BELLINI CARL A
Form 4
March 06, 2007

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
BELLINI CARL A
(Last) (First) (Middle)
4880 HAVANA ST.
(Street)
DENVER, CO 80239-2416
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
SCOTTS LIQUID GOLD INC [slgd]

3. Date of Earliest Transaction (Month/Day/Year)
02/27/2007

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
__X__ Director
_____ 10% Owner
_____ Officer (give title below)
_____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)

	Derivative Security				or Disposed of (D) (Instr. 3, 4, and 5)					
			Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Incentive Stock Option (right to buy)	$ 0.82	02/27/2007	A		50,000		(1)	02/26/2012	Common Stock	50,000

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
BELLINI CARL A 4880 HAVANA ST. DENVER, CO 80239-2416	X			

Signatures

Jeffry B. Johnson, Attorney-In-Fact for Carl A. Bellini	03/06/2007
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Option vests 1/48 of shares each month after the date of grant.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. >

Conversely, should interest rates begin to fluctuate over the next few quarters, we believe that in a rising interest rate environment we would be able to reprice our assets more quickly than our funding costs and thus we believe we would be able to grow our net interest income and net interest margins in such an environment. Conversely, in a falling rate environment, this would serve to have the opposite effect on our net interest income and net interest margins. In a falling rate environment, we may not be able to reduce our deposit funding costs by any meaningful amount due to market pressures, while our net interest income would not increase as fast as it would likely increase under a rising or stable interest rate environment.

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 inherent losses on outstanding loans. The provision for loan losses amounted to $587,000 and $366,000 for the three months ended September 30, 2006 and 2005, respectively and $2,680,000 and $1,450,000 for the nine months ended September 30, 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 September 30, 2006. An increase in loan volumes and an increase in charge-offs were the primary causes for the increase in our provision for loan losses in 2006 when compared to 2005.

Based upon management's assessment of the loan portfolio, we adjust our allowance for loan losses to an amount deemed appropriate to adequately cover inherent risks 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 our regulators, they are necessarily approximate and imprecise. 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 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 three and nine months ended September 30, 2006 and 2005 (dollars in thousands):

	Three months ended September 30,		***2006-2005 Percent Increase (decrease)***	***Nine months ended September 30,***		***2006-2005 Percent Increase (decrease)***
	2006	***2005***		***2006***	***2005***	
Noninterest income:						
Service charges on deposit accounts	$ 1,357	$ 229	*492.6%*	$ 3,152	$ 732	*330.6%*
Investment services	645	474	*36.1%*	1,811	1,403	*29.1%*
Gains on loans and loan participations sold, net:						
Fees from the origination and sale of mortgage loans, net of sales commissions	388	375	*3.5%*	1,061	790	*34.3%*
Gains (losses) on loan participations sold, net	102	(26)	*492.3%*	224	110	*103.6%*
Insurance sales commissions	550	-	-	1,563	-	-
Gain on sale of investment securities, net	-	-	-	-	114	-
Trust fees	312	-	-	676	-	-
Other noninterest income:						
Letters of credit fees	147	120	*22.5%*	368	359	*2.5%*
Bank-owned life insurance	126	18	*600.0%*	281	55	*410.9%*
Equity in earnings of Collateral Plus, LLC	11	76	*(72.4%)*	80	140	*(42.9%)*
Other noninterest income	776	33	*2251.5%*	1,636	190	*765.6%*
Total noninterest income	$ 4,424	$ 1,299	*240.6%*	$ 10,852	$ 3,893	*178.8%*

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 was offset significantly 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. This earnings credit rate is indexed to a national index.

Also included in noninterest income are commissions and fees from our financial advisory unit, Pinnacle Asset Management, a division of Pinnacle National. At September 30, 2006, Pinnacle Asset Management was receiving commissions and fees in connection with approximately $553 million in brokerage assets held with Raymond James Financial Services, Inc. compared to $441 million at December 31, 2005. Additionally, at September 30, 2006, our trust department was receiving fees on approximately $360 million in assets. Following our merger with Cavalry, we now offer trust services through the bank's trust division and insurance services through Miller and Loughry Insurance and Services, Inc. which we believe will increase our noninterest income in future periods.

