an Incentive Stock Option that is exercisable (in whole or in part), the employee may exercise any or all of the exercisable portion of the Incentive Stock Option (to the extent exercisable on the date of Disability) within one year after the employee's termination of employment. If an employee's employment is terminated by reason of his death at a time when the employee holds an Incentive Stock Option that is exercisable (in whole or in part), the Incentive Stock Option may be exercised (to the extent exercisable on the date of death) within one year after the
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employee's death by the person to whom the employee's rights under the Incentive Stock Option shall have passed by will or by the laws of descent and distribution.

- 4.3.3 An Incentive Stock Option by its terms, shall be exercisable in any calendar year only to the extent that the aggregate Fair Market Value (determined at the Date of Grant) of the Company Stock with respect to which incentive stock options are exercisable for the first time during the calendar year does not exceed \$100,000 (the "Limitation Amount"). Incentive Stock Options granted under the Plan and similar incentive options granted under all other plans of the Company and any Parent or Subsidiary of the Company shall be aggregated for purposes of determining whether the Limitation Amount has been exceeded. The Board may impose such conditions as it deems appropriate on an Incentive Stock Option to ensure that the foregoing requirement is met. If Incentive Stock Options that first become exercisable in a calendar year exceed the Limitation Amount, the excess Options will be treated as Nonstatutory Stock Options to the extent permitted by law.
- 4.3.4 No Incentive or Nonstatutory Stock Option shall vest more rapidly than pro rata over three years (that is, one-third for each full year), nor shall any such option vest over more than ten years.

Section 4.4 Vesting and Exercise on Change in Control. The Committee may, in its discretion, grant Options which by their terms become fully exercisable upon a Change of Control, notwithstanding other conditions on exercisability in the stock option agreement. Unless otherwise specified by the terms of a specific grant, all Options granted under the Plan shall vest immediately upon the consummation of a Change in Control and shall be deemed to have vested upon the first execution of any agreement pursuant to which a Change in Control shall have occurred, notwithstanding the subsequent amendment, restatement, modification or other change in such agreement; *provided that*, exercise of Options deemed vested solely by virtue of any Change in Control shall not be permitted unless and until such Change in Control shall have been consummated and, *further provided*, in the event that a Change in Control shall not in fact occur as a result of any such agreement, then the Options that would otherwise have vested solely by reason of such agreement shall not, for that reason, be deemed to have vested. Notwithstanding the foregoing, this *Section 4.4* shall not be effective for a period of three years from the date that the Company receives its Certificate of Authority to open for business. After such three year period, the preceding sentence shall be void and of no further effect. If the management of the Bank adopts a plan to create a one-bank holding company for the Bank with a view to retaining the shareholders of the Bank as the shareholders of the holding company (except only for dissenters' and fractional shares), such transaction shall not, in and of itself, constitute a change in control hereunder so long as the holding company agrees to exchange its options for options of the Bank on an option-for-option basis, subject only to applicable tax laws, rules and regulations.

Section 4.5 Forfeiture. Any Option granted or Award made pursuant to this Plan shall be exercised or, if not exercised, forfeited at the direction of the Company or the Company's primary federal regulator if so required by said primary federal regulator if the Company's capital falls below the minimum requirements as determined by the Company's state or primary federal regulator.

Article 5

Method of Exercise

Section 5.1 Method of Exercise of Options. Options may be exercised by the Participant giving written notice of the exercise to the Company, stating the number of shares the Participant has elected to purchase under the Option. In the case of the purchase of shares under an Option, such notice shall be effective only if accompanied by the exercise price in full in cash; provided that if the terms of an Option so permit, the Participant (i) may deliver, or cause to be withheld from the Option Shares, shares of Company Stock (valued at their Fair Market Value on the date of exercise) in satisfaction of all or any part of the exercise price, or (ii) if permitted by law and by the Committee, on terms and conditions specified by the Committee from time to time as to any Participant(s), individually or as a group, deliver an interest bearing promissory note, payable to the Company, in payment of all or part of the exercise price, with such payment terms (including down payment, if any) and maturity date, together with such collateral as may be required by the Committee at the time of exercise. The interest rate under any such promissory note shall be equal to the minimum interest rate required at the time to avoid imputed interest to the Participant under the Code.

Section 5.2 Restrictions, Taxes, and Other Limitations. The Company may place on any certificate representing Company Stock issued upon the exercise of an Option any legend deemed desirable by the Company's counsel to comply with Federal or state securities laws, and the Company may require of the Participant a customary written indication of his investment intent. Until the Participant has made any required payment, including any applicable withholding taxes, and has had issued to him a certificate for the shares of Company Stock acquired, he shall possess no shareholder rights with respect to the shares.

As an alternative to making a cash payment to the Company to satisfy a Participant's tax withholding obligations, if the Option agreement so provides, the Participant may, subject to the other provisions set forth in this Plan, elect to (i) deliver shares of already owned Company Stock or (ii) have the Company retain that number of shares of Company Stock that would satisfy applicable Federal, state and local tax liabilities required to be withheld by the Company from the Participant arising in the year of its exercise upon the exercise of a Nonstatutory Stock Option. The Committee shall have sole discretion to approve or disapprove any such election. However, notwithstanding this provision permitting a "cashless exercise," such cashless exercise shall not be permitted so long as (1) such type of exercise is not permitted by the Company's primary federal regulator or (2) the securities covered by this Plan consist of the stock of the Bank of the South (as opposed to, for example, a parent holding company of the Company).

Article 6

Administration of the Plan

Section 6.1 Administration of the Plan. The Plan shall be administered by the Committee consisting of not less than two directors of the Company, who shall be appointed by the Board. In the event the Company becomes a Public Company, then the Committee shall be so constituted as to permit the plan to comply with Rule 16b-3 (as promulgated under the Exchange Act). The Committee shall have general authority to impose any limitation or condition upon an Award the Committee deems appropriate to achieve the objectives of the Award and the Plan and, in addition, and without limitation and in addition to powers set forth elsewhere in the Plan, shall have the following specific authority:

Section 6.2 Committee Authority and Discretion. The Committee shall have the power and complete discretion to determine (i) which eligible participants shall receive an Award, (ii) the number of shares of Company Stock to be covered by each Award, (iii) whether Options shall be Incentive Stock Options or Nonstatutory Stock Options, (iv) the fair market value of Company Stock, (v) the time or times when an Award shall be granted, (vi) whether an Award shall become vested over a period of time and when it shall be fully vested, (vii) when options may be exercised, (viii) whether a Disability exists, (ix) the manner in which payment will be made upon the exercise of Options, (x) conditions relating to the length of time before disposition of Company Stock received upon the exercise of Options is permitted, (xi) whether to approve a Participant's election (x) to deliver shares of already owned Company Stock to satisfy tax liabilities arising upon the exercise of a Nonstatutory Stock Option or (y) to have the Company withhold from the shares to be issued upon the exercise of a Nonstatutory Stock Option that number of shares necessary to satisfy tax liabilities arising from such exercise, (xii) notice provisions relating to the sale of Company Stock acquired under the Plan, and (xiii) any additional requirements relating to Awards that the Committee deems appropriate. Notwithstanding the foregoing, no "tandem stock options" (where two stock options are issued together and the exercise of one option affects the right to exercise the other option) may be issued in connection with Incentive Stock Options. The Committee shall also have the power to amend the terms of previously granted Awards so long as the terms as amended are consistent with the terms of the Plan and provided that the consent of the Participant is obtained with respect to any amendment that would be detrimental to him.

Section 6.3 Administrative Discretion, Etc. Administrative discretion regarding the selection of any director of the Corporation to whom options may be granted pursuant to this Plan, or the determination of the number of shares of Common Stock which may be allocated under such options, will be exercised by a Committee of two or more directors having full authority to act in the matter, all of whom must be, if the Corporation is a Public Company (that is, a company any of the shares of which are registered under the Exchange Act), Disinterested (as that term is defined in Rule 16b-3). Administrative discretion regarding the selection of any officer of the Corporation (who is not a director) to whom options may be granted pursuant to this Plan once the Corporation becomes a Public Company, or the determination of the number of shares of Common Stock which may be allocated under such options, will be exercised by (a) the Board of Directors, if each of its members is Disinterested, or (b) a committee of two or more directors, all of whom are Disinterested.

Section 6.4 Committee Rules; Binding Determination. The Committee may adopt rules and regulations for carrying out the Plan. The interpretation and construction of any provision of the Plan by the Committee shall be final and conclusive. The Committee may consult with counsel, who may be counsel to the Company, and shall not incur any liability for any action taken in good faith in reliance upon the advice of counsel.

Section 6.5 Actions by the Committee. A majority of the members of the Committee shall constitute a quorum, and all actions of the Committee shall be taken by a majority of the members present. Any action may be taken by a written instrument signed by all of the members, and any action so taken shall be fully effective as if it had been taken at a meeting.

Article 7

Transferability

Incentive Stock Options by their terms, shall not be transferable or assignable by the Participant except by will or by the laws of descent and distribution and shall be exercisable, during the Participant's lifetime, only by the Participant or by his guardian or legal representative. Nonstatutory Stock Options by their terms, shall not be transferable or assignable by the Participant except by will or by the laws of descent and distribution or pursuant to a qualified domestic relations order as defined by the Code, Title I of the Employee Retirement Income Security Act, or the rules thereunder, and shall be exercisable, during the Participant's lifetime, only by the Participant or by his guardian or legal representative.

Article 8

Effective Date of the Plan, Termination, and Related Matters

Section 8.1 Effective Date. This Plan shall be effective as provided in *Article 9* hereof.

Section 8.2 Termination, Modification, Change. If not sooner terminated by the Board, this Plan shall terminate at the close of business on March 12, 2011. No Awards shall be made under the Plan after its termination. The Board may terminate the Plan or may amend the Plan in such respects as it shall deem advisable; provided, that in the event the Company registers its stock under Section 12 of the Exchange Act and thereby becomes a "Public Company," no change shall be made that would result in the Plan no longer being in compliance with Rule 16b-3, as such rule may be amended from time to time, or with any successor of the rule or other comparable regulatory requirement. The company will use its best efforts to maintain the Plan and to assure that options are granted and exercised under the Plan in accordance with Rule 16b-3, including, without limitation, the seeking of any appropriate modifications or amendments to the Plan and all requisite approvals and consents of the same. No changes to the Plan shall be made which increases the total number of shares of Company Stock reserved for issuance pursuant to Awards granted under the Plan (except pursuant to *Section 8.3*), expands the class of persons eligible to receive Awards, or materially increases the benefits accruing to Participants under the Plan, unless such change is authorized by the shareholders of the Company. A termination or amendment of the Plan shall not, without the consent of the Participant, detrimentally affect a Participant's rights under an Award previously granted to him.

Section 8.3 Change in Capital Structure.

- 8.3.1. In the event of a stock dividend, stock split or combination of shares, recapitalization or merger in which the Company is the surviving corporation or other change in the Company's capital stock (including, but not limited to, the creation or issuance to shareholders generally of rights, options or warrants for the purchase of Common Stock or preferred stock of the Company), the number and kind of shares of stock or securities of the Company to be subject to the Plan and to Options then outstanding or to be granted thereunder, the maximum number of shares or securities which may be delivered under the Plan, the exercise price and other relevant provisions shall be appropriately adjusted by the Committee, whose determination shall be binding on all persons. If the adjustment would produce fractional shares with respect to any unexercised Option, the committee may adjust appropriately the number of shares covered by the Option so as to eliminate the fractional shares.
 - 8.3.2. If the Company is a party to a consolidation or a merger in which the Company is not the surviving corporation, a transaction that results in the acquisition of substantially all of the Company's outstanding stock by a single person or entity, or a sale or transfer of substantially all of the Company's assets, the Committee may take such actions with respect to outstanding Awards as the Committee deems appropriate.
 - 8.3.3. Notwithstanding anything in the Plan to the contrary, the Committee may take the foregoing actions without the consent of any Participant, and the Committee's determination shall be conclusive and binding on all persons for all purposes.
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Article 9

Effective Date of the Plan

This Plan shall be effective on the date that the Company receives its Certificate of Authority from the Tennessee Department of Financial Institutions and shall be submitted to the shareholders of the Company for approval. Until (i) the Plan has been approved by the Company's shareholders, and (ii) the requirements of any applicable securities laws have been met, no Option shall be exercisable. Until the foregoing conditions are met, the Company may revoke any Option granted and/or terminate the Plan.

Article 10

General Terms and Provisions of the Plan

Section 10.1 Notice. All notices and other communications required or permitted to be given under this Plan shall be in writing and shall be deemed to have been duly given if delivered personally or mailed first class, postage prepaid, as follows (a) if to the Company, at its principal business address to the attention of the Treasurer; (b) if to any Participant, at the last address of the Participant reflected in the Company's records at the time the notice or other communication is sent.

Section 10.2 Interpretation. The terms of this Plan are subject to all present and future regulations and rulings of the Secretary of the Treasury or his delegate relating to the qualification of Incentive Stock Options under the Code. If any provision of the Plan conflicts with any such regulation or ruling, then that provision of the Plan shall be, to the extent practicable, deemed amended to the extent required to comply with such regulations and rulings or, if it is impracticable or unlawful so to construe the provision, deemed to be void and of no effect.

Section 10.3 Shareholder Rights. No Participant shall have any rights as a shareholder of the Company as a result of the grant of an Option under this Plan or his or her exercise or surrender of such Option pending the actual delivery of the Stock subject to such Option to such Participant. Subject to the other terms of the Plan, a Participant's rights as a shareholder in the shares of Stock underlying a Restricted Stock grant which is effective shall be set forth in the related Restricted Stock Agreement.

Section 10.4 No Contract of Employment. The grant of an Option or Restricted Stock to a Participant under this Plan shall not constitute a contract of employment and shall not confer on a Participant any rights upon his or her termination of employment in addition to those rights, if any, expressly set forth in the Option Agreement which evidences his or her Option or the Restricted Stock Agreement related to his or her Restricted Stock.

Section 10.5 Withholding. The exercise or surrender of any Option granted under this Plan and the acceptance of a Restricted Stock grant shall constitute a Participant's full and complete consent to whatever action the Committee deems necessary to satisfy the federal and state tax withholding requirements, if any, which the Committee in its discretion deems applicable to such exercise or surrender or such Restricted Stock. The Committee also shall have the right to provide in an Option Agreement or Restricted Stock Agreement that a Participant may elect to satisfy federal and state tax withholding requirements through a reduction in the number of shares of Stock actually transferred to him or to her under this Plan, and any such election and any such reduction shall be effected so as to satisfy the conditions to the exemption under Rule 16b-3.

Section 10.6 Construction. This Plan shall be construed under the laws of the State of Tennessee.

Article 11

Shareholder Approval

The Plan is subject to approval by the shareholders of the Company at the Organizational Meeting of Shareholders to be held on April 19, 2001. If the Plan, as herein amended, is not so approved by the shareholders, the Plan shall be deemed suspended until such time as the Shareholders approve the Plan, to be effective on and as of the date of such approval.

IN WITNESS WHEREOF, Bank of the South has caused its duly authorized officer to execute this Plan this 12th day of April, 2001, to evidence its adoption of this Plan.

Bank of the South

By: /s/ David Major
David Major, Chairperson

Date Plan Adopted by Board of Directors: March 1, 2001.

Date Plan Approved by Stockholders: April 19, 2001.

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Section 8: EX-10.53 (EX-10.53 PRIMETRUST BANK 2001 STATUTORY)

PRIMETRUST BANK**2001 STATUTORY-NONSTATUTORY STOCK OPTION PLAN**

1. Purpose. The purpose of this PRIMETRUST BANK 2001 Statutory-Nonstatutory Stock Option Plan (the “Plan”) is to motivate Participants (as defined herein), thereby benefiting the stockholders of PRIMETRUST BANK, a Tennessee corporation (“Corporation”). In furtherance of this purpose, the Plan is to advance the interests of Corporation by stimulating the efforts of key employees, directors and consultants, increasing their desire to continue in their employment with or services to the Corporation, assisting Corporation in competing effectively with other enterprises for the services of new employees and directors necessary for the continued improvement of operations, and to attract and retain the best possible personnel for service as employees, officers and directors of Corporation. Accordingly, the Plan is designed to promote the interests of Corporation and its stockholders, and, by facilitating stock ownership on the part of such directors, officers and employees, to encourage them to acquire a proprietary interest in Corporation and to remain in its employ and service.

2. Definitions.

“Board” means the Board of Directors of Corporation.

“Cause”, as used in Section 12 of this Plan, means the engaging by a Participant in illegal conduct that is materially and demonstrably injurious to the Corporation unless otherwise defined in an agreement between Participant and the Corporation.

“Change in Control” means the occurrence of any of the following:

(a) The Corporation has actual knowledge that any person or entity other than the Corporation, a subsidiary of the Corporation, or any employee benefit plan sponsored by the Corporation or subsidiary has acquired the beneficial ownership (as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), directly or indirectly, of 25% or more of the then outstanding Stock (other than upon conversion of any then outstanding Convertible Preferred Stock);

(b) A tender offer is made to acquire securities of the Corporation entitling the holders thereof to 25% or more of the voting power to elect directors of the Corporation;

(c) A solicitation subject to Rule 14a-11 under the Securities Exchange Act of 1934, as amended (or any successor Rule) relating to the election or removal of 50% or more of the members of the Board shall be made by any person or entity other than the Corporation;

(d) Individuals who constitute the Board immediately prior to any meeting of stockholders (the “Incumbent Board”) have ceased for any reason to constitute at least a majority thereof;

(e) The stockholders of the Corporation shall approve a merger, consolidation, share exchange, division or other reorganization of the Corporation as a result of which the stockholders of the Corporation immediately prior to such transaction shall not hold,

directly or indirectly, immediately following such transaction 51% or more of the voting power to elect directors of (i) the surviving or resulting corporation in the case of a merger or consolidation, (ii) the acquiring corporation, in the case of a share exchange, or (iii) each surviving, resulting or acquiring corporation which, immediately following such transaction, in the case of a division, holds more than 15% of the consolidated assets of the Corporation immediately preceding such transaction; or

(f) The stockholders of the Corporation shall approve a complete liquidation and dissolution of the Corporation or the sale or other disposition of all or substantially all of the assets of the Corporation other than to a wholly-owned subsidiary of the Corporation.

Notwithstanding the occurrence of any of the foregoing, the Board may determine, if it deems it to be in the best interest of the Corporation and consistent with a good faith interpretation of this Plan, that an event or events otherwise constituting a Change of Control shall not be so considered. Such determination shall be effective if it is made by the Board prior to the occurrence of an event that otherwise would be or probably will lead to a Change in Control or after such event if made by the Board a majority of which is composed of all directors who were members of the Board immediately prior to the event that otherwise would be or probably will lead to a Change in Control. Upon such determination, such event or events shall not be deemed to be a Change in Control for any purposes under this Plan.

“Change in Control Price” means the highest closing price per share paid for the purchase of stock in a national securities market during the ninety day period preceding the date the Change in Control occurs.

“Code” means the Internal Revenue Code of 1986, as amended.

“Committee” means the Committee or Committees chosen by the Board to administer the Plan, as provided in Section 5(a) hereof.

“Fair Market Value of Stock” means the closing price of the shares of Stock on a national securities exchange on which it is principally traded on the day on which such value is to be determined or, if no shares were traded on such day, on the next preceding day on which shares of Stock were traded, as reported by the National Quotation Bureau, Inc. or other national quotation service. If the shares are not traded on a national securities exchange but are traded in the over-the-counter market, Fair Market Value of Stock means the closing “asked” price of the shares in the over-the-counter market on the day on which such value is to be determined or, if such “asked” price is not available, the last sales price on such day or, if no shares of Stock were traded on such day, on the next preceding day on which shares of Stock were traded, as reported by the National Association of Securities Dealers Automated Quotation System (NASDAQ) or other national quotation service. If the Stock is traded neither on a national securities exchange nor in the over-the-counter market, the Fair Market Value of Stock shall be determined based upon such factors as the Board or Committee, as applicable, shall reasonably deem appropriate, including without limitation prices or values at which the Stock has most recently been issued to third parties or redeemed or purchased from stockholders.

“Incentive Stock Option” has the meaning ascribed in Section 422 of the Code.

“Non-Employee Director” is defined in Section 5(a).

“Non-Qualified Stock Option” means all Options which do not qualify as Incentive Stock Options such as those granted to Non-Employee Directors.

“Option” means an award of an Incentive Stock Option or Non-Qualified Stock Option pursuant to this Plan.

“Option Agreement” means the written instrument from the Committee to Participant describing the terms of the Option.

“Option Price” means the exercise price of an Option.

“Option Stock” or “Stock” means the common stock of Corporation.

“Participant” means a person to whom an Option has been granted.

3. Effective Date of Plan; Term. The Plan is effective _____, 2001, the date on which the Board of the Corporation approved the Plan; provided, however, the Plan shall not be effective and all Options granted pursuant to the Plan shall be null and void unless the Plan is adopted by the shareholders of the Corporation within one year following the effective date. No Options intended to be Incentive Stock Options may be granted after the tenth anniversary of the effective date of the Plan.

4. Shares Subject to the Plan. The aggregate number of shares of Stock available for grant under the Plan is 37,000 subject to adjustments as provided in Section 9 herein. The Committee may allocate the Options between Options which are Incentive Stock Options and Options which are Non-Qualified Stock Options as the Committee determines in its sole discretion. Stock issued pursuant to the Plan may be either authorized but unissued shares or shares held in the treasury of Corporation. In the event that, prior to the end of the period during which Options may be granted under the Plan, any Option under the Plan expires unexercised or is terminated or surrendered without being exercised, in whole or in part, the number of shares theretofore subject to such Option or the unexercised or terminated portion thereof, shall be added to the remaining number of shares of Stock available for grant as an Option under the Plan, including a grant to a former holder of such Option, upon such terms and conditions as the Committee shall determine, which terms may be more or less favorable than those applicable to such former Option.

5. Administration of the Plan by the Committee.

(a) The Committee. The Plan shall be administered by the Committee, whose members shall be appointed from time to time by, and shall serve at the pleasure of, the Board. The members of the Committee shall be non-employee directors of the Corporation within the meaning of Rule 16b-3(b)(3) of the United States Securities and Exchange Commission (or any successor rule) (“Non-Employee Directors”). The Board, in its discretion, may appoint separate committees consisting of Non-Employee Directors to administer the Incentive Stock Options and the Non-Qualified Stock Options. No member of the Committee shall be liable for any action taken, or determination made, hereunder in good faith. Service on the Committee shall

constitute service as a director of Corporation so that members of the Committee shall be entitled to indemnification and reimbursement as directors of Corporation pursuant to its Charter and Bylaws. The Committee may take action only upon the agreement of a majority of the entire Committee. Any action which the Committee takes through a written instrument signed by a majority of its members shall be as effective as though taken at a meeting duly called and held.

(b) Powers of the Committee. Subject to the express provisions of the Plan, the Committee may interpret the Plan, prescribe, amend and rescind rules and regulations relating to it and make all determinations it deems necessary or advisable for the administration of the Plan. The powers of the Committee shall include plenary authority to administer and interpret the Plan, and subject to the provisions hereof, to determine the persons to whom Options shall be granted, the number of shares subject to each Option, the terms and provisions of each Option, and the date on which Options shall be granted. In making such determinations, the Committee may take into account the nature of the services rendered by such Participants, or classes of Participants, their present and potential contributions to Corporation's success and such other factors as the Committee, in its discretion, shall deem relevant. Any interpretation of Options intended to be Incentive Stock Options shall be made in such a manner that they continue to be Incentive Stock Options. Accordingly, the Committee shall determine, as soon as practicable after the effective date of the Plan and at any time and from time to time thereafter, (i) the persons who are eligible, (ii) the number of shares of Stock which an eligible person may purchase pursuant to an Option, (iii) the price of each share of Stock subject to the Option and (iv) the terms on which each share of Stock subject to the Option may be purchased.

(c) Conclusiveness of Determinations. Any action taken by the Committee or by the Board with respect to the implementation, interpretation, or administration of the Plan shall be final, conclusive and binding. The Committee's determinations under the Plan, including, without limitation, determinations as to the persons to receive awards, the terms and provisions of such awards and the agreements evidencing the same, need not be uniform and may be made by it selectively among persons who receive or are eligible to receive awards under the Plan, whether or not such persons are similarly situated.

6. Options.

(a) Grant of Options. Incentive Stock Options and Non-Qualified Stock Options may be granted under the Plan by the Committee for the purchase of Stock. Options shall be subject to such terms and conditions, shall be exercisable at such times, and shall be evidenced by such form of written option agreement between Participant and Corporation, as the Committee shall determine; provided, that such determinations are not inconsistent with the other provisions of the Plan. The Committee shall have authority to grant Options exercisable in whole or in part at any time during their term. Option Agreements need not be identical.

(b) Restrictions on the Grant of Incentive Stock Options. No Option intended to be an Incentive Stock Option shall be granted to any person owning, within the meaning of Sections 422 and 424 of the Code, Stock of Corporation possessing more than ten percent (10%) of the total combined voting power of all classes of stock of Corporation unless the provisions of Section 7(a) and (b) hereof are complied with. In any one calendar year, no individual shall receive Options to purchase Stock under any plan of Corporation intended to be Incentive Stock

Options to the extent that the Stock subject to such Options exercisable for the first time by an individual during any calendar year has an aggregate Fair Market Value (determined at the time the Options are granted) in excess of \$100,000.

(c) Persons Eligible to Receive Options. The persons who shall be eligible to receive Options granted hereunder intended to be Incentive Stock Options shall be those key employees and officers of Corporation who are selected by the Committee from time to time. Persons designated by the Committee who are eligible to receive Non-Qualified Options hereunder need not be employees of Corporation, and generally will be non-employee directors or advisory directors of Corporation. A Participant may hold more than one Option. The Committee shall determine the terms for payment by each Participant for his shares of Option Stock. Such terms shall be set forth in the Option Agreement. The terms for payment so set by the Committee may vary from one Participant to another.

7. Terms and Exercise of Options.

(a) Option Price. The Option Price to be paid by Participant to Corporation upon exercise of the Option shall be determined by the Committee on the date of the grant of the Option and shall be set forth in the Option Agreement. No Option shall have an Option Price less than the Fair Market Value of the Stock on the date of the grant. If any Option intended to be an Incentive Stock Option is granted to any person holding Stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of Corporation, the Option Price shall be not less than one hundred ten percent (110%) of the Fair Market Value of the Stock on the date of the grant.

(b) Term. Each Option granted under the Plan shall be exercisable only during a term commencing on the date when the Option was granted and ending (unless the Option shall have terminated earlier under other provisions of the Plan) on a date to be fixed by the Committee, but not later than ten (10) years from the date of grant in the case of any Option intended to be an Incentive Stock Option, subject to the following limitations:

(i) any Option intended to be an Incentive Stock Option which is granted to any person possessing more than ten percent (10%) of the total combined voting power of all classes of stock of Corporation shall be exercisable not later than five (5) years from the date of grant; and

(ii) any Option intended to be an Incentive Stock Option may not be exercisable more than three (3) months after Participant ceases to be an employee of Corporation.

(c) Death or Disability. Upon the death or disability (within the meaning of Section 22(e)(3) of the Code) of a Participant holding a Non-Qualified Stock Option, in the absence of terms in the Option Agreement to the contrary, the Option may be exercised, to the extent not previously exercised, by Participant's legal representative, the legatees of the Option under Participant's Will or the distributees of the Option under the applicable laws of descent and distribution until the Termination Date, but only to the extent that the Option would otherwise have been exercisable by Participant. Upon the death of a Participant holding an Incentive Stock

Option, in the absence of terms in the Option Agreement to the contrary, the Option may be exercised, to the extent not previously exercised, by Participant's legal representative, the legatees of the Option under Participant's Will or the distributees of the Option under the applicable laws of descent and distribution until the Termination Date, but only to the extent that the Option would otherwise have been exercisable by Participant. Upon the disability of a Participant holding an Incentive Stock Option, the Option may be exercised by Participant or Participant's legal representative, to the extent not previously exercised, until the earlier of the termination date for such Option or the date occurring one year from the date of the termination of Participant's employment due to disability.

(d) Exercise of Options. Options shall be exercised by delivering or mailing to the Committee (i) a notice and "investment letter" in the form prescribed by the Committee, specifying the number of shares to be purchased; and (ii) check payable to Corporation or such other medium of payment as the Committee shall approve, in an amount equal to the Option Price plus any withholding tax required by law as determined by Corporation. Upon receipt of each of the foregoing, Corporation shall promptly deliver to Participant a certificate or certificates for the Stock purchased, without charge to Participant for issue or transfer tax. The stock certificate may, at the request of Participant, be issued in Participant's name and the name of another person as joint tenants with the right of survivorship, provided that any restrictions upon such Stock shall apply equally to such joint tenant. In the event that such shares are not registered under the Securities Act of 1933, such certificates shall bear the following legend:

THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR UNDER ANY STATE SECURITIES ACT ("STATE ACTS"), AND MAY NOT BE SOLD OR OTHERWISE TRANSFERRED UNLESS SUCH SHARES ARE REGISTERED UNDER SUCH ACT AND EACH RELEVANT STATE ACT OR AN OPINION OF COUNSEL SATISFACTORY TO CORPORATION IS OBTAINED TO THE EFFECT THAT SUCH REGISTRATION IS NOT NECESSARY.

(e) Transferability of Options. No Option may be transferred, assigned, pledged or hypothecated (whether by operation of law or otherwise), except that an Option may be transferred upon the death of a Participant as provided by Participant's Will or the applicable laws of descent or distribution. No Option shall be subject to execution, attachment or similar process. Any attempted assignment, transfer, pledge, hypothecation or other disposition of an Option, or levy of attachment or similar process upon the Option not specifically permitted herein shall be null and void and without effect. Notwithstanding the provisions of this Section, a Participant, at any time prior to his death, may assign all or any portion of a Non-Qualified Stock Option to (i) his spouse or lineal descendant, (ii) the trustee of a trust for the primary benefit of his spouse and lineal descendant, (iii) a partnership of which his spouse and lineal descendants are the only partners, or (iv) a tax exempt organization as described in Section 501(c)(3) of the Code. In such event, the permitted transferee will be entitled to all of the rights of Participant with respect to the assigned portion of such Non-Qualified Stock Option, and such portion of the Non-Qualified Stock Option will continue to be subject to all of the terms, conditions and restrictions applicable to the Option, as set forth herein and in the related Option Agreement, immediately prior to the effective date of the assignment. Any such assignment will

be permitted only if (i) Participant does not receive any consideration therefore, and (ii) the assignment is expressly permitted by the applicable Option Agreement, as approved by the Committee. Any such assignment shall be evidenced by a written document executed by Participant, and a copy thereof shall be delivered to Corporation prior to the assignment.

(f) Stockholders' Agreement. The exercise of an Option shall be conditioned upon Participant executing, if so requested by Corporation, a Stockholders' Agreement. All Stock issued to a Participant pursuant to an Option shall be subject to any applicable Stockholders' Agreement previously entered into by such Participant. Any legend required by any such agreement shall be placed on the certificates evidencing the Stock.

(g) Obligation to Exercise Option. The granting of an Option shall impose no obligation upon a Participant to exercise such Option.

8. Participant's Rights. No person shall have the rights of a stockholder by virtue of an Option except with respect to Stock actually issued to the stockholder, and issuance of Stock shall confer no retroactive rights to dividends. Nothing in the Plan or any Option Agreement entered into pursuant to the Plan shall confer upon any Participant the right to continue as a member of the Board of Corporation or affect any right which Corporation may have to remove such Participant as a director of Corporation. Nothing in this Plan or in any Option Agreement shall confer upon any employee any right to continue in the employ of Corporation or interfere in any way with the right of Corporation to terminate his employment at any time.

9. Adjustments. In the event of the declaration of any stock dividend on the Stock or in the event of any reorganization, merger, consolidation, acquisition, separation, recapitalization, split-up, combination or exchange of shares of Stock, or like adjustment, the number of shares of Stock and the class of shares of Stock available pursuant to the Plan, and the Option Prices, shall be adjusted by appropriate changes in the Plan and in any Option Agreement outstanding pursuant to the Plan. Any such adjustment to the Plan or to Option Agreements or Option Prices shall be made by action of the Committee, whose determination shall be conclusive; provided, however, that each Option granted pursuant to the Plan intended to be an Incentive Stock Option shall be so adjusted as to continue to qualify as an Incentive Stock Option. Notwithstanding the foregoing, in the event of such a reorganization, merger, consolidation, acquisition, separation, recapitalization, split-up, combination or exchange of shares of stock, or like adjustment which results in substantially all the shares of the Stock of Corporation being exchanged for, or converted into cash or other property, the Committee shall have the right to terminate the Plan as of the date of the exchange or conversion in which case the Options shall convert into the right to receive such cash or property net of the exercise price of the Options.

10. Termination, Suspension or Amendment of Plan. The Committee may at any time terminate, suspend or amend the Plan, except that the Committee shall not, without the authorization of the holders of a majority of the Stock voted at a stockholders' meeting duly called and held, change any provisions (other than those adjustments for changes in capitalization as hereinbefore provided) which determine (a) the aggregate number of shares for which Options may be granted under the Plan or to any person; (b) the classes of persons eligible for Options; or (c) the duration of the Plan.

11. Postponement of Exercise. The Committee may postpone any exercise of a Option for such time as the Committee may deem necessary in order to permit Corporation (i) to effect, amend or maintain any necessary registration of the Plan or the shares of Stock issuable upon the exercise of an Option under the Securities Act of 1933, as amended, or the securities laws of any applicable jurisdiction, (ii) to permit any action to be taken in order to (A) list such shares of Stock on a stock exchange if shares of Stock are then listed on such exchange or (B) comply with restrictions or regulations incident to the maintenance of a public market for its shares of Stock, including any rules or regulations of any stock exchange on which the shares of Stock are listed, or (iii) to determine that such shares of Stock and the Plan are exempt from such registration or that no action of the kind referred to in (ii)(B) above needs to be taken; and Corporation shall not be obligated by virtue of any terms and conditions of any Option Agreement or any provision of the Plan to recognize the exercise of an Option or to sell or issue shares of Stock in violation of the Securities Act of 1933 or the law of any government having jurisdiction thereof. Any such postponement shall not extend the terms of an Option and neither Corporation nor its directors or officers shall have any obligation or liability to any Participant or to any other person with respect to any shares of Stock as to which the Option shall lapse because of such postponement.

12. Changes in Control.

(a) Change in Control Followed by Employment Termination. In the event that a Change in Control shall occur and an employee Participant's employment shall terminate within twelve months after the Change in Control (except as provided in the next sentence), then (i) all unexercised Options (whether or not vested or then exercisable) shall automatically become one hundred percent vested and exercisable immediately, (ii) no other terms, conditions, restrictions or limitations shall be imposed upon any of such Options after such date, and in no circumstance shall an Option be forfeited on or after such date and (iii) all such Options shall be valued on the basis of the greater of the Change in Control Price or the Fair Market Value on the date of such termination, and such value shall promptly be paid to such Participant in cash by the Corporation or its successor. The foregoing shall not apply if employment termination is due to (i) death, (ii) disability entitling the Participant to benefits under the Corporation's or its successor's long-term disability plan, (iii) Cause or (iv) resignation (other than (A) resignation from a declined reassignment to a job that is not reasonably equivalent in responsibility or compensation or that is not in the same geographic area, or (B) resignation within 30 days following a reduction in base pay).

(b) Automatic Acceleration and Cash-Out. Upon a Change in Control that results directly or indirectly in the Stock (or the stock of any successor to the Corporation received in exchange for Stock) ceasing to be publicly traded in a national securities market, (i) all unexercised Options (whether or not vested) shall automatically become one hundred percent vested and exercisable immediately, (ii) no other terms, conditions, restrictions or limitations shall be imposed on any such Options after such date, and in no circumstances shall an Option be forfeited on or after such date, and (iii) all such Options shall be valued on the basis of the Change in Control Price, and such value shall promptly be paid to the Participants in cash by the Company or its successor.

(c) Miscellaneous. Upon a Change in Control, no action, including, without limitation, the amendment, suspension or termination of the Plan, shall be taken that would adversely affect the rights of any Participant or the operation of the Plan with respect to any Option to which a Participant may have become entitled hereunder on or prior to the date of the Change in Control or to which such Participant may become entitled as a result of such Change in Control.

(d) Section 16 Insiders. Notwithstanding anything to the contrary herein, any Participant who is subject to the reporting requirements of the Exchange Act with respect to the Corporation, who on the date of the Change in Control holds Options that have been outstanding for a period of less than six months from their date of grant, shall not be paid the consideration described in Section 12(b) above until the first day next following the end of such six-month period.