Additionally, mortgage related fees also provided for a significant portion of the increase in noninterest income between 2006 an 2005. These mortgage fees are for loans originated in both the Nashville and Rutherford County markets and subsequently sold to third-party investors. All of these loan sales transfer servicing rights to the buyer. Generally, mortgage origination fees increase in lower interest rate environments and decrease in rising interest rate environments. As a result, mortgage origination fees may fluctuate greatly in response to a changing rate environment.

We also sell certain loan participations to our correspondent banks. Such sales are primarily related to new lending transactions in excess of internal loan limits or industry concentration limits. At September 30, 2006 and pursuant to participation agreements with these correspondents, we had participated approximately $85.3 million of originated loans to these other banks compared to $60.3 million at December 31, 2005. 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 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 net gains of $102,000 and $224,000, respectively, during the three and nine months ended September 30, 2006, respectively, compared to a net loss of $26,000 and a net gain of $110,000 for the same periods in 2005 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 Cavalry merger has 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 the nine months ended September 30, 2005, were net gains of approximately $114,000 realized from the sale of approximately $6.8 million of available-for-sale securities.

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. 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 three and nine months ended September 30, 2006 was $11,000 and $80,000, respectively.

Additional other noninterest income increased by approximately $743,000 during the three months ended September 30, 2006 when compared to the same period in 2005 and increased by approximately $1.45 million for the nine months ended September 30, 2006 when compared to the nine months ended September 30, 2005. Most of this increase was attributable to increases in ATM fees, merchant banking and other electronic banking fees.

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 three and nine months ended September 30, 2006 and 2005 (dollars in thousands):

	Three months ended September 30, 2006	2005	2006-2005 Percent Increase (decrease)	Nine months ended September 30, 2006	2005	2006-2005 Percent Increase (decrease)
Noninterest expense:						
Salaries and employee benefits:						
Salaries	$ 4,964	$ 2,315	*114.4%*	$ 12,752	$ 6,239	*104.4%*
Commissions	331	179	*84.9%*	890	533	*67.0%*
Other compensation, primarily incentives	1,279	531	*140.9%*	2,999	1,574	*90.5%*
Employee benefits and other	1,002	385	*160.3%*	2,674	1,146	*133.2%*
Total salaries and employee benefits	7,576	3,410	*122.2%*	19,315	9,492	*103.5%*
Equipment and occupancy	2,071	1,035	*100.1%*	5,325	2,713	*96.3%*
Marketing and business development	351	186	*88.7%*	900	479	*87.9%*
Postage and supplies	488	160	*205.0%*	1,118	454	*146.3%*
Amortization of core deposit intangible	535	-	-	1,248	-	-
Other noninterest expense:						
Accounting and auditing	143	140	*2.1%*	616	320	*92.5%*
Consultants, including independent loan review	58	26	*123.1%*	222	89	*149.4%*
Legal, including borrower-related charges	47	113	*(58.4)%*	103	205	*(49.8)%*
OCC exam fees	73	49	*49.0%*	187	133	*40.6%*
Directors' fees	52	77	*(32.5)%*	178	175	*1.7%*
Insurance, including FDIC assessments	189	82	*130.5%*	465	235	*97.9%*
Other noninterest expense	1,253	243	*415.6%*	2,229	770	*189.5%*
Total other noninterest expense	1,815	730	*148.6%*	4,000	1,927	*107.6%*
Merger related expense	218	-	-	1,583	-	-
Total noninterest expense	$ 13,054	$ 5,521	*136.4%*	$ 33,489	$ 15,065	*122.3%*

Expenses have generally increased between the above periods due to our merger with 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. For the three and nine months ended September 30, 2006, approximately $285,000 and $690,000, respectively, of compensation expense related to stock options is included in employee benefits and other expense.

At December 31, 2005, we employed 156.5 full time equivalent employees compared to 395.5 at September 30, 2006, an increase of 239.0 full time employees. We intend to continue to add employees to our work force for the foreseeable future, which will cause our salary and employee benefit costs to increase in future periods.

Included in other noninterest expense for the three and nine months ended September 30, 2006 and 2005 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.

Included in noninterest expense for the three and nine months ended September 30, 2006 is $218,000 and $1,583,000, respectively, of merger related expenses directly associated with the Cavalry merger. These 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.