13. Application of Proceeds. The proceeds received by Corporation from the sale of its Stock under the Plan shall be used for general corporate purposes.

14. Elimination of Fractional Shares. If under any provision of the Plan that requires a computation of the number of shares of Stock subject to an Option, the number so computed is not a whole number of shares of Stock, such number of shares of Stock shall be rounded down to the next whole number.

15. Validity. In the event that any provision of the Plan or any related agreement is held to be invalid, void or unenforceable, the Board shall have the right to declare the entire Plan void and unenforceable, taking such action as shall be deemed to be in the best interest of the stockholders of Corporation.

16. Titles. Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of the Plan.

17. Governing Law. All questions pertaining to the validity, construction and administration of the Plan and Options granted hereunder shall be determined in conformity with the laws of the State of Tennessee.

INCENTIVE STOCK OPTION AGREEMENT

THIS INCENTIVE STOCK OPTION AGREEMENT (this "Agreement") is made as of the ___ day of _____, 20__ (the "Date of Grant"), by and between PRIMETRUST BANK, a Tennessee corporation ("Corporation"), and _____ ("Participant"). **[NOTE: Participant must be an employee of Corporation to be eligible to receive an ISO]**

WHEREAS, Corporation has adopted its 2001 Statutory-Nonstatutory Stock Option Plan (the "Plan"); and

WHEREAS, the committee chosen by Corporation to administer the Plan (the "Committee") has determined that Participant is eligible to receive an option to purchase shares of common stock of Corporation ("Stock") under an incentive stock option and has determined that it is in the best interest of Corporation to grant the stock option documented herein to Participant.

NOW, THEREFORE, in consideration of the foregoing, of the mutual promises hereinafter set forth and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto do hereby agree as follows:

1. Grant of Option. Corporation hereby grants to Participant the right to purchase _____ (_____) shares of Stock (the "Option Shares") at a price of (\$ _____) per Option Share (the "Option Price"), in accordance with the terms of this Agreement and the Plan (the "Option"). The Committee, exercising good faith, has determined that the Option Price is equal to at least one hundred percent (100%) of the fair market value of a share of Stock on the Date of Grant. **[NOTE: If Participant and his or her family hold more than 10% of the total combined voting power of all classes of Stock, then the Option Price must not be less than 110% of the fair market value of the Option Shares on the Date of Grant. Also total fair market value of all options granted to Participant eligible to be exercised in any one year should not exceed \$100,000.]** The Option is intended by the parties hereto to be, and shall be treated as, an incentive stock option (as such term is defined under section 422 of the Internal Revenue Code of 1986 (the "Code")).

2. Termination of Option.

(a) Termination Date. The Option and all rights hereunder with respect thereto, to the extent such rights shall not have been previously exercised or otherwise terminated, shall terminate and become null and void on _____, ____ at 5:00 P.M. (the "Termination Date"). **[NOTE: If the Participant and his family own less than 10% of the total combined voting power then the Termination Date must not be later than 10 years from the Date of Grant. If the Participant and his family own 10% or more then the Termination Date must not be later than 5 years from the Date of Grant.]**

(b) Termination of Participant's Employment. In the event of the termination of Participant's employment by Corporation for any reason other than Participant's death or disability, the Option, to the extent not previously exercised, shall terminate and become void on

the date occurring three months after Participant ceases to be an employee of Corporation. Provided, however, notwithstanding any other provisions set forth herein or in the Plan, if Participant shall commit any act of malfeasance affecting Corporation or any affiliated corporation or is convicted of a felony or engages in conduct that would warrant Participant's discharge for cause as such is determined by the Committee in its sole discretion, any unexercised portion of the Option shall immediately terminate and become void. A transfer of Participant's employment between Corporation and any subsidiary of Corporation shall not be deemed to be a termination of Participant's employment.

(c) Death or Disability. Upon termination of Participant's employment by reason of Participant's death, the Option may be exercised, to the extent not previously exercised, by Participant's estate or any distributee of the Option under Participant's will or the applicable laws of descent and distribution until the Termination Date. Upon termination of Participant's employment by reason of disability (within the meaning of Section 22(e)(3) of the Code), the Option may be exercised, to the extent not previously exercised, until the earlier of the Termination Date or the date occurring one year from the date of termination of Participant's employment.

3. Installment Exercise. Subject to such further limitations as are provided herein, the Option shall become vested and exercisable in no less than four(4) installments, Participant having the right hereunder to purchase from Corporation the following number of Option Shares upon exercise of the Option, on and after the following dates, in cumulative fashion:

(a) immediately upon the Date of Grant, up to twenty five percent (25%) (ignoring fractional shares) of the total number of Option Shares;

(b) on and after the first anniversary of the Date of Grant, up to an additional twenty five percent (25%) (ignoring fractional shares) of the total number of Option Shares; and

(c) on and after the second anniversary of the Date of Grant, up to an additional twenty five percent (25%) (ignoring fractional shares) of the total number of Option Shares; and

(d) on and after the third anniversary of the Date of Grant, the remaining Option Shares.

4. Exercise of Option. The Option, or any portion of the Option eligible to be exercised by the Participant and not previously exercised, may be exercised at any time or times prior to the termination of the Option pursuant to the provisions hereof. The Option may be exercised only if compliance with all Federal and state securities laws can be effected and only by (i) Participant's completion, execution and delivery to Corporation of a notice of exercise and "investment letter" in the form attached hereto as Exhibit A, and (ii) Participant's payment to Corporation of an amount equal to the sum of the amount obtained by multiplying the Option Price by the number of Option Shares being purchased plus any withholding tax required by law as determined by Corporation. Payment shall be made by check payable to Corporation or such other medium of payment as the Committee shall approve. Upon the exercise of the Option by Participant, or as soon thereafter as is practicable, Corporation shall issue and deliver to

Participant a certificate or certificates evidencing such number of Option Shares as Participant has so elected to purchase. Such certificate or certificates shall be registered in the name of Participant and shall bear any legend required by any Federal or state securities law or agreement as Corporation shall determine. **[NOTE: In order to receive treatment as an incentive stock option, Participant must not dispose of any share obtained by the exercise of the Option if such disposition occurs within 2 years of the Date of Grant of the Option or within 1 year after the exercise of the Option]**

5. Transferability of Option. The Option may not be transferred, assigned, pledged or hypothecated (whether by operation of law or otherwise), except that the Option may be transferred upon the death of Participant as provided by Participant's Will or the applicable laws of descent and distribution. The Option shall not be subject to execution, attachment or similar process. Any attempted assignment, transfer, pledge, hypothecation or other disposition of the Option, or levy of attachment or similar process upon the Option not specifically permitted herein shall be null and void and without effect. Any permitted transferee will be entitled to all of the rights of Participant with respect to the assigned portion of the Option, and such portion of the Option will continue to be subject to all of the then existing terms, conditions and restrictions applicable to the Option, as set forth herein and in the Plan.

6. Adjustments. In the event of the declaration of any stock dividend on the Stock or in the event of any reorganization, merger, consolidation, acquisition, separation, recapitalization, split-up, combination or exchange of shares of Stock, or like adjustment, the number of shares of Stock and the class of shares of Stock available pursuant to the Option, and the Option Price, shall be adjusted proportionately as determined by the Committee, whose determination shall be conclusive. Notwithstanding the foregoing, in the event of such a reorganization, merger, consolidation, acquisition, separation, recapitalization, split-up, combination or exchange of shares of stock, or like adjustment which results in substantially all the shares of the Stock of Corporation being exchanged for, or converted into cash or other property, the Committee or Corporation shall have the right to terminate the Option as of the date of the exchange or conversion in which case the Option shall convert into the right to receive such cash or property net of the Option Price of the Options.

7. Termination, Suspension or Amendment of Option. The Committee or Corporation may, at any time, terminate, suspend or amend the Plan or this Agreement.

8. Postponement of Exercise. The Committee or Corporation may postpone any exercise of the Option for such time as it may deem necessary in order to permit Corporation (i) to effect, amend or maintain any necessary registration of the Plan or the shares of Stock issuable upon the exercise of the Option under the Securities Act of 1933, as amended (the "Act"), or the securities laws of any applicable jurisdiction, (ii) to permit any action to be taken in order to (A) list such shares of Stock on a stock exchange if shares of Stock are then listed on such exchange or (B) comply with restrictions or regulations incident to the maintenance of a public market for its shares of Stock, including any rules or regulations of any stock exchange on which the shares of Stock are listed, or (iii) to determine that such shares of Stock and the Plan are exempt from such registration or that no action of the kind referred to in (ii)(B) above needs to be taken; and Corporation shall not be obligated by virtue of any terms and conditions of this Agreement or any provision of the Plan to recognize the exercise of the Option or to sell or issue shares of

Stock in violation of the Act or any state's securities laws. Any such postponement shall not extend the terms of the Option and neither Corporation nor its directors or officers or the Committee shall have any obligation or liability to Participant or to any other person with respect to any shares of Stock as to which the Option shall lapse because of such postponement.

9. Participant's Rights. The granting of the Option shall impose no obligation upon Participant to exercise such Option. Participant shall have no equity interest in Corporation, nor shall Participant have any voting, dividend, liquidation or dissolution rights with respect to any capital stock of Corporation solely by reason of having the Option or having executed this Agreement. Upon the issuance and delivery of a certificate for Option Shares after exercise of the Option, Participant shall have the rights of a stockholder with respect to such Option Shares and to receive all dividends or other distributions paid or made with respect thereto. Nothing in this Agreement or the Plan shall confer upon Participant the right to continue in the employ of Corporation or affect any right which Corporation may have to terminate such employment at any time.

10. Elimination of Fractional Shares. If this Agreement requires a computation of the number of shares of Stock subject to the Option, and the number so computed is not a whole number of shares of Stock, such number of shares of Stock shall be rounded down to the next whole number.

11. Shareholders' Agreement. Participant agrees to execute any Shareholders' Agreement which all other shareholders of Corporation are subject prior to delivery of any Stock upon the exercise of the Option. All Stock delivered to Participant pursuant to the exercise of the Option shall be subject to any Shareholders' Agreement previously entered into by Participant relating to the Stock.

12. Incorporation of Plan by Reference. The Option is granted pursuant to the terms of the Plan, a copy of which is attached hereto as Exhibit "B" and the terms of which are incorporated herein by reference. The Option shall in all respects be interpreted in accordance with the Plan. The Committee shall interpret and construe the Plan and this Agreement, and its interpretations and determinations shall be conclusive and binding on the parties hereto and any other person claiming an interest hereunder, with respect to any issue arising hereunder or thereunder. The provisions of the Plan shall control in the event of any inconsistencies between this Agreement and the Plan.

13. Entire Agreement. This Agreement sets forth all of the promises, agreements, conditions, understandings, warranties and representations between the parties hereto with respect to the Option and the Shares. This Agreement is an integration of any and all prior agreements or understandings, oral or written, with respect to the Option and the Shares.

14. Notices. Any and all notices provided for herein shall be sufficient if in writing, and sent by hand delivery or by certified or registered mail (return receipt requested and first class postage prepaid), in the case of Corporation, to its principal office, and, in the case of Participant, to Participant's address as shown on Corporation's records.

15. Governing Law. This Agreement shall be construed and enforced in accordance with the laws of the State of Tennessee.

16. Modifications. Except as otherwise provided herein, no change or modification of this Agreement shall be valid unless the same is in writing and signed by the parties hereto.

17. Successors. This Agreement shall be binding on all permitted successors and assigns of Participant including any estate, executors or administrators, trustees, or personal or legal representatives, and, in any such event all references herein to Participant shall, to the extent applicable, be deemed to refer to and include such estate, executors or administrators, trustees or personal or legal representatives, as the case may be.

IN WITNESS WHEREOF, Corporation and Participant have executed this Agreement as of the day and year first above written.

PRIMETRUST BANK

By: _____

Title: _____

PARTICIPANT:

Signature of Participant

Printed Name of Participant

EXHIBIT A

**NOTICE AND REQUEST OF EXERCISE
OF OPTION TO PURCHASE
SHARES OF STOCK
OF PRIMETRUST BANK**

The undersigned Participant in the 2001 Statutory-Nonstatutory Stock Option Plan (the "Plan") of PRIMETRUST BANK, a Tennessee corporation ("Corporation"), does by this notice request that Corporation issue to the undersigned that number of shares of Stock specified below (the "Shares") at the price per Share specified below pursuant to the exercise of Participant's Option under the Plan and the Incentive Stock Option Agreement (the "Agreement") between the undersigned and Corporation. Simultaneously herewith, the undersigned delivers to Corporation the purchase price for the Shares [i.e., that amount which is obtained by multiplying the number of the Shares by the price specified], by good check, in accordance with the Agreement.

The undersigned hereby represents and warrants that the undersigned has read and understands the Plan and the Agreement and the terms and conditions set forth therein under which the Shares are acquired, shall be held and may be disposed, and hereby ratifies and confirms such terms and conditions. The undersigned hereby represents and warrants that the undersigned is acquiring the Shares for the undersigned's own account (and not on behalf of any other persons) and without any present view to making a public offering or distribution of same and without any present intention of selling or otherwise transferring same at any particular time or at any particular price or upon the occurrence of any particular event or circumstances (except as set forth in the Plan and the Agreement).

The undersigned acknowledges and understands that in connection with the acquisition of the Shares by the undersigned:

1. Corporation has informed the undersigned that the Shares are not registered under the Securities Act of 1933, as amended (the "Act"), or any applicable state Blue Sky law or laws and that the Shares may not be transferred or otherwise disposed of unless the Shares are subsequently registered under the Act and the applicable state Blue Sky law or laws or an exemption from such registration requirements is made available.
 2. The undersigned has been informed that a legend referring to the restrictions indicated herein on transferability and sale will be placed upon the certificate(s) evidencing the Shares, in addition to the legend referred to in the Agreement.
 3. The undersigned has received all information requested or otherwise deemed necessary by the undersigned to make an informed decision as to the investment in Corporation, and has had the opportunity to ask questions of and receive answers from officers of Corporation.
 4. The undersigned acknowledges that the issuance of the Shares is subject to the execution by the undersigned of a Stockholders' Agreement if required by Corporation.
-

If the undersigned is required to file a Form 144 with the Securities and Exchange Commission in connection with sales of the Shares pursuant to Rule 144 under the Act, the undersigned will mail a copy of such Form to Corporation at the same time and each time the undersigned mails a copy to the Securities and Exchange Commission.

Very truly yours,

A. Date of Grant of Incentive Stock
Option: _____

Signature

B. Number of Shares covered
by Agreement: _____

Printed Name of Participant

C. Number of Shares of
Stock which may
be purchased at this
time: _____

RESIDENCE:

Street

D. Number of Shares of
Stock to be
actually purchased at this
time: _____

City, State, Zip Code

Dated: _____, _____

E. Option Price per Share:
\$ _____

F. Aggregate price to be paid
for Shares actually
purchased (D multiplied
by E): \$ _____

ACCEPTED:

PRIMETRUST BANK

By: _____

Its: _____

EXHIBIT B

PLAN

NON-QUALIFIED STOCK OPTION AGREEMENT

THIS NON-QUALIFIED STOCK OPTION AGREEMENT (this "Agreement") is made as of the ____ day of _____, 20____ (the "Date of Grant"), by and between PRIMETRUST BANK, a Tennessee corporation ("Corporation"), and _____ ("Participant").

WHEREAS, Corporation has adopted its 2001 Statutory-Nonstatutory Stock Option Plan (the "Plan"); and

WHEREAS, the committee chosen by Corporation to administer the Plan (the "Committee") has determined that Participant is eligible to receive an option to purchase shares of common stock, \$5.00 par value, of Corporation ("Stock") under a non-qualified stock option and has determined that it is in the best interest of Corporation to grant the stock option documented herein to Participant.

NOW, THEREFORE, in consideration of the foregoing, of the mutual promises hereinafter set forth and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto do hereby agree as follows:

1. Grant of Option. Corporation hereby grants to Participant the right to purchase _____ (____) shares of Stock (the "Option Shares") at a price of ____ Dollars (\$____) per Option Share (the "Option Price"), in accordance with the terms of this Agreement and the Plan (the "Option"). The Committee, exercising good faith, has determined that the Option Price is equal to at least one hundred percent (100%) of the fair market value of a share of Stock on the date hereof. The Option is not intended by the parties hereto to be, and shall not be treated as, an incentive stock option (as such term is defined under section 422 of the Internal Revenue Code of 1986 (the "Code")).

2. Termination of Option.

(a) Termination Date. The Option and all rights hereunder with respect thereto, to the extent such rights shall not have been previously exercised or otherwise terminated, shall terminate and become null and void on _____, ____ at 5:00 P.M. (the "Termination Date").

(b) Death or Disability. Upon Participant's death or disability (within the meaning of Section 22(e)(3) of the Code), the Option may be exercised, to the extent not previously exercised, by Participant's legal representative, the legatees of the Option under Participant's Will or the distributees of the Option under the applicable laws of descent and distribution until the Termination Date, but only to the extent that the Option would otherwise have been exercisable by Participant.

(c) Termination of Participant's Service to Corporation. The termination of Participant's service as an employee, director or advisory director of Corporation shall have no effect on the Option, provided, however, notwithstanding any other provisions set forth herein or in the Plan, if Participant shall commit any act of malfeasance or wrongdoing affecting Corporation or any affiliated corporation as determined by the Committee in its sole discretion, any unexercised portion of the Option shall immediately terminate and become void.

3. Installment Exercise. Subject to such further limitations as are provided herein, the Option shall become fully vested and exercisable, in whole or in part, upon this Agreement being duly executed by the Corporation and Participant.

4. Exercise of Option. The Option, or any portion of the Option eligible to be exercised by the Participant and not previously exercised, may be exercised at any time or times prior to the termination of the Option pursuant to the provisions hereof. The Option may be exercised only if compliance with all Federal and state securities laws can be effected and only by (i) Participant's completion, execution and delivery to Corporation of a notice of exercise and "investment letter" in the form attached hereto as Exhibit A, and (ii) Participant's payment to Corporation of an amount equal to the sum of the amount obtained by multiplying the Option Price by the number of Option Shares being purchased plus any withholding tax required by law as determined by Corporation. Payment shall be made by check payable to Corporation or such other medium of payment as the Committee shall approve. Upon the exercise of the Option by Participant, or as soon thereafter as is practicable, Corporation shall issue and deliver to Participant a certificate or certificates evidencing such number of Option Shares as Participant has so elected to purchase. Such certificate or certificates shall be registered in the name of Participant and shall bear any legend required by any Federal or state securities law or agreement as Corporation shall determine.

5. Transferability of Option. The Option may not be transferred, assigned, pledged or hypothecated (whether by operation of law or otherwise), except that the Option may be transferred upon the death of Participant as provided by Participant's Will or the applicable laws of descent or distribution. The Option shall not be subject to execution, attachment or similar process. Any attempted assignment, transfer, pledge, hypothecation or other disposition of the Option, or levy of attachment or similar process upon the Option not specifically permitted herein shall be null and void and without effect. Notwithstanding the provisions of this Section, Participant, at any time prior to his death, may assign all or any portion of the Option to (i) his spouse or lineal descendant, (ii) the trustee of a trust for the primary benefit of his spouse and lineal descendant, (iii) a partnership of which his spouse and lineal descendants are the only partners, or (iv) a tax exempt organization as described in Section 501(c)(3) of the Code. Any such assignment will be permitted only if (i) Participant does not receive any consideration therefore, and (ii) the assignment is permitted by the Plan. Any such assignment shall be evidenced by an appropriate written document executed by Participant, and a copy thereof shall be delivered to Corporation prior to the effective date of the assignment. Any permitted transferee will be entitled to all of the rights of Participant with respect to the assigned portion of the Option, and such portion of the Option will continue to be subject to all of the then existing terms, conditions and restrictions applicable to the Option, as set forth herein and in the Plan.

6. Adjustments. In the event of the declaration of any stock dividend on the Stock or in the event of any reorganization, merger, consolidation, acquisition, separation, recapitalization, split-up, combination or exchange of shares of Stock, or like adjustment, the number of shares of Stock and the class of shares of Stock available pursuant to the Option, and the Option Price, shall be adjusted proportionately as determined by the Committee, whose determination shall be conclusive. Notwithstanding the foregoing, in the event of such a reorganization, merger, consolidation, acquisition, separation, recapitalization, split-up, combination or exchange of shares of stock, or like adjustment which results in substantially all the shares of the Stock of Corporation being exchanged for, or converted into cash or other property, the Committee or Corporation shall have the right to terminate the Option as of the date of the exchange or conversion in which case the Option shall convert into the right to receive such cash or property net of the Option Price of the Options.

7. Termination, Suspension or Amendment of Option. The Committee or Corporation may at any time terminate, suspend or amend the Plan or this Agreement.

8. Postponement of Exercise. The Committee or Corporation may postpone any exercise of the Option for such time as it may deem necessary in order to permit Corporation (i) to effect, amend or maintain any necessary registration of the Plan or the shares of Stock issuable upon the exercise of the Option under the Securities Act of 1933, as amended (the "Act"), or the securities laws of any applicable jurisdiction, (ii) to permit any action to be taken in order to (A) list such shares of Stock on a stock exchange if shares of Stock are then listed on such exchange or (B) comply with restrictions or regulations incident to the maintenance of a public market for its shares of Stock, including any rules or regulations of any stock exchange on which the shares of Stock are listed, or (iii) to determine that such shares of Stock and the Plan are exempt from such registration or that no action of the kind referred to in (ii)(B) above needs to be taken; and Corporation shall not be obligated by virtue of any terms and conditions of this Agreement or any provision of the Plan to recognize the exercise of the Option or to sell or issue shares of Stock in violation of the Act or any state's securities laws. Any such postponement shall not extend the terms of the Option and neither Corporation nor its directors or officers or the Committee shall have any obligation or liability to Participant or to any other person with respect to any shares of Stock as to which the Option shall lapse because of such postponement.

9. Participant's Rights. The granting of the Option shall impose no obligation upon Participant to exercise such Option. Participant shall have no equity interest in Corporation, nor shall Participant have any voting, dividend, liquidation or dissolution rights with respect to any capital stock of Corporation solely by reason of having the Option or having executed this Agreement. Upon the issuance and delivery of a certificate for Option Shares after exercise of the Option, Participant shall have the rights of a stockholder with respect to such Option Shares and to receive all dividends or other distributions paid or made with respect thereto. Nothing in this Agreement or the Plan shall confer upon Participant the right to continue as a member of the Board of Directors of Corporation or affect any right which Corporation may have to remove such Participant as a director of Corporation.

10. Elimination of Fractional Shares. If this Agreement requires a computation of the number of shares of Stock subject to the Option, and the number so computed is not a whole

number of shares of Stock, such number of shares of Stock shall be rounded down to the next whole number.

11. Shareholders' Agreement. Participant agrees to execute any Shareholders' Agreement which all other shareholders of Corporation are subject prior to delivery of any Stock upon the exercise of the Option. All Stock delivered to Participant pursuant to the exercise of the Option shall be subject to any Shareholders' Agreement previously entered into by Participant relating to the Stock.

12. Incorporation of Plan by Reference. The Option is granted pursuant to the terms of the Plan, a copy of which is attached hereto as Exhibit "B" and the terms of which are incorporated herein by reference. The Option shall in all respects be interpreted in accordance with the Plan. The Committee shall interpret and construe the Plan and this Agreement, and its interpretations and determinations shall be conclusive and binding on the parties hereto and any other person claiming an interest hereunder, with respect to any issue arising hereunder or thereunder. The provisions of the Plan shall control in the event of any inconsistencies between this Agreement and the Plan.

13. Entire Agreement. This Agreement sets forth all of the promises, agreements, conditions, understandings, warranties and representations between the parties hereto with respect to the Option and the Shares. This Agreement is an integration of any and all prior agreements or understandings, oral or written, with respect to the Option and the Shares.

14. Notices. Any and all notices provided for herein shall be sufficient if in writing, and sent by hand delivery or by certified or registered mail (return receipt requested and first class postage prepaid), in the case of Corporation, to its principal office, and, in the case of Participant, to Participant's address as shown on Corporation's records.

15. Governing Law. This Agreement shall be construed and enforced in accordance with the laws of the State of Tennessee.

16. Modifications. Except as otherwise provided in Section 5, 6 and 7 herein, no change or modification of this Agreement shall be valid unless the same is in writing and signed by the parties hereto.

17. Successors. This Agreement shall be binding on all permitted successors and assigns of Participant including any estate, executors or administrators, trustees, or personal or legal representatives, and, in such event all references herein to Participant shall, to the extent applicable, be deemed to refer to and include such estate, executors or administrators, trustees or personal or legal representatives, as the case may be.

IN WITNESS WHEREOF, Corporation and Participant have executed this Agreement as of the day and year first above written.

PRIMETRUST BANK

By: _____

Title: _____

PARTICIPANT:

Signature of Participant

Printed Name of Participant

EXHIBIT A

**NOTICE AND REQUEST OF EXERCISE
OF OPTION TO PURCHASE
SHARES OF STOCK
OF PRIMETRUST BANK**

The undersigned Participant in the 2001 Statutory-Nonstatutory Stock Option Plan (the "Plan") of PRIMETRUST BANK, a Tennessee corporation ("Corporation"), does by this notice request that Corporation issue to the undersigned that number of shares of Stock specified below (the "Shares") at the price per Share specified below pursuant to the exercise of Participant's Option under the Plan and the Non-Qualified Stock Option Agreement (the "Agreement") between the undersigned and Corporation. Simultaneously herewith, the undersigned delivers to Corporation the purchase price for the Shares [i.e., that amount which is obtained by multiplying the number of the Shares by the price specified], by good check, in accordance with the Agreement.

The undersigned hereby represents and warrants that the undersigned has read and understands the Plan and the Agreement and the terms and conditions set forth therein under which the Shares are acquired, shall be held and may be disposed, and hereby ratifies and confirms such terms and conditions. The undersigned hereby represents and warrants that the undersigned is acquiring the Shares for the undersigned's own account (and not on behalf of any other persons) and without any present view to making a public offering or distribution of same and without any present intention of selling or otherwise transferring same at any particular time or at any particular price or upon the occurrence of any particular event or circumstances (except as set forth in the Plan and the Agreement).

The undersigned acknowledges and understands that in connection with the acquisition of the Shares by the undersigned:

1. Corporation has informed the undersigned that the Shares are not registered under the Securities Act of 1933, as amended (the "Act"), or any applicable state Blue Sky law or laws and that the Shares may not be transferred or otherwise disposed of unless the Shares are subsequently registered under the Act and the applicable state Blue Sky law or laws or an exemption from such registration requirements is made available.
 2. The undersigned has been informed that a legend referring to the restrictions indicated herein on transferability and sale will be placed upon the certificate(s) evidencing the Shares, in addition to the legend referred to in the Agreement.
 3. The undersigned has received all information requested or otherwise deemed necessary by the undersigned to make an informed decision as to the investment in Corporation, and has had the opportunity to ask questions of and receive answers from officers of Corporation.
 4. The undersigned acknowledges that the issuance of the Shares is subject to the execution by the undersigned of a Stockholders' Agreement if required by Corporation.
-

If the undersigned is required to file a Form 144 with the Securities and Exchange Commission in connection with sales of the Shares pursuant to Rule 144 under the Act, the undersigned will mail a copy of such Form to Corporation at the same time and each time the undersigned mails a copy to the Securities and Exchange Commission.

A. Date of Grant of Incentive Stock
Option: _____

B. Number of Shares covered
by Agreement: _____

C. Number of Shares of
Stock which may
be purchased at this
time: _____

D. Number of Shares of
Stock to be
actually purchased at this
time: _____

E. Option Price per Share:
\$ _____

F. Aggregate price to be paid
for Shares actually
purchased (D multiplied
by E): \$ _____

Very truly yours,

Signature

Printed Name of Participant

RESIDENCE:

Street

City, State, Zip Code

Dated: _____, _____

ACCEPTED:

PRIMETRUST BANK

By: _____

Its: _____

EXHIBIT B

PLAN

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Section 9: EX-10.54 (EX-10.54 PRIMETRUST BANK 2005 STATUTORY)

PRIMETRUST BANK**2005 STATUTORY-NONSTATUTORY STOCK OPTION PLAN**

1. Purpose. The purpose of this PRIMETRUST BANK 2005 Statutory-Nonstatutory Stock Option Plan (the “Plan”) is to motivate Participants (as defined herein), thereby benefitting the stockholders of PRIMETRUST BANK, a Tennessee corporation (“Corporation”). In furtherance of this purpose, the Plan is to advance the interests of Corporation by stimulating the efforts of key employees, directors and consultants, increasing their desire to continue in their employment with or services to the Corporation, assisting Corporation in competing effectively with other enterprises for the services of new employees and directors necessary for the continued improvement of operations, and to attract and retain the best possible personnel for service as employees, officers and directors of Corporation. Accordingly, the Plan is designed to promote the interests of Corporation and its stockholders, and, by facilitating stock ownership on the part of such directors, officers and employees, to encourage them to acquire a proprietary interest in Corporation and to remain in its employ and service.

2. Definitions. The following meanings shall be ascribed to the terms set forth in this Section:

“Board” means the Board of Directors of Corporation.

“Cause, as used in Section 12 of this Plan, means the engaging by a Participant in illegal conduct that is materially and demonstrably injurious to the Corporation unless otherwise defined in an agreement between Participant and the Corporation.

“Change in Control” means the occurrence of any of the following:

(a) The Corporation has actual knowledge that any person or entity other than the

Corporation, a subsidiary of the Corporation, or any employee benefit plan sponsored by the Corporation or subsidiary has acquired the beneficial ownership (as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), directly or indirectly, of 25% or more of the then outstanding Stock (other than upon conversion of any then outstanding Convertible Preferred Stock);

(b) A tender offer is made to acquire securities of the Corporation entitling the holders thereof to 25% or more of the voting power to elect directors of the Corporation;

(c) A solicitation subject to Rule 14a-11 under the Securities Exchange Act of 1934, as amended (or any successor Rule) relating to the election or removal of 50% or more of the members of the Board shall be made by any person or entity other than the Corporation;

(d) Individuals who constitute the Board immediately prior to any meeting of stockholders (the “Incumbent Board”) have ceased for any reason to constitute at least a majority thereof;

(e) The stockholders of the Corporation shall approve a merger, consolidation, share exchange, division or other reorganization of the Corporation as a result of which the stockholders of the Corporation immediately prior to such transaction shall not hold, directly or indirectly, immediately following such transaction 51% or more of the voting power to elect directors of (i) the surviving or resulting corporation in the case of a merger or consolidation, (ii) the acquiring corporation, in the case of a share exchange, or (iii) each surviving, resulting or acquiring corporation which, immediately following such transaction, in the case of a division, holds more than 15% of the consolidated assets of the Corporation immediately preceding such transaction; or

(f) The stockholders of the Corporation shall approve a complete liquidation and dissolution of the Corporation or the sale or other disposition of all or substantially all of the assets of the Corporation other than to a wholly-owned subsidiary of the Corporation.

Notwithstanding the occurrence of any of the foregoing, the Board may determine, if it deems it to be in the best interest of the Corporation and consistent with a good faith interpretation of this Plan, that an event or events otherwise constituting a Change of Control shall not be so considered. Such determination shall be effective if it is made by the Board prior to the occurrence of an event that otherwise would be or probably will lead to a Change in Control or after such event if made by the Board a majority of which is composed of all directors who were members of the Board immediately prior to the event that otherwise would be or probably will lead to a Change in Control. Upon such determination, such event or events shall not be deemed to be a Change in Control for any purposes under this Plan.

“Change in Control Price” means the highest closing price per share paid for the purchase of stock in a national securities market during the ninety day period preceding the date the Change in Control occurs.

“Code” means the Internal Revenue Code of 1986, as amended.

“Committee” means the Committee or Committees chosen by the Board to administer the Plan, as provided in Section 5(a) hereof.

“Fair Market Value of Stock” means the closing price of the shares of Stock on a national securities exchange on which it is principally traded on the day on which such value is to be determined or, if no shares were traded on such day, on the next preceding day on which shares of Stock were traded, as reported by the National Quotation Bureau, Inc. or other national quotation service. If the shares are not traded on a national securities exchange but are traded in the over-the-counter market, Fair Market Value of Stock means the closing “asked” price of the shares in the over-the-counter market on the day on which such value is to be determined or, if such “asked” price is not available, the last sales price on such day or, if no shares of Stock were traded on such day, on the next preceding day on which shares of Stock were traded, as reported by the National Association of Securities Dealers Automated Quotation System (NASDAQ) or other national quotation service. If the Stock is traded neither on a national securities exchange nor in the over-the-counter market, the Fair Market Value of Stock shall be determined based

upon such factors as the Board or Committee, as applicable, shall reasonably deem appropriate, including without limitation prices or values at which the Stock has most recently been issued to third parties or redeemed or purchased from stockholders.

“Incentive Stock Option” has the meaning ascribed in Section 422 of the Code.

“Non-Employee Director” is defined in Section 5(a).

“Non-Qualified Stock Option” means all Options which do not qualify as Incentive Stock Options such as those granted to Non-Employee Directors.

“Option” means an award of an Incentive Stock Option or Non-Qualified Stock Option pursuant to this Plan.

“Option Agreement” means the written instrument from the Committee to Participant describing the terms of the Option.

“Option Price” means the exercise price of an Option.

“Option Stock” or “Stock” means the common stock of Corporation.

“Participant” means a person to whom an Option has been granted.

3. Effective Date of Plan; Term. The Plan is effective July 19, 2005, the date on which the Board of the Corporation approved the Plan; provided, however, the Plan shall not be effective and all Options granted pursuant to the Plan shall be null and void unless the Plan is adopted by the shareholders of the Corporation within one year following the effective date. No Options intended to be Incentive Stock Options may be granted after the tenth anniversary of the effective date of the Plan.

4. Shares Subject to the Plan. The aggregate number of shares of Stock available for grant under the Plan is One Hundred Sixty-Five Thousand (165,000) subject to adjustments as provided in Section 9 herein. The Committee may allocate the Options between Options which are Incentive Stock Options and Options which are Non-Qualified Stock Options as the Committee determines in its sole discretion. Stock issued pursuant to the Plan may be either authorized but unissued shares or shares held in the treasury of Corporation. In the event that, prior to the end of the period during which Options may be granted under the Plan, any Option under the Plan expires unexercised or is terminated or surrendered without being exercised, in whole or in part, the number of shares theretofore subject to such Option or the unexercised or terminated portion thereof, shall be added to the remaining number of shares of Stock available for grant as an Option under the Plan, including a grant to a former holder of such Option, upon such terms and conditions as the Committee shall determine, which terms may be more or less favorable than those applicable to such former Option.

5. Administration of the Plan by the Committee.

(a) The Committee. The Plan shall be administered by the Committee, whose members shall be appointed from time to time by, and shall serve at the pleasure of, the Board. The members of the Committee shall be non-employee directors of the Corporation within the meaning of Rule 16b-3(b)(3) of the United States Securities and Exchange Commission (or any successor rule) (“Non-Employee Directors”). The Board, in its discretion, may appoint separate committees consisting of Non-Employee Directors to administer the Incentive Stock Options and the Non-Qualified Stock Options. No member of the Committee shall be liable for any action taken, or determination made, hereunder in good faith. Service on the Committee shall constitute service as a director of Corporation so that members of the Committee shall be entitled to indemnification and reimbursement as directors of Corporation pursuant to its Charter and Bylaws. The Committee may take action only upon the agreement of a majority of the entire Committee. Any action which the Committee takes through a written instrument signed by a majority of its members shall be as effective as though taken at a meeting duly called and held.

(b) Powers of the Committee. Subject to the express provisions of the Plan, the Committee may interpret the Plan, prescribe, amend and rescind rules and regulations relating to it and make all determinations it deems necessary or advisable for the administration of the Plan. The powers of the Committee shall include plenary authority to administer and interpret the Plan, and subject to the provisions hereof, to determine the persons to whom Options shall be granted, the number of shares subject to each Option, the terms and provisions of each Option, and the date on which Options shall be granted. In making such determinations, the Committee may take into account the nature of the services rendered by such Participants, or classes of Participants, their present and potential contributions to Corporation’s success and such other factors as the Committee, in its discretion, shall deem relevant. Any interpretation of Options intended to be Incentive Stock Options shall be made in such a manner that they continue to be Incentive Stock Options. Accordingly, the Committee shall determine, as soon as practicable after the effective date of the Plan and at any time and from time to time thereafter, (i) the persons who are eligible, (ii) the number of shares of Stock which an eligible person may purchase pursuant to an Option, (iii) the price of each share of Stock subject to the Option and (iv) the terms on which each share of Stock subject to the Option may be purchased.