Financial Condition

Our consolidated balance sheet at September 30, 2006 reflects significant growth since December 31, 2005 as a result of our organic growth and the consummation of our merger with Cavalry. Total assets grew to $2.05 billion at September 30, 2006 from $1.02 billion at December 31, 2005, a 101.8% increase. Total deposits grew $775 million during the nine months ended September 30, 2006, including $584 million acquired with the Cavalry merger. Substantially all of the additional deposits and other fundings were invested in loans, which grew by $757 million during the nine months ended September 30, 2006, including $551 million in loans acquired in the Cavalry merger.

Loans. The composition of loans at September 30, 2006 and at December 31, 2005 and the percentage (%) of each classification to total loans are summarized as follows (dollars in thousands):

	September 30, 2006		December 31, 2005	
	Amount	Percent	Amount	Percent
Commercial real estate - Mortgage	$ 265,174	18.9%	$ 148,102	22.9%
Commercial real estate - Construction	152,627	10.9%	30,295	4.7%
Commercial - Other	554,617	39.5%	239,129	36.9%
Total commercial	972,418	69.2%	417,526	64.4%
Consumer real estate - Mortgage	292,206	20.8%	169,953	26.2%
Consumer real estate - Construction	87,890	6.3%	37,372	5.8%
Consumer - Other	52,887	3.8%	23,173	3.6%
Total consumer	432,983	30.8%	230,498	35.6%
Total loans	$ 1,405,401	100.0%	$ 648,024	100.0%

Primarily due to the Cavalry merger, we have increased the percentage of our outstanding loans in commercial and consumer real estate construction significantly. These types of loans require that we maintain effective credit and construction monitoring systems. Also as a result of the Cavalry merger, we have increased our resources in this area so that we can 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.

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 area, 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 $12 million. Our loan policy requires our board of directors approve any relationships that exceed this internal limit.

Pinnacle National discontinues 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 September 30, 2006, we had $3,477,000 in loans on nonaccrual compared to $460,000 at December 31, 2005. The increase in nonperforming loans between December 31, 2005 and September 30, 2006 was primarily related to loans acquired from Cavalry and identified as being impaired as discussed more fully below.

Page 39

There was approximately $1,123,000 in other loans 90 days past due and still accruing interest at September 30, 2006 compared to no loans at December 31, 2005. At September 30, 2006 and at December 31, 2005, no loans were deemed to be restructured loans. The following table is a summary of our nonperforming assets at September 30, 2006 and December 31, 2005 (dollars in thousands):

	At Sept. 30, 2006	*At Dec. 31, 2005*
Nonaccrual loans (1)	$ 3,477	$ 460
Restructured loans	-	-
Other real estate owned	-	-
Total nonperforming assets	3,477	460
Accruing loans past due 90 days or more	1,123	-
Total nonperforming assets and accruing loans past due 90 days or more	$ 4,600	$ 460
Total loans outstanding	$ 1,405,401	$ 648,024
Ratio of nonperforming assets and accruing loans past due 90 days or more to total loans outstanding at end of period	0.33%	0.07%
Ratio of nonperforming assets and accruing loans past 90 days or more to total allowance for loan losses at end of period	30.32%	5.85%

(1) Interest income that would have been recorded in 2006 related to nonaccrual loans was $202,000.

Potential problem assets, which are not included in nonperforming assets, amounted to approximately $10.8 million, or 0.77% of total loans outstanding at September 30, 2006, compared to $1.3 million, or 0.20% of total loans outstanding at December 31, 2005. Potential problem assets represent those assets with a potential weakness or 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 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 inherent risks in the loan portfolio. As of September 30, 2006 and December 31, 2005, our allowance for loan losses was $15,172,000 and $7,858,000, 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 Cavalry. The judgments and estimates associated with our ALL determination are described under “Critical Accounting Estimates” above.