(c) Conclusiveness of Determinations. Any action taken by the Committee or by the Board with respect to the implementation, interpretation, or administration of the Plan shall be final, conclusive and binding. The Committee’s determinations under the Plan, including, without limitation, determinations as to the persons to receive awards, the terms and provisions of such awards and the agreements evidencing the same, need not be uniform and may be made by it selectively among persons who receive or are eligible to receive awards under the Plan, whether or not such persons are similarly situated.

6. Options.

(a) **Grant of Options.** Incentive Stock Options and Non-Qualified Stock Options may be granted under the Plan by the Committee for the purchase of Stock. Options shall be subject to such terms and conditions, shall be exercisable at such times, and shall be evidenced by such form of written option agreement between Participant and Corporation, as the Committee shall determine; provided, that such determinations are not inconsistent with the other provisions of the Plan. The Committee shall have authority to grant Options exercisable in whole or in part at any time during their term. Option Agreements need not be identical.

(b) **Restrictions on the Grant of Incentive Stock Options.** No Option intended to be an Incentive Stock Option shall be granted to any person owning, within the meaning of Sections 422 and 424 of the Code, Stock of Corporation possessing more than ten percent (10%) of the total combined voting power of all classes of stock of Corporation unless the provisions of Section 7(a) and (b) hereof are complied with. In any one calendar year, no individual shall receive Options to purchase Stock under any plan of Corporation intended to be Incentive Stock Options to the extent that the Stock subject to such Options exercisable for the first time by an individual during any calendar year has an aggregate Fair Market Value (determined at the time the Options are granted) in excess of \$100,000.

(c) **Persons Eligible to Receive Options.** The persons who shall be eligible to receive Options granted hereunder intended to be Incentive Stock Options shall be those key employees and officers of Corporation who are selected by the Committee from time to time. Persons designated by the Committee who are eligible to receive Non-Qualified Options hereunder need not be employees of Corporation, and generally will be non-employee directors or advisory directors of Corporation. A Participant may hold more than one Option. The Committee shall determine the terms for payment by each Participant for his shares of Option Stock. Such terms shall be set forth in the Option Agreement. The terms for payment so set by the Committee may vary from one Participant to another.

7. Terms and Exercise of Options.

(a) **Option Price.** The Option Price to be paid by Participant to Corporation upon exercise of the Option shall be determined by the Committee on the date of the grant of the Option and shall be set forth in the Option Agreement. No Option shall have an Option Price less than the Fair Market Value of the Stock on the date of the grant. If any Option intended to be an Incentive Stock Option is granted to any person holding Stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of Corporation, the Option Price shall be not less than one hundred ten percent (110%) of the Fair Market Value of the Stock on the date of the grant.

(b) Term. Each Option granted under the Plan shall be exercisable only during a term commencing on the date when the Option was granted and ending (unless the Option shall have terminated earlier under other provisions of the Plan) on a date to be fixed by the Committee, but not later than ten (10) years from the date of grant in the case of any Option intended to be an Incentive Stock Option, subject to the following limitations:

(i) any Option intended to be an Incentive Stock Option which is granted to any person possessing more than ten percent (10%) of the total combined voting power of all classes of stock of Corporation shall be exercisable not later than five (5) years from the date of grant; and

(ii) any Option intended to be an Incentive Stock Option may not be exercisable more than three (3) months after Participant ceases to be an employee of Corporation.

(c) Death or Disability. Upon the death or disability (within the meaning of Section 22(e)(3) of the Code) of a Participant holding a Non-Qualified Stock Option, in the absence of terms in the Option Agreement to the contrary, the Option may be exercised, to the extent not previously exercised, by Participant's legal representative, the legatees of the Option under Participant's Will or the distributees of the Option under the applicable laws of descent and distribution until the Termination Date, but only to the extent that the Option would otherwise have been exercisable by Participant. Upon the death of a Participant holding an Incentive Stock Option, in the absence of terms in the Option Agreement to the contrary, the Option may be exercised, to the extent not previously exercised, by Participant's legal representative, the legatees of the Option under Participant's Will or the distributees of the Option under the applicable laws of descent and distribution until the Termination Date, but only to the extent that the Option would otherwise have been exercisable by Participant. Upon the disability of a Participant holding an Incentive Stock Option, the Option may be exercised by Participant or Participant's legal representative, to the extent not previously exercised, until the earlier of the termination date for such Option or the date occurring one year from the date of the termination of Participant's employment due to disability.

(d) Exercise of Options. Options shall be exercised by delivering or mailing to the Committee (i) a notice and "investment letter" in the form prescribed by the Committee, specifying the number of shares to be purchased; and (ii) check payable to Corporation or such other medium of payment as the Committee shall approve, in an amount equal to the Option Price plus any withholding tax required by law as determined by Corporation. Upon receipt of each of the foregoing, Corporation shall promptly deliver to Participant a certificate or certificates for the Stock purchased, without charge to Participant for issue or transfer tax. The stock certificate may, at the request of Participant, be issued in Participant's name and the name of another person as joint tenants with the right of survivorship, provided that any restrictions upon such Stock shall apply equally to such joint tenant. In the event that such shares are not registered under the Securities Act of 1933, such certificates shall bear the following legend:

THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR UNDER ANY STATE SECURITIES ACT ("STATE

ACTS”), AND MAY NOT BE SOLD OR OTHERWISE TRANSFERRED UNLESS SUCH SHARES ARE REGISTERED UNDER SUCH ACT AND EACH RELEVANT STATE ACT OR AN OPINION OF COUNSEL SATISFACTORY TO CORPORATION IS OBTAINED TO THE EFFECT THAT SUCH REGISTRATION IS NOT NECESSARY.

(e) Transferability of Options. No Option may be transferred, assigned, pledged or hypothecated (whether by operation of law or otherwise), except that an Option may be transferred upon the death of a Participant as provided by Participant's Will or the applicable laws of descent or distribution. No Option shall be subject to execution, attachment or similar process. Any attempted assignment, transfer, pledge, hypothecation or other disposition of an Option, or levy of attachment or similar process upon the Option not specifically permitted herein shall be null and void and without effect. Notwithstanding the provisions of this Section, a Participant, at any time prior to his death, may assign all or any portion of a Non-Qualified Stock Option to (i) his spouse or lineal descendant, (ii) the trustee of a trust for the primary benefit of his spouse and lineal descendant, (iii) a partnership of which his spouse and lineal descendants are the only partners, or (iv) a tax exempt organization as described in Section 501(c)(3) of the Code. In such event, the permitted transferee will be entitled to all of the rights of Participant with respect to the assigned portion of such Non-Qualified Stock Option, and such portion of the Non-Qualified Stock Option will continue to be subject to all of the terms, conditions and restrictions applicable to the Option, as set forth herein and in the related Option Agreement, immediately prior to the effective date of the assignment. Any such assignment will be permitted only if (i) Participant does not receive any consideration therefore, and (ii) the assignment is expressly permitted by the applicable Option Agreement, as approved by the Committee. Any such assignment shall be evidenced by a written document executed by Participant, and a copy thereof shall be delivered to Corporation prior to the assignment.

(f) Obligation to Exercise Option. The granting of an Option shall impose no obligation upon a Participant to exercise such Option.

8. Participant's Rights. No person shall have the rights of a stockholder by virtue of an Option except with respect to Stock actually issued to the stockholder, and issuance of Stock shall confer no retroactive rights to dividends. Nothing in the Plan or any Option Agreement entered into pursuant to the Plan shall confer upon any Participant the right to continue as a member of the Board of Corporation or affect any right which Corporation may have to remove such Participant as a director of Corporation. Nothing in this Plan or in any Option Agreement shall confer upon any employee any right to continue in the employ of Corporation or interfere in any way with the right of Corporation to terminate his employment at any time.

9. Adjustments. In the event of the declaration of any stock dividend on the Stock or in the event of any reorganization, merger, consolidation, acquisition, separation, recapitalization, split-up, combination or exchange of shares of Stock, or like adjustment, the number of shares of Stock and the class of shares of Stock available pursuant to the Plan, and the Option Prices, shall be adjusted by appropriate changes in the Plan and in any Option Agreement outstanding pursuant to the Plan. Any such adjustment to the Plan or to Option Agreements or Option Prices shall be made by action of the Committee, whose determination shall be conclusive; provided, however, that each Option granted pursuant to the Plan intended to be an Incentive Stock Option shall be so adjusted as to continue to qualify as an Incentive Stock Option. Notwithstanding the foregoing, in the event of such a reorganization, merger, consolidation, acquisition, separation, recapitalization, split-up, combination or exchange of shares of stock, or like adjustment which results in substantially all the shares of the Stock of

Corporation being exchanged for, or converted into cash or other property, the Committee shall have the right to terminate the Plan as of the date of the exchange or conversion in which case the Options shall convert into the right to receive such cash or property net of the exercise price of the Options.

10. Termination, Suspension or Amendment of Plan. The Committee may at any time terminate, suspend or amend the Plan, except that the Committee shall not, without the authorization of the holders of a majority of the Stock voted at a stockholders' meeting duly called and held, change any provisions (other than those adjustments for changes in capitalization as hereinbefore provided) which determine (a) the aggregate number of shares for which Options may be granted under the Plan or to any person; (b) the classes of persons eligible for Options; or (c) the duration of the Plan.

11. Postponement of Exercise. The Committee may postpone any exercise of a Option for such time as the Committee may deem necessary in order to permit Corporation (i) to effect, amend or maintain any necessary registration of the Plan or the shares of Stock issuable upon the exercise of an Option under the Securities Act of 1933, as amended, or the securities laws of any applicable jurisdiction, (ii) to permit any action to be taken in order to (A) list such shares of Stock on a stock exchange if shares of Stock are then listed on such exchange or (B) comply with restrictions or regulations incident to the maintenance of a public market for its shares of Stock, including any rules or regulations of any stock exchange on which the shares of Stock are listed, or (iii) to determine that such shares of Stock and the Plan are exempt from such registration or that no action of the kind referred to in (ii)(B) above needs to be taken; and Corporation shall not be obligated by virtue of any terms and conditions of any Option Agreement or any provision of the Plan to recognize the exercise of an Option or to sell or issue shares of Stock in violation of the Securities Act of 1933 or the law of any government having jurisdiction thereof. Any such postponement shall not extend the terms of an Option and neither Corporation nor its directors or officers shall have any obligation or liability to any Participant or to any other person with respect to any shares of Stock as to which the Option shall lapse because of such postponement.

12. Changes in Control.

(a) Change in Control Followed by Employment Termination. In the event that a Change in Control shall occur and an employee Participant's employment shall terminate within twelve months after the Change in Control (except as provided in the next sentence), then (i) all unexercised Options (whether or not vested or then exercisable) shall automatically become one hundred percent vested and exercisable immediately, (ii) no other terms, conditions, restrictions or limitations shall be imposed upon any of such Options after such date, and in no circumstance shall an Option be forfeited on or after such date and (iii) all such Options shall be valued on the basis of the greater of the Change in Control Price or the Fair Market Value on the date of such termination, and such value shall promptly be paid to such Participant in cash by the Corporation or its successor. The foregoing shall not apply if employment termination is due to (i) death, (ii) disability entitling the Participant to benefits under the Corporation's or its successor's long-term disability plan, (iii) Cause or (iv) resignation (other than (A) resignation from a declined reassignment to a job that is not reasonably equivalent in responsibility or compensation or that

is not in the same geographic area, or (B) resignation within 30 days following a reduction in base pay).

(b) Automatic Acceleration and Cash-Out. Upon a Change in Control that results directly or indirectly in the Stock (or the stock of any successor to the Corporation received in exchange for Stock) ceasing to be publicly traded in a national securities market, (i) all unexercised Options (whether or not vested) shall automatically become one hundred percent vested and exercisable immediately, (ii) no other terms, conditions, restrictions or limitations shall be imposed on any such Options after such date, and in no circumstances shall an Option be forfeited on or after such date, and (iii) all such Options shall be valued on the basis of the Change in Control Price, and such value shall promptly be paid to the Participants in cash by the Company or its successor.

(c) Miscellaneous. Upon a Change in Control, no action, including, without limitation, the amendment, suspension or termination of the Plan, shall be taken that would adversely affect the rights of any Participant or the operation of the Plan with respect to any Option to which a Participant may have become entitled hereunder on or prior to the date of the Change in Control or to which such Participant may become entitled as a result of such Change in Control.

(d) Section 16 Insiders. Notwithstanding anything to the contrary herein, any Participant who is subject to the reporting requirements of the Exchange Act with respect to the Corporation, who on the date of the Change in Control holds Options that have been outstanding for a period of less than six months from their date of grant, shall not be paid the consideration described in Section 12(b) above until the first day next following the end of such six-month period.

13. Application of Proceeds. The proceeds received by Corporation from the sale of its Stock under the Plan shall be used for general corporate purposes.

14. Elimination of Fractional Shares. If under any provision of the Plan that requires a computation of the number of shares of Stock subject to an Option, the number so computed is not a whole number of shares of Stock, such number of shares of Stock shall be rounded down to the next whole number.

15. Validity. In the event that any provision of the Plan or any related agreement is held to be invalid, void or unenforceable, the Board shall have the right to declare the entire Plan void and unenforceable, taking such action as shall be deemed to be in the best interest of the stockholders of Corporation.

16. Titles. Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of the Plan.

17. Governing Law. All questions pertaining to the validity, construction and administration of the Plan and Options granted hereunder shall be determined in conformity with the laws of the State of Tennessee.

PRIMETRUST BANK

By: _____
Gary L. Scott, Chairman
and Chief Executive Officer

Approved by the Board of Directors: July 19, 2005

Approved by the Shareholders: April ____, 2006

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Section 10: EX-10.55 (EX-10.55 MID-AMERICA BANCSHARES, INC. 2006 EQUITY INCENTIVE PLAN)

MID-AMERICA BANCSHARES, INC.
2006 OMNIBUS EQUITY INCENTIVE PLAN

ARTICLE 1. INTRODUCTION

This Plan is adopted by the Board effective April 30, 2006. The purpose of the Plan is to promote the long-term success of the Company and the creation of stockholder value by (a) encouraging Employees, Outside Directors and Consultants to focus on critical long-range objectives, (b) encouraging the attraction and retention of Employees, Outside Directors and Consultants with exceptional qualifications and (c) linking Employees, Outside Directors and Consultants directly to stockholder interests through increased stock ownership. The Plan seeks to achieve this purpose by providing for Awards in the form of Restricted Shares, Stock Units, Options (which may constitute incentive stock options or nonstatutory stock options) or stock appreciation rights. The Plan shall be governed by, and construed in accordance with, the laws of the State of Tennessee (except the choice-of-law provisions of such jurisdiction).

ARTICLE 2. DEFINITIONS

2.1 "Affiliate" means any entity other than a Subsidiary, if the Company and/or one or more Subsidiaries own not less than 50% of such entity.

2.2 "Agreement" means a written understanding entered into between the Company and an Eligible Person granted an Award which sets forth the terms and conditions of the Award.

2.3 "Award" means any award of an Option, a SAR, a Restricted Share, a Stock Unit, a Performance Unit, an Other Award or a combination thereof under the Plan.

2.4 "Board" means the Company's board of directors, as constituted from time to time.

2.5 "Cause" means, unless otherwise provided in a Participant's Agreement, removal by or at the direction any state or federal regulatory agency having appropriate jurisdiction of a person as an Employee, Outside Director or Consultant, or: (i) engaging in (A) willful or gross misconduct or (B) willful or gross neglect, (ii) repeatedly failing to adhere to the directions of superiors or the board of directors or the written policies and practices of the Company or any Subsidiary or Affiliate with which the person has a relationship, (iii) the commission of a felony or a crime of moral turpitude, or any crime involving the Company or any Subsidiary or Affiliate, (iv) fraud, misappropriation, embezzlement or material or repeated insubordination, (v) a material breach of the Participant's employment agreement or consulting contract, if any, (other than a termination of employment by the Participant), or (vi) any illegal act detrimental to the Company or any Subsidiary or Affiliate, all as determined in the sole discretion of the Committee.

2.6 “Change in Control” means:

- (a) The consummation of a merger or consolidation of the Company with or into another entity or any other corporate reorganization, if more than 50% of the combined voting power of the continuing or surviving entity’s securities outstanding immediately after such merger, consolidation or other reorganization is owned by persons who were not stockholders of the Company immediately prior to such merger, consolidation or other reorganization;
- (b) The sale, transfer or other disposition of all or substantially all of the Company’s assets;
- (c) A change in the composition of the Board, as a result of which fewer than 50% of the incumbent directors are directors who either (i) had been directors of the Company on the date 24 months prior to the date of the event that may constitute a Change in Control (the “original directors”) or (ii) were elected, or nominated for election, to the Board with the affirmative votes of at least a majority of the aggregate of the original directors who were still in office at the time of the election or nomination and the directors whose election or nomination was previously so approved; or
- (d) Any transaction as a result of which any person is the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing more than 50% of the total voting power represented by the Company’s then outstanding voting securities. For purposes of this Paragraph (d), the term “person” shall have the same meaning as when used in sections 13(d) and 14(d) of the Exchange Act but shall exclude (i) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or of a Parent or Subsidiary and (ii) a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of the common stock of the Company. A transaction shall not constitute a Change in Control if its sole purpose is to change the state of the Company’s incorporation or to create a holding company that will be owned in substantially the same proportions by the persons who held the Company’s securities immediately before such transaction.

2.7 “Code” means the Internal Revenue Code of 1986, as amended.

2.8 “Committee” means the group of Board Members appointed to administer the Plan, as described in Article 3.

2.9 “Common Share” means one share of the common stock of the Company.

2.10 “Company” means Mid-America Bancshares, Inc. and any successor or assignee corporation(s) into which the Company may be merged, changed or consolidated; any corporation for whose securities the securities of the Company, shall be exchanged; and any assignee of or successor to substantially all of the assets of the Company.

2.11 “Consultant” means a consultant or adviser who provides bona fide services to the Company, a Subsidiary or, in the discretion of the Committee, an Affiliate, as an independent contractor.

Service as a Consultant may but need not, in the discretion of the Committee, be considered employment for all purposes of the Plan, except as provided in Section 5.1 for ISO grant purposes.

2.12 “Disability” means, as determined by the Committee in its discretion, a Participant’s inability to serve at his or her most recent current position by reason of any mental or physical impairment which can be expected to last for a continuous period of at least 12 months or result in death. “Permanent and total Disability” shall have the meaning used in Code Section 22(e)(3). A determination of Disability may be made by a physician approved or selected by the Committee.

2.13 “Eligible Persons” means Employees, Outside Directors and Consultants.

2.14 “Employee” means a common-law employee of the Company, a Subsidiary or, in the discretion of the Committee, an Affiliate.

2.15 “Exchange Act” means the Securities Exchange Act of 1934, as amended.

2.16 “Exercise Price,” in the case of an Option, means the amount for which one Common Share may be purchased upon exercise of such Option, as specified in the applicable Stock Option Agreement. “Exercise Price,” in the case of a SAR, means an amount, as specified in the applicable SAR Agreement, which is subtracted from the Fair Market Value of one Common Share in determining the amount payable upon exercise of such SAR.

2.17 “Fair Market Value” means the value of one Common Share, determined as follows:

(i) If the Common Share is listed on a national stock exchange, the closing sale price per share on the exchange for the last preceding date on which there was a sale of Common Shares on such exchange, as determined by the Committee.

(ii) If the Common Shares are not then listed on a national stock exchange but are traded on an over-the-counter market, the average of the closing bid and asked prices for the Common Shares in such over-the-counter market for the last preceding date on which there was a sale of Common Shares in such market, as determined by the Committee.

(iii) If neither (i) nor (ii) applies, such value as the Committee in its discretion may in good faith determine. Notwithstanding the foregoing, where the Common Shares are listed or traded, the Committee may make discretionary determinations in good faith where the Common Shares have not been traded for 10 trading days.

2.18 “ISO” means an Option of the type described in Section 422(b) of the Code.

2.19 “NSO” means an Option not described in Sections 422 or 423 of the Code.

2.20 “Option” means an ISO or NSO granted under the Plan and entitling the holder to purchase Common Shares.

2.21 “Optionee” means an individual or estate that holds an Option or SAR.

2.22 “Other Award” means a right granted to an Eligible Person under Section 11.2.

2.23 “Outside Director” means a person who is not an Employee but is a member of the board of directors of the Company, a Subsidiary or, in the discretion of the Committee, an Affiliate. Service as an Outside Director shall be considered employment for all purposes of the Plan, except as provided in Section 5.1 for ISO grant purposes.

2.24 “Parent” means any corporation (other than the Company) in an unbroken chain of corporations ending with the Company, if each of the corporations other than the Company owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. A corporation that attains the status of a Parent on a date after the adoption of the Plan shall be considered a Parent commencing as of such date.

2.25 “Participant” means an individual or estate that holds an Award.

2.26 “Performance Unit” means a right granted to a Participant under Section 11.1 of the Plan.

2.27 “Plan” means this Mid-America Bancshares, Inc. 2006 Omnibus Equity Incentive Plan, as amended from time to time.

2.28 “Restricted Share” means a Common Share awarded under the Plan pursuant to Article 9.

2.29 “Retirement” means the separation of service without cause: (a) on or after the Participant’s attainment of age 65; (b) on or after the Participant’s attainment of age 55 with at least 10 consecutive years of service; or (c) as determined by the Committee, in its absolute discretion, as set forth in the applicable Agreement.

2.30 “Separation from Service” means the removal by any regulatory agency of a person as an Employee, Outside Director or Consultant, or:

(i) in the case of an employee, the termination of the employer-employee relationship for any reason, whether or not such termination was wrongful;

(ii) in the case of an Outside Director, the expiration or termination of such person’s status as a director, whether or not such termination was wrongful; and

(iii) in the case of a consultant, as defined in the Agreement or, if not so defined, the termination of the independent contractor relationship for any reasons, whether or not such termination was wrongful.

2.31 “SAR” means a stock appreciation right granted under the Plan pursuant to Article 8.

2.32 “Stock Unit” means a bookkeeping entry representing the equivalent of one Common Share, as awarded under the Plan pursuant to Article 10.

2.33 “Subsidiary” means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company, if each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. A corporation that attains the status of a Subsidiary on a date after the adoption of the Plan shall be considered a Subsidiary commencing as of such date.

ARTICLE 3. ADMINISTRATION

3.1 Committee Composition. The Committee shall administer the Plan. The Committee shall consist exclusively of two or more directors of the Company who shall be appointed by the Board. In addition, the composition of the Committee shall satisfy:

- (a) Such requirements as the Securities and Exchange Commission may establish for administrators acting under plans intended to qualify for exemption under Rule 16b-3 (or its successor) under the Exchange Act; and
- (b) Such requirements as the Internal Revenue Service may establish for outside directors acting under plans intended to qualify for exemption under Section 162(m) of the Code.

3.2 Committee Responsibilities. The Committee shall (a) select any Eligible Persons who are to receive Awards under the Plan, (b) determine the type, number, vesting requirements and other features and conditions of such Awards, (c) interpret the Plan and Agreements, (d) establish, amend and revoke rules and regulations for administration of the Plan, (e) amend any outstanding Award, accelerate or extend vesting or exercisability of any Award, and waive conditions or restrictions of any Awards, to the extent the Committee deems appropriate, (f) cancel, with the consent of the Participant or as otherwise permitted by the Plan, outstanding Awards, and (g) make all other decisions and perform acts relating to the operation of the Plan that the Committee deems necessary or appropriate to promote the best interests of the Company under the Plan. The Committee may permit the Chief Executive Officer of the Company or his or her delegate to make Awards to Eligible Employees who are not officers or directors of the Company at such times and in such manner as authorized by the Committee. The Committee may adopt such rules or guidelines as it deems appropriate to implement the Plan.

3.3 Committee for Nonofficer Grants. The Board may also appoint a secondary committee of the Board, which shall be composed of one or more directors of the Company or any Subsidiary bank who need not satisfy the requirements of Section 3.1. Such secondary committee may administer the Plan with respect to Employees and Consultants who are not considered officers or directors of the Company under Section 16 of the Exchange Act, may grant Awards under the Plan to such Employees and Consultants and may determine all features and conditions of such Awards. Within the limitations of this Section 3.3, any reference in the Plan to the Committee shall include such secondary committee.

3.4 Committee Decisions and Determinations. Any determination made by the Committee pursuant to the provisions of the Plan or an Agreement shall be made in its sole discretion in the best interest of the Company, not as a fiduciary. All decisions made by the Committee pursuant to the provisions of the Plan or an Agreement shall be final and binding on all persons, including Participating Companies and Participants. Any determination by the Committee shall not be subject to de novo review if challenged in any court or legal forum.

ARTICLE 4. SHARES AVAILABLE FOR AWARDS

4.1 Basic Limitation. Common Shares issued pursuant to the Plan may be authorized but unissued shares or treasury shares. The aggregate number of shares subject to Awards under the Plan shall not exceed 1,000,000. The limitation of this Section 4.1 shall be subject to adjustment pursuant to Section 4.5.

4.2 Additional Shares. If Restricted Shares or Common Shares issued upon the exercise of Options are forfeited, then such Common Shares shall again become available for Awards under the Plan. If Stock Units, Options, SAR's, Performance Units or Other Awards are forfeited, terminate or are similarly treated for any other reason before being exercised, then the corresponding Common Shares shall again become available for Awards under the Plan. If Stock Units are settled, then only the number of Common Shares (if any) actually issued in settlement of such Stock Units shall reduce the number available under Section 4.1 and the balance shall again become available for Awards under the Plan. If SAR's are exercised, then only the number of Common Shares (if any) actually issued in settlement of such SAR's shall reduce the number available under Section 4.1 and the balance shall again become available for Awards under the Plan. The foregoing notwithstanding, the aggregate number of Common Shares that may be issued under the Plan upon the exercise of ISOs shall not be increased when Restricted Shares or other Common Shares are forfeited.

4.3 Dividend Equivalents. The Committee, in its sole discretion, may award dividend equivalent rights to Participants. Any dividend equivalents paid or credited under the Plan shall not be applied against the number of shares available for Awards, whether or not such dividend equivalents are converted into Stock Units.

4.4 Incentive Stock Options. Solely for purposes of determining whether shares are available for the issuance of ISOs, and notwithstanding any provision of this Article 4 to the contrary, the maximum aggregate number of shares that may be issued through ISOs under the Plan is 100,000. The terms of Sections 4.2 and 4.5 apply in determining the number of shares available under this Section for issuance through ISOs.

4.5 Adjustments. In the event that the outstanding Common Shares hereafter are changed into or exchanged for a different number or kind of shares or other securities of the Company or of another corporation by reason of merger, consolidation, reorganization, recapitalization, reclassification, combination of shares, stock split-up, or stock dividend, or in the event that there should be any other stock splits, stock dividends or other relevant changes in capitalization occurring after the effective date of this Plan:

- (a) the aggregate number and kind of shares subject to Awards made hereunder may be adjusted appropriately; and
- (b) rights under outstanding Awards made to Eligible Persons hereunder, both as to the number of subject shares and the Exercise Price, may be adjusted appropriately.

The foregoing adjustments and the manner of application of the foregoing provisions to Awards shall be determined solely by the Committee on a case-by-case basis, applied to similarly situation groups or in any other manner as it deems in its sole discretion. Any adjustment hereunder may provide for the elimination of fractional share interests.

4.6 Code Section 409A Limitation. Any adjustment made pursuant to Section 4.5 to any Award that is considered “deferred compensation” within the meaning of Code Section 409A shall be made in compliance with the requirements of Code Section 409A. Any adjustments made pursuant to Section 4.5 to any Award that is not considered “deferred compensation” shall be made in a manner to ensure that after such adjustment, the Award either continues not to be subject to Code Section 409A or complies with the requirements of Code Section 409A.

ARTICLE 5. ELIGIBILITY, PARTICIPATION AND TERMINATION

5.1 Eligibility. Employees, Outside Directors and Consultants shall be eligible for Awards. Notwithstanding the foregoing, only Employees shall be eligible for the grant of ISOs.

5.2 Participation. The Committee shall decide which Eligible Persons may receive an Award hereunder. To receive an Award, an Eligible Person must enter into an Agreement evidencing the Award.

5.3 Separation from Service. Unless provided otherwise in an Agreement, the following provisions shall apply to Awards.

- (a) Upon any separation from service for any reason other than his or her death or permanent and total Disability, a Participant shall have the right, subject to the restrictions of Sections 6.4 and 8.4, to exercise his or her Options or SAR's at any time within three months after separation from service, but only to the extent that, at the date of such separation, the Participant's right to exercise such Options or SAR's had accrued pursuant to the terms of the Agreement and had not previously been exercised; provided, however, that, unless otherwise provided in the Agreement, if there occurs a separation from service for Cause or a separation from service by the Participant (other than on account of death or permanent and total Disability), any Options or SAR's not exercised in full prior to such separation shall be canceled. Awards other than Options and SAR's shall be forfeited upon any separation from service for any reason other than the Participant's death or permanent and total Disability.
- (b) If the Participant dies while a Participant or within three months after any separation from service other than for Cause or a separation by the Participant (other than on account of death or permanent and total Disability), then the Options or SAR's may be exercised in full, subject to the restrictions of Sections 6.4 and 8.4, at any time within six months after the Participant's death, by the beneficiary of the Participant, but only to the extent that, at the date of death, the Participant's right to exercise such Options or SAR's had accrued and had not been forfeited pursuant to the terms of the Agreement and had not previously

been exercised. Awards other than Options and SAR's shall fully vest upon a Participant's separation from service by reason of his or her death and Performance Units may be paid out at a target level of performance.

- (c) Upon separation from service for reason of permanent and total Disability or death, a Participant or her or his estate shall have the right, subject to the restrictions of Sections 6.4 and 8.4 to exercise his or her Options or SAR's at any time within three months after separation from service, but only to the extent that, at the date of such separation, the Participant's right to exercise such Options or SAR's had accrued pursuant to the terms of the applicable Agreement and had not previously been exercised. Distribution of earned Performance Units may be made at the same time payments are made to Participants who did not incur a separation from service.

5.4 Dissolution or Liquidation. To the extent not previously exercised or settled, Awards shall terminate immediately prior to the dissolution or liquidation of the Company.

5.5 Reorganizations. In the event that the Company is a party to a merger or other reorganization, outstanding Awards shall be subject to the agreement of merger or reorganization. Such agreement shall provide for:

- (a) The continuation of the outstanding Awards by the Company, if the Company is a surviving corporation;
- (b) The assumption of the outstanding Awards by the surviving corporation or its parent or subsidiary;
- (c) The substitution by the surviving corporation or its parent or subsidiary of its own awards for the outstanding Awards;
- (d) Full exercisability or vesting and accelerated expiration of the outstanding Awards; or Settlement of the full value of the outstanding Awards in cash or cash equivalents followed by cancellation of such Awards.

If none of (a) through (d) is provided in such agreement, then each outstanding Award shall be deemed fully vested.

ARTICLE 6. OPTIONS

6.1 Stock Option Agreement. A Stock Option Agreement between the Optionee and the Company shall evidence each grant of an Option under the Plan. Such Option shall be subject to all applicable terms of the Plan and may be subject to any other terms that are not inconsistent with the Plan. The Stock Option Agreement shall specify whether the Option is an ISO or an NSO. The provisions of the various Stock Option Agreements entered into under the Plan need not be identical. Options may be granted in consideration of a reduction in the Optionee's other compensation. A Stock Option Agreement

may provide that a new Option will be granted automatically to the Optionee when he or she exercises a prior Option and pays the Exercise Price in the form described in Section 6.8.

6.2 Number of Shares. Each Stock Option Agreement shall specify the number of Common Shares subject to the Option and shall provide for the adjustment of such number in accordance with Article 4.5.

6.3 Exercise Price. Each Stock Option Agreement shall specify the Exercise Price, provided that the Exercise Price for any Option shall in no event be less than 100% of the Fair Market Value of a Common Share on the date of grant. In the case of an NSO, a Stock Option Agreement may specify an Exercise Price that varies in accordance with a predetermined formula while the NSO is outstanding.

6.4 Exercisability and Term. Each Stock Option Agreement shall specify the date or event when all or any installment of the Option is to become exercisable. The Stock Option Agreement shall also specify the term of the Option, provided that the term of an ISO shall in no event exceed ten (10) years from the date of grant. A Stock Option Agreement may provide for accelerated exercisability in the event of the Optionee's death, Disability or Retirement or other events and may provide for expiration prior to the end of its term in the event of the termination of the Optionee's service. Options may be awarded in combination with SAR's, and such an Award may provide that the Options will not be exercisable unless the related SAR's are forfeited.

6.5 Effect of Change in Control. The Committee may determine, at the time of granting an Option or thereafter, that such Option shall become exercisable as to all or part of the Common Shares subject to such Option in the event that a Change in Control occurs with respect to the Company, subject to the following limitations:

- (a) In the case of an ISO, the acceleration of exercisability shall not occur without the Optionee's written consent.
- (b) If the Company and the other party to the transaction constituting a Change in Control agree that such transaction is to be treated as a "pooling of interests" for financial reporting purposes, and if such transaction in fact is so treated, then the acceleration of exercisability shall not occur to the extent that the Company's independent accountants and such other party's independent accountants separately determine in good faith that such acceleration would preclude the use of "pooling of interests" accounting.

6.6 Modification or Assumption of Options. Within the limitations of the Plan, the Committee may modify, extend or assume outstanding options or may accept the cancellation of outstanding options (whether granted by the Company or by another issuer) in return for the grant of new Options for the same or a different number of shares and at the same or a different exercise price. The foregoing notwithstanding, no modification of an Option shall, without the consent of the Optionee, alter or impair his or her rights or obligations under such Option.

6.7 Buyout Provisions. The Committee may at any time (a) offer to buy out for a payment in cash or cash equivalents an Option previously granted or (b) authorize an Optionee to elect to cash out an

Option previously granted, in either case at such time and based upon such terms and conditions as the Committee shall establish.

6.8 Payment for Option Shares. The entire Exercise Price of Common Shares issued upon exercise of Options shall be payable in cash or cash equivalents at the time when such Common Shares are purchased, except, in the case of an ISO granted under the Plan, payment shall be made only pursuant to the express provisions of the applicable Stock Option Agreement. The Stock Option Agreement may specify that payment may be made in any form(s) described herein. In the case of an NSO, the Committee may at any time accept payment in any form(s) described herein.

All or any part of the Exercise Price may be paid by any combination of the following: (a) surrendering, or attesting to the ownership of, Common Shares that are already owned by the Optionee. Such Common Shares shall be valued at their Fair Market Value on the date when the new Common Shares are purchased under the Plan. The Optionee shall not surrender, or attest to the ownership of, Common Shares in payment of the Exercise Price if such action would cause the Company to recognize compensation expense (or additional compensation expense) with respect to the Option for financial reporting purposes; (b) delivering (on a form prescribed by the Company) an irrevocable direction to a securities broker approved by the Company to sell all or part of the Common Shares being purchased under the Plan and to deliver all or part of the sales proceeds to the Company, including those necessary for withholding taxes; (c) delivering (on a form prescribed by the Company) an irrevocable direction to pledge all or part of the Common Shares being purchased under the Plan to a securities broker or lender approved by the Company, as security for a loan, and to deliver all or part of the loan proceeds to the Company, including proceeds necessary for withholding taxes; (d) delivering (on a form prescribed by the Company) a full-recourse promissory note. However, the par value of the Common Shares being purchased under the Plan, if newly issued, shall be paid in cash or cash equivalents; or (e) by any other form that is consistent with applicable laws, regulations and rules.

6.9 Special Rules for ISO's.

- (a) In the case of ISOs granted hereunder, the aggregate Fair Market Value (determined as of the date of the Awards thereof) of Common Shares with respect to which ISOs become exercisable by any Participant for the first time during any calendar year (under the Plan and all other plans maintained by the Company, Affiliates or Subsidiaries) shall not exceed \$100,000.
- (b) In the case of an individual described in Section 422(b)(6) of the Code (relating to certain 10% owners), the Exercise Price with respect to an ISO shall not be less than 110% of the Fair Market Value of a Common Share on the day the Option is granted, and the term of an ISO shall be no more than five years from the date of grant.
- (c) If Common Shares acquired upon exercise of an ISO are disposed of in a disqualifying disposition within the meaning of Section 422 of the Code by a Participant prior to the expiration of either two years from the date of grant of such Option or one year from the transfer of such shares to the Participant pursuant to the exercise of such Option, or in any

other disqualifying disposition within the meaning of Section 422 of the Code, such Participant shall notify the Company in writing as soon as practicable thereafter of the date and terms of such disposition and, if the Company thereupon has a tax-withholding obligation, shall pay to the Company an amount equal to any withholding tax the Company is required to pay as a result of the disqualifying disposition.