Approximately 69% of our loan portfolio at September 30, 2006 consisted of commercial loans compared to 64% at December 31, 2005. 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 is a summary of changes in the allowance for loan losses for the nine months ended September 30, 2006 and for the year ended December 31, 2005 and the ratio of the allowance for loan losses to total loans as of the end of each period (dollars in thousands):

Explanation of Responses:

	Nine months ended Sept. 30, 2006	Year ended Dec. 31, 2005
Balance at beginning of period	$ 7,858	$ 5,650
Provision for loan losses	2,680	2,152
Allowance from Cavalry acquisition	5,102	-
Charged-off loans:		
Commercial real estate - Mortgage	-	-
Commercial real estate - Construction	-	-
Commercial - Other	403	61
Consumer real estate - Mortgage	24	38
Consumer real estate - Construction	-	-
Consumer - Other	200	109
Total charged-off loans	627	208
Recoveries of previously charged-off loans:		
Commercial real estate - Mortgage	-	-
Commercial real estate - Construction	-	-
Commercial - Other	(108)	(3)
Consumer real estate - Mortgage	-	(231)
Consumer real estate - Construction	-	-
Consumer - Other	(51)	(30)
Total recoveries of previously charged-off loans	(159)	(264)
Net charge-offs (recoveries)	468	(56)
Balance at end of period	$ 15,172	$ 7,858
Ratio of allowance for loan losses to total loans outstanding at end of period	1.08%	1.21%
Ratio of net charge-offs (recoveries) to average loans outstanding for the period	0.04%	(0.01)%

As a relatively new institution (excluding the impact of Cavalry), we do not have extensive loss experience comparable to more mature financial institutions; however, as our loan portfolio matures, we will have additional charge-offs as our losses materialize. We consider the amount and nature of our charge-offs in determining the adequacy of our allowance for loan losses.

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 merger with Cavalry. Our assessment indicated that Cavalry had approximately $3.9 million of loans to which the application of the provisions of SOP 03-03 is required. As a result of the application of SOP 03-03, we recorded preliminary 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 these loans were classified as nonperforming at September 30, 2006. The resulting impact on Cavalry’s allowance for loan losses at March 15, 2006 was as follows:

Impact of SOP 03-03 on Rutherford County's allowance for loan losses at March 15, 2006	**Before Application of SOP 03-03**	**Impact of Application SOP 03-03**	**After Application of SOP 03-03**
Allowance for loan losses	$ 6,129	$ 1,027	$ 5,102
Fair value of Cavalry loans at acquisition date			$ 550,700
Allowance for loan losses to fair value of Cavalry loans at acquisition date	1.11%		0.93%

Investments. Our investment portfolio, consisting primarily of Federal agency bonds, state and municipal securities and mortgage-backed securities, amounted to $330.8 million at September 30, 2006 and $279.1 million at December 31, 2005. Our investment portfolio serves many purposes including serving as a stable source of income, collateral for public funds and as a liquidity source. The most significant component of our investment portfolio is our mortgage-backed securities. At September 30, 2006, the fair value of our mortgage-backed securities was approximately $219.0 million compared to a fair value at December 31, 2005, of approximately $186.9 million. All of these securities were included in our available-for-sale securities portfolio. A statistical comparison of our mortgage-backed portfolio at September 30, 2006 and at December 31, 2005 is as follows:

	September 30, 2006	**December 31, 2005**
Weighted average life	4.72 years	4.81 years
Weighted average coupon	5.21 %	5.24 %
Tax equivalent yield	5.00 %	4.74 %
Modified duration (*)	3.65 %	3.71 %

(*) Modified duration represents an approximation of the change in value of a security for every 100 basis point increase or decrease in market interest rates.

Deposits and Other Borrowings. We had approximately $1.59 billion of deposits at September 30, 2006 compared to $810 million at December 31, 2005. 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 them with short-term returns for their excess funds) amounted to $122.4 million at September 30, 2006 and $65.8 million at December 31, 2005. Additionally, at September 30, 2006, we had borrowed $28.7 million in advances from the Federal Home Loan Bank of Cincinnati compared to $41.5 million at December 31, 2005.

Generally, 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 September 30, 2006 and December 31, 2005 (dollars in thousands):

		Sept. 30, 2006	Percent		Dec. 31, 2005	Percent
Core funding:						
Noninterest-bearing deposit accounts	$	306,296	*17.1%*	$	155,811	*16.4%*
Interest-bearing demand accounts		199,967	*11.2%*		72,521	*7.6%*
Savings and money market accounts		481,684	*26.9%*		304,162	*32.1%*
Time deposit accounts less than $100,000		151,239	*8.5%*		31,408	*3.3%*
Total core funding		1,139,186	*63.7%*		563,902	*59.5%*
Non-core funding:						
Time deposit accounts greater than $100,000:						
Public funds		202,503	*11.3%*		106,928	*11.3%*
Brokered deposits		71,518	*4.0%*		55,360	*5.8%*
Other time deposits		172,032	*9.6%*		83,961	*8.9%*
Securities sold under agreements to repurchase		122,354	*6.8%*		65,834	*6.9%*
Federal Home Loan Bank advances		28,739	*1.6%*		41,500	*4.4%*
Subordinated debt		51,548	*2.9%*		30,929	*3.3%*
Total non-core funding		648,694	*36.3%*		384,512	*40.5%*
Totals	$	1,787,880	*100.0%*	$	948,414	*100.0%*

Subordinated debt. On December 29, 2003, we established PNFP Statutory Trust I; on September 15, 2005 we established PNFP Statutory Trust II; and on September 7, 2006 we established PNFP Statutory Trust III ("Trust I"; "Trust II"; "Trust III" 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 and $619,000, 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 and $20,000,000 for Trust III 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. Our $1,548,000 investment in the Trusts is included in investments in unconsolidated subsidiaries in the accompanying consolidated balance sheets and our $51,548,000 obligation is reflected as subordinated debt.

The Trust I Preferred Securities bear a floating interest rate based on a spread over 3-month LIBOR (8.19% at September 30, 2006) which is set each quarter and matures on December 30, 2033. The Trust II Preferred Securities bear a fixed interest rate of 5.848% per annum thru 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 (7.02% at September 30, 2006) which is set each quarter and mature on September 30, 2036.

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 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 and September 30, 2011 for Trust III. 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 are no debt issuance costs associated with Trust II or Trust III.

Capital Resources. At September 30, 2006 and December 31, 2005, our stockholders’ equity amounted to $249.1 million and $63.4 million, respectively, or an increase of $185.7 million. This increase was primarily attributable to $171.1 million of common stock issued in connection with the Cavalry acquisition and $12.6 million in comprehensive income, which was composed of $12.3 million in net income and $335,000 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 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.

As a result of our merger with Cavalry, we are currently reviewing our interest rate sensitivity and liquidity risk management systems. We anticipate that during 2006, we may make certain modifications to these risk management systems. Although these modifications could be significant, we do not believe the impact of the addition of the net assets of Cavalry will cause our risk levels to fall materially outside our internal guidelines.

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, an economic value of equity model, and gap analysis computations. 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 income to less than 10 percent for a 200 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 our net interest income should increase with a gradual rise in interest rates over the next twelve months and decrease should interest rates fall over the same period.

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 200 basis point change in interest rates up or down, the economic value of equity will not change by more than 20 percent from the base case.

Gap analysis. An asset or liability is considered to be interest rate-sensitive if it will reprice or mature within the time period analyzed (e.g.,, within three months or one year). The interest rate-sensitivity gap is the difference between the interest-earning assets and interest-bearing liabilities scheduled to mature or reprice within such time period. A gap is considered positive when the amount of interest rate-sensitive assets exceeds the amount of interest rate-sensitive liabilities (i.e., “asset sensitive”). A gap is considered negative when the amount of interest rate-sensitive liabilities exceeds the interest rate-sensitive assets (i.e., “liability sensitive). During a period of rising interest rates, a negative gap would tend to adversely affect net interest income, while a positive gap would tend to result in an increase in net interest income. Conversely, during a period of falling interest rates, a negative gap would tend to result in an increase in net interest income, while a positive gap would tend to adversely affect net interest income. If our assets and liabilities were equally flexible and moved concurrently, the impact of any increase or decrease in interest rates on net interest income would be minimal.

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. At September 30, 2006 and December 31, 2005, we had not entered into any derivative contracts to assist managing our interest rate sensitivity.

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

Changes in interest rates also affect our liquidity position. We currently price deposits in response to market rates and our management intends to continue this policy. If deposits are not priced in response to market rates, a loss of deposits could occur which would negatively affect our liquidity position.