ARTICLE 7. AUTOMATIC OPTION GRANTS TO OUTSIDE DIRECTORS

7.1 Initial Grants. Each person who first becomes an Outside Director after the Effective Date shall receive a one-time grant of an NSO covering Common Shares (subject to adjustment under Section 4.5) as shall be determined by the Committee. Such NSO shall be granted on the date when such Outside Director first joins the Board and shall become exercisable immediately on the date of grant.

7.2 Annual Grants. Upon the conclusion of each regular annual meeting of the Company's stockholders held in the year 2006 or thereafter, each person who shall continue service as an Outside Director thereafter shall receive an NSO covering Common Shares (subject to adjustment under Section 4.5) as shall be determined by the Committee, except that such NSO shall not be granted in the calendar year in which the same Outside Director received the NSO described in Section 7.1. NSOs granted under this Section 7.2 shall become exercisable in full on the first anniversary of the date of grant.

7.3 Accelerated Exercisability. All NSOs granted to an Outside Director under this Article 7 shall also become exercisable in full in the event of:

- (a) The termination of such Outside Director's service because of death, Disability or Retirement; or
- (b) A Change in Control with respect to the Company; provided, however, if the Company and the other party to the transaction constituting a Change in Control agree that such transaction is to be treated as a "pooling of interests" for financial reporting purposes, and if such transaction in fact is so treated, then the acceleration of exercisability shall not occur to the extent that the Company's independent accountants and such other party's independent accountants separately determine in good faith that such acceleration would preclude the use of "pooling of interests" accounting.

7.4 Exercise Price. The Exercise Price under all NSOs granted to an Outside Director under this Article 7 shall be equal to 100% of the Fair Market Value of a Common Share on the date of grant, payable in one or more of the forms described in Section 6.8.

7.5 Term. Notwithstanding other provisions of the Plan to the contrary, all NSOs granted to an Outside Director under this Article 7 shall terminate on the earliest of (a) the 10th anniversary of the date of grant, (b) the date 24 months after the termination of such Outside Director's service for any reason other than death or Disability, (c) the date of termination of such Outside Director's service for Cause, or (d) the date 12 months after the termination of such Outside Director's service because of death.

7.6 Affiliates of Outside Directors. The Committee may provide that the NSOs that otherwise would be granted to an Outside Director under this Article 7 shall instead be granted to an affiliate of such Outside Director. Such affiliate shall then be deemed to be an Outside Director for purposes of the Plan, provided that the service-related vesting and termination provisions pertaining to the NSOs shall be applied with regard to the service of the Outside Director.

ARTICLE 8. STOCK APPRECIATION RIGHTS

8.1 SAR Agreement. Each grant of an SAR under the Plan shall be evidenced by an SAR Agreement between the Optionee and the Company. Such SAR shall be subject to all applicable terms of the Plan and may be subject to any other terms that are not inconsistent with the Plan. The provisions of the various SAR Agreements entered into under the Plan need not be identical. SAR's may be granted in consideration of a reduction in the Optionee's other compensation.

8.2 Number of Shares. Each SAR Agreement shall specify the number of Common Shares to which the SAR pertains and shall provide for the adjustment of such number in accordance with Section 4.5 unless the Committee provides otherwise.

8.3 Exercise Price. Each SAR Agreement shall specify the Exercise Price, which shall not be less than 100% of the Fair Market Value for a Common Share on the date of grant. An SAR Agreement may specify an Exercise Price that varies in accordance with a predetermined formula while the SAR is outstanding.

8.4 Exercisability and Term. Each SAR Agreement shall specify the date when all or any installment of the SAR is to become exercisable. The SAR Agreement shall also specify the term of the SAR. An SAR Agreement may provide for accelerated exercisability in the event of the Optionee's death, Disability or Retirement or other events and may provide for expiration prior to the end of its term in the event of the termination of the Optionee's service. SAR's may be awarded in combination with Options, and such an Award may provide that the SAR's will not be exercisable unless the related Options are forfeited. An SAR may be included in an ISO only at the time of grant but may be included in an NSO at the time of grant or thereafter. An SAR granted under the Plan may provide that it will be exercisable only in the event of a Change in Control. To the extent necessary to comply with Code Section 409A, the SAR Agreement shall not include any features allowing a Participant to defer the recognition of income past the Exercise Date.

8.5 Effect of Change in Control. The Committee may determine, at the time of granting an SAR or thereafter, that such SAR shall become fully exercisable as to all Common Shares subject to such SAR in the event that a Change in Control occurs with respect to the Company, subject to the following sentence. If the Company and the other party to the transaction constituting a Change in Control agree that such transaction is to be treated as a "pooling of interests" for financial reporting purposes, and if such transaction in fact is so treated, then the acceleration of exercisability shall not occur to the extent that the Company's independent accountants and such other party's independent accountants separately determine in good faith that such acceleration would preclude the use of "pooling of interests" accounting.

8.6 Exercise of SAR's. Upon exercise of an SAR, the Optionee (or any person having the right to exercise the SAR after his or her death) shall receive from the Company (a) Common Shares, (b) cash or (c) a combination of Common Shares and cash, as the Committee shall determine. The amount of cash and/or the Fair Market Value of Common Shares received upon exercise of SAR's shall, in the aggregate, be equal to the amount by which the Fair Market Value (on the date of surrender) of the Common Shares subject to the SAR's exceeds the Exercise Price. If, on the date when an SAR expires, the Exercise Price under such SAR is less than the Fair Market Value on such date but any portion of such SAR has not been exercised or surrendered, then such SAR shall automatically be deemed to be exercised as of such date with respect to such portion.

8.7 Modification or Assumption of SAR's. Within the limitations of the Plan, the Committee may modify, extend or assume outstanding SAR's or may accept the cancellation of outstanding SAR's (whether granted by the Company or by another issuer) in return for the grant of new SAR's for the same or a different number of shares and at the same or a different exercise price. The foregoing notwithstanding, no modification of an SAR shall, without the consent of the Optionee, alter or impair his or her rights or obligations under such SAR.

ARTICLE 9. RESTRICTED SHARES

9.1 Restricted Share Agreement. Each grant of Restricted Shares under the Plan shall be evidenced by a Restricted Share Agreement between the recipient and the Company. Such Restricted Shares shall be subject to all applicable terms of the Plan and may be subject to any other terms that are not inconsistent with the Plan. The provisions of the various Restricted Share Agreements entered into under the Plan need not be identical. Restricted Shares may be granted alone or in addition to other Awards made under the Plan.

9.2 Payment for Awards. Subject to the following sentence, Restricted Shares may be sold or awarded under the Plan for such consideration as the Committee may determine, including (without limitation) cash, cash equivalents, full-recourse promissory notes, past services and future services. To the extent that an Award consists of newly issued Restricted Shares, the Award recipient shall furnish consideration with a value not less than the par value of such Restricted Shares in the form of cash, cash equivalents or past services rendered to the Company (or a Parent or Subsidiary), as the Committee may determine.

9.3 Vesting Conditions. Each Award of Restricted Shares may or may not be subject to vesting conditions as the Committee determines, including achievement of one or more performance goals set forth in Section 11.3. Vesting shall occur, in full or in installments, upon satisfaction of the conditions specified in the Restricted Share Agreement. A Restricted Share Agreement may provide for accelerated vesting in the event of the Participant's death, Disability or Retirement or other events the Committee may specify. The Committee may determine, at the time of granting Restricted Shares or thereafter, that all or part of such Restricted Shares shall become vested in the event that a Change in Control occurs with respect to the Company, excepts as provided in the following sentence. If the Company and the other party

to the transaction constituting a Change in Control agree that such transaction is to be treated as a “pooling of interests” for financial reporting purposes, and if such transaction in fact is so treated, then the acceleration of vesting shall not occur to the extent that the Company’s independent accountants and such other party’s independent accountants separately determine in good faith that such acceleration would preclude the use of “pooling of interests” accounting.

9.4 Voting and Dividend Rights. The holders of Restricted Shares awarded under the Plan shall have the same voting, dividend and other rights as the Company’s other stockholders unless the Participant’s Agreement provides otherwise. A Restricted Share Agreement, however, may require that the holders of Restricted Shares invest any cash dividends received in additional Restricted Shares. Such additional Restricted Shares shall be subject to the same conditions and restrictions as the Award with respect to which the dividends were paid.

9.5 Certificates. Notwithstanding the limitations on issuance of Common Shares otherwise provided in the Plan, each Participant receiving an Award of Restricted Share shall be issued a certificate (or other representation of title, such as book entry registration) in respect of such Restricted Share. Such certificate shall be registered in the name of the Participant and shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Award as determined by the Committee. The Committee may require that the certificates evidencing such shares be held in custody by the Company until the applicable period of restriction shall have lapsed and that, as a condition of any Award of Restricted Shares, the Participant shall have delivered a share power, endorsed in blank, relating to the Common Shares covered by such Award.

9.6 Section 83(b) Election. The Committee may prohibit a Participant from making an election under Section 83(b) of the Code. If the Committee has not prohibited such election, and if the Participant elects to include in such Participant’s gross income in the year of transfer the amounts specified in Section 83(b) of the Code, the Participant shall notify the Company of such election within ten (10) days of filing notice of the election with the Internal Revenue Service, and will provide the required withholding pursuant to Section 15.6, in addition to any filing and notification required pursuant to regulations issued under the authority of Section 83(b) of the Code.

9.7 Provisions Relating to Code Section 162(m). This Plan may be amended by the Board, without shareholder approval, for the purpose of including provisions calculated to effectuate the intent of the Company that Awards made to persons who are (or may become) Covered Employees within the meaning of Section 162(m) of the Code shall constitute “qualified performance-based compensation” satisfying the relevant requirements of Code Section 162(m) and the guidance thereunder and to insure that the Plan shall be administered and the provisions of the Plan shall be interpreted in a manner consistent with Code Section 162(m).

ARTICLE 10. STOCK UNITS

10.1 Stock Unit Agreement. Each grant of Stock Units under the Plan shall be evidenced by a Stock Unit Agreement between the recipient and the Company. Such Stock Units shall be subject to all

applicable terms of the Plan and may be subject to any other terms that are not inconsistent with the Plan. The provisions of the various Stock Unit Agreements entered into under the Plan need not be identical. Stock Units may be granted in consideration of a reduction in the recipient's other compensation. Stock Units may be granted alone or in addition to other Awards made under the Plan.

10.2 Payment for Awards. To the extent that an Award is granted in the form of Stock Units, no cash consideration shall be required of the Award recipients.

10.3 Vesting Conditions. Each Award of Stock Units may or may not be subject to vesting. Vesting shall occur, in full or in installments, upon satisfaction of the conditions specified in the Stock Unit Agreement, including achievement of one or more performance goals set forth in Section 11.3. A Stock Unit Agreement may provide for accelerated vesting in the event of the Participant's death, Disability or Retirement or other events. The Committee may determine, at the time of granting Stock Units or thereafter, that all or part of such Stock Units shall become vested in the event that a Change in Control occurs with respect to the Company, except as provided in the following sentence. If the Company and the other party to the transaction constituting a Change in Control agree that such transaction is to be treated as a "pooling of interests" for financial reporting purposes, and if such transaction in fact is so treated, then the acceleration of vesting shall not occur to the extent that the Company's independent accountants and such other party's independent accountants separately determine in good faith that such acceleration would preclude the use of "pooling of interests" accounting.

10.4 Voting and Dividend Rights. The holders of Stock Units shall have no voting rights. Prior to settlement or forfeiture, any Stock Unit awarded under the Plan may, at the Committee's sole discretion, carry with it a right to dividend equivalents. Such right entitles the holder to be credited with an amount equal to all cash dividends paid on one Common Share while the Stock Unit is outstanding. Dividend equivalents may be converted into additional Stock Units. Settlement of dividend equivalents may be made in the form of cash, in the form of Common Shares, or in a combination of both, as determined by the Committee. Prior to distribution, any dividend equivalents that are not paid shall be subject to the same conditions and restrictions as the Stock Units to which they attach.

10.5 Form and Time of Settlement of Stock Units. Settlement of vested Stock Units may be made in the form of (a) cash, (b) Common Shares or (c) any combination of both, as determined by the Committee. The actual number of Stock Units eligible for settlement may be larger or smaller than the number included in the original Award, based on predetermined performance factors. Methods of converting Stock Units into cash may include (without limitation) a method based on the average Fair Market Value of Common Shares over a series of trading days. Vested Stock Units may be settled in a lump sum or in installments. The distribution must occur or commence when all vesting conditions applicable to the Stock Units have been satisfied or have lapsed. The amount of a deferred distribution may be increased by an interest factor or by dividend equivalents. Until an Award of Stock Units is settled, the number of such Stock Units shall be subject to adjustment pursuant to Section 4.5.

ARTICLE 11. OTHER AWARDS AND PERFORMANCE-BASED AWARDS

11.1 Performance Units. The Committee shall have authority to grant Performance Units under the Plan at any time or from time to time. A Performance Unit consists of the right to receive Common Shares or cash, as provided in the particular Agreement, upon achievement of a performance goal or goals (as the case may be) under Section 11.3. The Committee shall have complete discretion to determine the number of Performance Units granted to each Participant and any applicable conditions. Each award of Performance Units shall be evidenced by and be subject to the terms of an Agreement. An award of Performance Units shall be earned in accordance with the Agreement over a specified period of performance. Unless expressly waived in the Agreement, an award of Performance Units must vest solely on the attainment of one or more performance goals set forth in Section 11.3 and in such case shall be subject to the terms and conditions set forth therein. Performance Units may be granted alone or in addition to other Awards made under the Plan.

11.2 Other Awards. The Committee shall have authority to grant Other Awards under the Plan at any time and from time to time. An Other Award is a grant not otherwise specifically provided for under the terms of the Plan that is valued in whole or in part by reference to, or is otherwise based upon or settled in, Common Shares. The grant of an Other Award shall be evidenced by an Agreement, setting forth the terms and conditions of the Award as the Committee, in its sole discretion within the terms of the Plan, deems desirable. Other Awards may be awarded alone or in addition to other Awards made under the Plan.

11.3 Provisions Relating to Code Section 162(m). Unless expressly waived (either with respect to an individual Participant or a class of individual Participants) in writing by the Committee, it is the intent of the Company that Awards made to persons who are (or may become) Covered Employees within the meaning of Section 162(m) of the Code shall constitute "qualified performance-based compensation" satisfying the relevant requirements of Code Section 162(m) and the guidance thereunder. Accordingly, the Plan shall be administered and the provisions of the Plan shall be interpreted in a manner consistent with Code Section 162(m). If any provision of the Plan or any Agreement relating to such an Award does not comply or is inconsistent with the requirements of Code Section 162(m), unless expressly waived as described above, such provision shall be construed or deemed amended to the extent necessary to conform to such requirements. In addition, the following provisions shall apply to the Plan or an Award to the extent necessary to obtain a tax deduction for the Company:

- (a) Awards subject to this Section must vest (or may be granted or vest) solely on the attainment of one or more objective performance goals unrelated to term of employment. Awards will also be subject to the general vesting provisions provided in the Agreement and this Plan.
- (b) Prior to completion of 25% of the period of performance or such earlier date as required under Section 162(m), the Committee must establish performance goals (in accordance with subsection (d) below) in writing (including but not limited to Committee minutes) for Covered Employees who will receive Awards that are intended as qualified performance-

based compensation. The outcome of the goal must be substantially uncertain at the time the Committee actually established the goal.

- (c) The performance goal must state, in terms of an objective formula or standard, the method for computing the Award payable to the Participant if the goal is attained. The terms of the objective formula or standard must prevent any discretion being exercised by the Committee to later increase the amount payable that otherwise would be due upon attainment of the goal, but may allow discretion to decrease the amount payable.
- (d) The material terms of the performance goal must be disclosed to and subsequently approved in a separate vote by the stockholders before the payout is executed, unless they conform to one or any combination of the following goals/targets, each determined in accordance with generally accepted accounting principles or similar objective standards (and/or each as may appear in the annual report to stockholders, Form 10K or Form 10Q): revenue; earnings (including earnings before interest, taxes, depreciation and amortization, earnings before interest and taxes, and earnings before or after taxes); operating income; net income; profit margins; earnings per share; return on assets; return on equity; return on invested capital; economic value-added; stock price; gross dollar volume; total shareholder return; market share; book value; expense management; cash flow; and customer satisfaction.

The foregoing criteria may relate to the Company, Affiliates, Subsidiaries, one or more of their divisions or units, or any combination of the foregoing, and may be applied on an absolute basis and/or be relative to one or more peer group companies or indices, or any combination thereof, all as the Committee shall determine.

- (e) A combination of the above performance goals may be used with a particular Agreement evidencing an Award.
- (f) The Committee in its sole discretion in setting the goals/targets in the time prescribed above may provide for the making of equitable adjustments (singularly or in combination) to the goals/targets in recognition of unusual or nonrecurring events for the following qualifying objective items: asset impairments under Statement of Financial Accounting Standards No. 121, as amended or superseded; acquisition-related charges; accruals for restructuring and/or reorganization program charges; merger integration costs; merger transaction costs; any profit or loss attributable to the business operations of any entity or entities acquired during the period of service to which the performance goal relates; tax settlements; any extraordinary, unusual-in-nature, infrequent-in-occurrence, or other nonrecurring items (not otherwise listed) as described in Accounting Principles Board Opinion No. 30; any extraordinary, unusual-in-nature, infrequent-in-occurrence, or other nonrecurring items (not otherwise listed) in management's discussion and analysis of financial condition results of operations, selected financial data, financial statements and/or in the footnotes, each as appearing in the annual report to stockholders; unrealized gains or losses on investments; charges related to derivative transactions contemplated by Statement of Financial

Accounting Standards No. 133, as amended or superseded; and compensation charges related to FAS 123 (Revised) or its successor provision.

- (g) The Committee must certify in writing prior to payout that the performance goals and any other material terms were in fact satisfied. In the manner required by Section 162(m) of the Code, the Committee shall, promptly after the date on which the necessary financial and other information for a particular period of performance becomes available, certify the extent to which performance goals have been achieved with respect to any Award intended to qualify as “performance-based compensation” under Section 162(m) of the Code. In addition, the Committee may, in its discretion, reduce or eliminate the amount of any Award payable to any Participant, based on such factors as the Committee may deem relevant.
- (h) Limitation on Performance-Based Awards.
 - (i) If an Option is canceled, the canceled Option continues to be counted against the maximum number of shares for which Options may be granted to the Participant under the Plan, but not towards the total number of shares reserved and available under the Plan pursuant to Sections 4.1 and 4.4.
 - (ii) During any fiscal year, the maximum number of Common Shares for which Options and SAR’s may be granted to any Covered Employee shall not exceed 25,000 shares.
 - (iii) During any fiscal year, the maximum payment hereunder for performance-based compensation purposes under Code Section 162(m) to any Covered Employee shall not exceed \$500,000.

In the case of an outstanding Award intended to qualify for the performance-based compensation exception under Section 162(m), the Committee shall not, without approval of a majority of the shareholders of the Company, amend the Plan or the Award in a manner that would adversely affect the Award’s continued qualification for the performance-based exception.

ARTICLE 12. LIMITATION ON PARACHUTE PAYMENTS

12.1 Scope of Limitation. This Article 12 shall apply to an Award only if:

- (a) The independent auditors most recently selected by the Board (the “Auditors”) determine that the after-tax value of such Award to the Participant, taking into account the effect of all federal, state and local income taxes, employment taxes and excise taxes applicable to the Participant (including the excise tax under section 4999 of the Code), will be greater after the application of this Article than it was before the application of this Article; or

- (b) The Committee, at the time of making an Award under the Plan or at any time thereafter, specifies in writing that such Award shall be subject to this Article (regardless of the after-tax value of such Award to the Participant).

If this Article applies to an Award, it shall supersede any contrary provision of the Plan or of any Award granted under the Plan.

12.2 Basic Rule. In the event that the independent auditors most recently selected by the Board (the “Auditors”) determine that any payment or transfer by the Company under the Plan to or for the benefit of a Participant (a “Payment”) would be nondeductible by the Company for federal income tax purposes because of the provisions concerning “excess parachute payments” in Section 280G of the Code, then the aggregate present value of all Payments shall be reduced (but not below zero) to the Reduced Amount. For purposes of this Article, the “Reduced Amount” shall be the amount, expressed as a present value, which maximizes the aggregate present value of the Payments without causing any Payment to be nondeductible by the Company because of Section 280G of the Code.

12.3 Reduction of Payments. If the Auditors determine that any Payment would be nondeductible by the Company because of Section 280G of the Code, then the Company shall promptly give the Participant notice to that effect and a copy of the detailed calculation thereof and of the Reduced Amount, and the Participant may then elect, in his or her sole discretion, which and how much of the Payments shall be eliminated or reduced (as long as after such election the aggregate present value of the Payments equals the Reduced Amount) and shall advise the Company in writing of his or her election within 10 days of receipt of notice. If no such election is made by the Participant within such 10-day period, then the Company may elect which and how much of the Payments shall be eliminated or reduced (as long as after such election the aggregate present value of the Payments equals the Reduced Amount) and shall notify the Participant promptly of such election. For purposes of this Article, present value shall be determined in accordance with Section 280G(d)(4) of the Code. All determinations made by the Auditors under this Article shall be binding upon the Company and the Participant and shall be made within 60 days of the date when a Payment becomes payable or transferable. As promptly as practicable following such determination and the elections hereunder, the Company shall pay or transfer to or for the benefit of the Participant such amounts as are then due to him or her under the Plan and shall promptly pay or transfer to or for the benefit of the Participant in the future such amounts as become due to him or her under the Plan.

12.4 Overpayments and Underpayments. As a result of uncertainty in the application of Section 280G of the Code at the time of an initial determination by the Auditors hereunder, it is possible that Payments will have been made by the Company that should not have been made (an “Overpayment”) or that additional Payments that will not have been made by the Company could have been made (an “Underpayment”), consistent in each case with the calculation of the Reduced Amount hereunder. In the event that the Auditors, based upon the assertion of a deficiency by the Internal Revenue Service against the Company or the Participant that the Auditors believe has a high probability of success, determine that an Overpayment has been made, such Overpayment shall be treated for all purposes as a loan to the Participant which he or she shall repay to the Company, together with interest at the applicable federal rate

provided in Section 7872(f)(2) of the Code; provided, however, that no amount shall be payable by the Participant to the Company if and to the extent that such payment would not reduce the amount subject to taxation under Section 4999 of the Code. In the event that the Auditors determine that an Underpayment has occurred, such Underpayment shall promptly be paid or transferred by the Company to or for the benefit of the Participant, together with interest at the applicable federal rate provided in Section 7872(f)(2) of the Code.

12.5 Related Corporations. For purposes of this Article, the term “Company” shall include affiliated corporations to the extent determined by the Auditors in accordance with Section 280G(d)(5) of the Code.

ARTICLE 13. MISCELLANEOUS

13.1 Death of Participant. Any Awards that become payable after a Participant’s death shall be distributed to the Participant’s beneficiary or beneficiaries. Each recipient of an Award under the Plan shall designate one or more beneficiaries for this purpose by filing the prescribed form with the Company. A beneficiary designation may be changed by filing the prescribed form with the Company at any time before the Participant’s death. If no beneficiary was designated or if no designated beneficiary survives the Participant, then any Awards that becomes payable after the recipient’s death shall be distributed to the recipient’s surviving spouse, and if there is no surviving spouse, to the Participant’s estate.

13.2 Awards Under Other Plans. The Company may grant awards under other plans or programs. Such awards may be settled in the form of Common Shares issued under this Plan. Such Common Shares shall be treated for all purposes under the Plan like Common Shares issued in settlement of Stock Units and shall, when issued, reduce the number of Common Shares available under Article 4.

13.3 Non-Transferability. Except as otherwise provided in an Award Agreement or domestic relations order, an Award is not transferable other than as a result of a Participant’s death and shall be exercisable during the Participant’s lifetime only by the Participant.

13.4 Payment of Director’s Fees in Securities. No provision of this Section shall be effective unless and until the Board has determined to implement such provision.

- (a) An Outside Director may elect to receive his or her annual retainer payments and/or meeting fees from the Company in the form of cash, NSOs, Restricted Shares or Stock Units, or a combination thereof, as determined by the Board. Such NSOs, Restricted Shares and Stock Units shall be issued under the Plan. An election under this Article 13 shall be filed with the Company on the prescribed form.
- (b) The number of NSOs, Restricted Shares or Stock Units to be granted to Outside Directors in lieu of annual retainers and meeting fees that would otherwise be paid in cash shall be calculated in a manner determined by the Board. The terms of such NSOs, Restricted Shares or Stock Units shall also be determined by the Board.

13.5 Fractional Shares. No fractional Common Shares will be issued or delivered under the Plan; however, the determination as to the number of shares to be issued or delivered may, at the election of the Committee, be delayed to December 31st of each year for the purpose of combining multiple awards to avoid fractional shares. The Committee will determine whether cash, other Awards or other property will be issued or paid in lieu of fractional shares or whether fractional shares will be forfeited or eliminated.

13.6 Retention Rights. Neither the Plan nor any Award granted under the Plan shall be deemed to give any individual a right to remain an Employee, Outside Director or Consultant. The Company and its Parents, Subsidiaries and Affiliates reserve the right to terminate the service of any Employee, Outside Director or Consultant at any time, with or without cause, subject to applicable laws, the Company's charter and bylaws and a written employment agreement (if any).

13.7 Stockholders' Rights. Other than those otherwise provided by the Plan or in an Agreement, a Participant shall have no dividend rights, voting rights or other rights as a stockholder with respect to any Common Shares covered by his or her Award prior to the time when a stock certificate for such Common Shares is issued or, if applicable, the time when he or she becomes entitled to receive such Common Shares by filing any required notice of exercise and paying any required Exercise Price. No adjustment shall be made for cash dividends or other rights for which the record date is prior to such time, except as expressly provided in the Plan.

13.8 Regulatory Requirements. Any other provision of the Plan notwithstanding, the obligation of the Company to issue Common Shares under the Plan shall be subject to all applicable laws, rules and regulations and such approval by any regulatory body as may be required. The Company reserves the right to restrict, in whole or in part, the delivery of Common Shares pursuant to any Award prior to the satisfaction of all legal requirements relating to the issuance of such Common Shares, to their registration, qualification or listing or to an exemption from registration, qualification or listing.

13.9 Withholding Taxes. To the extent required by applicable federal, state, local or foreign law, a Participant or his or her successor shall make arrangements satisfactory to the Company for the satisfaction of any withholding tax obligations that arise in connection with the Plan. The Company shall not be required to issue any Common Shares or make any cash payment under the Plan until such obligations are satisfied, and the failure of a Participant to satisfy such requirements with respect to an Award shall cause such Award to be forfeited.

The Committee may permit a Participant to satisfy all or part of his or her withholding or income tax obligations by having the Company withhold all or a portion of any Common Shares that otherwise would be issued to him or her or by surrendering all or a portion of any Common Shares that he or she previously acquired. Such Common Shares shall be valued at their Fair Market Value on the date when taxes otherwise would be withheld in cash.

13.10 Term of the Plan. The Plan, as set forth herein, is effective on May 31, 2006, and Awards may be made under the Plan until the expiration of ten (10) years from such date; provided, however, that no Awards shall be made hereunder until the shareholders of the Company approve the Plan; provided, further, that no ISOs shall be granted on or after the 10th anniversary of the later of (a) the date when the

Board adopted the Plan or (b) the date when the Board adopted the most recent increase in the number of Common Shares available under Article 4 which was approved by the Company's stockholders.

13.11 Modification, Extension and Renewal of Awards. Within the limitations of the Plan, the Committee may modify, extend or renew outstanding Awards or accept the cancellation of outstanding Awards (to the extent not previously exercised) to make new Awards in substitution therefore, unless such modification, extension or renewal would not satisfy any applicable requirements of Rule 16b-3 of the Exchange Act. The foregoing notwithstanding, no modification of an Award shall, without the consent of the Participant, alter or impair any rights or obligations under any Award previously made.

Any modification, extension or renewal hereunder to any Award that is considered "deferred compensation" within the meaning of Section 409A of the Code shall be made in compliance with the requirements of Code Section 409A. Any modification, extension or renewal hereunder to any Award that is not considered "deferred compensation" within the meaning of Code Section 409A shall be made in a manner to ensure that after such action, the Grant either continues not to be subject to Code Section 409A or complies with the requirements of Code Section 409A.

13.12 No Fund Created. Any and all payments hereunder to recipients of Awards hereunder shall be made from the general funds of the Company, and no special or separate fund shall be established or other segregation of assets made to assure such payments; provided that bookkeeping reserves may be established in connection with the satisfaction of payment obligations hereunder. The obligations of the Company under the Plan are unsecured and constitute a mere promise by the Company to make benefit payments in the future, and, to the extent that any person acquires a right to receive payments under the Plan from the Company, such right shall be no greater than the right of a general unsecured creditor of the Company.

13.13 Code Section 409A Savings Clause.

- (a) It is the intention of the Company that no Award shall be "deferred compensation" subject to Section 409A of the Code, unless and to the extent that the Committee specifically determines otherwise as provided below, and the Plan and the terms and conditions of all Awards shall be interpreted accordingly.
- (b) The terms and conditions governing any Awards that the Committee determines will be subject to Section 409A of the Code, including any rules for elective or mandatory deferral of the delivery of cash or Common Shares pursuant thereto and any rules regarding treatment of such Awards in the event of a Change in Control, shall be set forth in the applicable Agreement and shall comply in all respects with Section 409A of the Code.
- (c) Following a Change in Control, no action shall be taken under the Plan that will cause any Award that the Committee has previously determined is subject to Section 409A of the Code to fail to comply in any respect with Section 409A of the Code without the written consent of the Participant.

13.14 Amendment or Termination. The Board may, at any time and for any reason, amend or terminate the Plan. An amendment of the Plan shall be subject to the approval of the Company's stockholders only to the extent required by applicable laws, regulations or rules. No Awards shall be granted under the Plan after the termination thereof. The termination of the Plan, or any amendment thereof, shall not affect any Award previously granted under the Plan.

13.15 Severability. In the event any provision of the Plan shall be held illegal or invalid, the illegality or invalidity shall not affect the remaining parts of the Plan and the Plan shall be construed and enforced, to the extent possible, as if the illegal or invalid provisions had not been included herein.

13.16 Captions. The use of captions in the Plan is for convenience. The captions are not intended to provide substantive rights and shall not be used in construing the terms of the Plan.

To record the adoption of the Plan by the Board, the Company has caused its duly authorized officer to execute this document in the name of the Company.

MID-AMERICA BANCSHARES, INC.

By: /s/ Gary L. Scott
Gary L. Scott, Chairman

Adopted by the Board of Directors —
April 30, 2006

Attest: /s/ Jason K. West
Corporate Secretary

Adopted by the Shareholders —
April 30, 2006

Attest: /s/ Jason K. West
Corporate Secretary

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Section 11: EX-21.1 (EX-21.1 SUBSIDIARIES OF PINNACLE FINANCIAL PARTNERS, INC.)

List of Subsidiaries

Subsidiaries	Jurisdiction or State of Incorporation	Names Under Which Subsidiary Does Business (1)
Pinnacle National Bank (2)	Tennessee	
PrimeTrust Bank (8)	Tennessee	
Bank of the South (8)	Tennessee	
PFP Title Company (3)	Tennessee	
Pinnacle Community Development Corporation (3)	Tennessee	
PNFP Statutory Trust I (4)	Connecticut	
PNFP Statutory Trust II (4)	Delaware	
PNFP Statutory Trust III (4)	Connecticut	
PNFP Statutory Trust IV (4)	Delaware	
PNFP Holdings, Inc. (5)	Nevada	
PNFP Properties, Inc. (6)	Maryland	
Pinnacle Advisory Services, Inc. (7)	Tennessee	
Pinnacle Credit Enhancement Services, Inc. (7)	Tennessee	
Pinnacle Rutherford Real Estate, Inc. (3)	Tennessee	
Pinnacle Nashville Real Estate, Inc. (3)	Tennessee	
Pinnacle Rutherford Towers, Inc.(3)	Tennessee	
Pinnacle Service Company, Inc.(3)	Tennessee	
PNFP Insurance, Inc.(7)	Nevada	

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1. Unless otherwise noted, each Subsidiary only does business under its legal name as set forth under the heading “Subsidiaries.”
 2. As a national bank, Pinnacle National Bank is organized under the federal laws of the United States of America.
 3. PFP Title Company, Pinnacle Community Development Corporation, Pinnacle Rutherford Real Estate, Inc., Pinnacle Nashville Real Estate, Inc., Pinnacle Rutherford Towers, Inc. and Pinnacle Service Company, Inc. are wholly-owned subsidiaries of Pinnacle National Bank.
 4. PNFP Statutory Trust I, PNFP Statutory Trust II, PNFP Statutory Trust III and Statutory Trust IV are statutory business trusts which were established to issue capital trust preferred securities.
 5. PNFP Holdings, Inc. is a wholly-owned subsidiary of PFP Title Company.
 6. PNFP Properties, Inc. is a wholly-owned subsidiary of PNFP Holdings, Inc.
 7. Pinnacle Advisory Services, Inc., Pinnacle Credit Enhancement Services, Inc. and PNFP Insurance, Inc. are wholly owned subsidiaries of Pinnacle Financial Partners, Inc.
 8. PrimeTrust Bank and Bank of the South were merged with Pinnacle National Bank on February 29, 2008.

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Section 12: EX-23.1 (EX-23.1 CONSENT OF KPMG LLP)

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Pinnacle Financial Partners, Inc:

We consent to the incorporation by reference in the registration statements Nos. 333-49564, 333-68756, 333-114799, 333-124199, 333-132816, 333-135411, 333-147804, and 333-148251 on Form S-8 and Nos. 333-76902 and 333-117627 on Form S-3 of Pinnacle Financial Partners, Inc. (the Company) of our reports dated March 5, 2008, with respect to the consolidated balance sheets of the Company as of December 31, 2007 and 2006, and the related consolidated statements of income, stockholders' equity and comprehensive income and cash flows for each of the years in the three-year period ended December 31, 2007, and the effectiveness of internal control over financial reporting as of December 31, 2007, which reports appear in the December 31, 2007 annual report on Form 10-K of the Company.

Our report dated March 5, 2008 on the Company's consolidated financial statements refers to a change in accounting for uncertainty in income taxes in 2007 and a change for share based payments in 2006.

Our report dated March 5, 2008, on the effectiveness of internal control over financial reporting as of December 31, 2007, contains an explanatory paragraph that states that the Company acquired Mid-America Bancshares (Mid-America) during 2007. Management excluded Mid-America's internal control over financial reporting as of December 31, 2007. Our audit report of internal control over financial reporting of the Company also excluded an evaluation of internal control over financial reporting of Mid-America.

/s/ KPMG

Nashville, Tennessee
March 5, 2008

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Section 13: EX-31.1 (EX-31.1 SECTION 302 CERTIFICATION OF THE CEO)

CERTIFICATIONS

I, M. Terry Turner, certify that:

- 1.) I have reviewed this annual report on Form 10-K of Pinnacle Financial Partners, Inc.;
- 2.) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3.) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4.) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5.) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 7, 2008

Signature: /s/ M. Terry Turner

M. Terry Turner
President and Chief Executive Officer

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Section 14: EX-31.2 (EX-31.2 SECTION 302 CERTIFICATION OF THE CFO)

CERTIFICATIONS

I, Harold R. Carpenter, certify that:

- 1.) I have reviewed this annual report on Form 10-K of Pinnacle Financial Partners, Inc.;
- 2.) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3.) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4.) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5.) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 7, 2008

Signature: /s/ Harold R. Carpenter

Harold R. Carpenter
Chief Financial Officer

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Section 15: EX-32.1 (EX-32.1 SECTION 906 CERTIFICATION OF THE CEO)

CERTIFICATION PURSUANT TO
18 U.S.C SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Pinnacle Financial Partners (the "Company") on Form 10-K for the period ending December 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, M. Terry Turner, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 7, 2008

By: /s/ M. Terry Turner
M. Terry Turner
President and Chief Executive Officer
Pinnacle Financial Partners, Inc.

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Section 16: EX-32.2 (EX-32.2 SECTION 906 CERTIFICATION OF THE CFO)

CERTIFICATION PURSUANT TO
18 U.S.C SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Pinnacle Financial Partners (the "Company") on Form 10-K for the period ending December 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Harold R. Carpenter, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 7, 2008

By: /s/ Harold R. Carpenter

Harold R. Carpenter
Chief Financial Officer

Pinnacle Financial Partners, Inc.

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