Scheduled loan payments are a relatively stable source of funds, but loan payoffs and deposit flows fluctuate significantly, being influenced by interest rates, general economic conditions and competition. Additionally, debt security investments are subject to prepayment and call provisions that could accelerate their payoff prior to stated maturity. We attempt to price our deposit products to meet our asset/liability objectives consistent with local market conditions. Our ALCO is responsible for monitoring our ongoing liquidity needs. Our regulators also monitor our liquidity and capital resources on a periodic basis.

In addition, Pinnacle National is a member of the Federal Home Loan Bank of Cincinnati. As a result, Pinnacle National receives advances from the Federal Home Loan Bank of Cincinnati, 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 September 30, 2006, Pinnacle National had received advances from the Federal Home Loan Bank of Cincinnati totaling $28.7 million at the following rates and maturities (dollars in thousands):

Page 45

		Amount	Interest Rate
January 26, 2007	$	2,000	3.24
September 4, 2007		1,000	3.95
December 29, 2008		10,000	4.97
January 27, 2009		15,000	5.01
April 1, 2020		739	2.25
Total	$	28,739	
Weighted average interest rate			4.77%

At September 30, 2006, brokered certificates of deposit approximated $71.5 million which represented 4.0% of total fundings compared to $55.4 million and 5.8% at December 31, 2005. We issue these brokered certificates through several different brokerage houses based on competitive bid. 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.

At September 30, 2006, we had no significant commitments for capital expenditures. However, we are in the process of developing our branch network in the Nashville/Davidson/Murfreesboro 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/Davidson/Murfreesboro MSA.

Off-Balance Sheet Arrangements. At September 30, 2006, we had outstanding standby letters of credit of $56.4 million and unfunded loan commitments outstanding of $502.3 million. Because these commitments generally have fixed expiration dates and most 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. At September 30, 2006, Pinnacle National had 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.

Impact of Inflation

The consolidated financial statements and related consolidated financial data presented herein have been prepared in accordance with accounting principles generally accepted in the United States 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

FASB Staff Position on SFAS No. 115-1 and SFAS No. 124-1 (the “FSP”), “The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments,” was issued in November 2005 and addresses the determination of when an investment is considered impaired; whether the impairment is other-than-temporary; and how to measure an impairment loss. The FSP also addresses accounting considerations subsequent to the recognition of an other-than-temporary impairment on a debt security, and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The FSP replaces the impairment guidance on Emerging

Issues Task Force (EITF) Issue No. 03-1 with references to existing authoritative literature concerning other-than-temporary determinations. Under the FSP, losses arising from impairment deemed to be other-than-temporary, must be recognized in earnings at an amount equal to the entire difference between the securities cost and its fair value at the financial statement date, without considering partial recoveries subsequent to that date. The FSP also requires that an investor recognize an other-than-temporary impairment loss when a decision to sell a security has been made and the investor does not expect the fair value of the security to fully recover prior to the expected time of sale. The FSP was effective for reporting periods beginning after December 15, 2005. The initial adoption of this statement did not have a material impact on our financial position or results of operations.

Page 46

In May 2005, the FASB issued SFAS No. 154, “Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3” (“SFAS No. 154”). This statement changes the requirements for the accounting for and reporting of a change in accounting principle. This statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed. APB Opinion No. 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS No.154 requires retrospective application to prior period financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. This statement does not change the guidance for reporting the correction of an error in previously issued financial statements or the change in an accounting estimate. SFAS No. 154 was effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

SFAS No. 156, "Accounting for Servicing of Financial Assets - an amendment of FASB Statement No. 140." SFAS 156requires an entity to recognize a servicing asset or servicing liability each time it undertakes a contractual obligation to service a financial asset in certain circumstances. All separately recognized servicing assets and servicing liabilities are required to be initially measured at fair value. Subsequent measurement methods include the amortization method, whereby servicing assets or servicing liabilities are amortized in proportion to and over the period of estimated net servicing income or net servicing loss, or the fair value method, whereby servicing assets or servicing liabilities are measured at fair value at each reporting date and changes in fair value are reported in earnings in the period in which they occur. If the amortization method is used, an entity must assess servicing assets or servicing liabilities for impairment or increased obligation based on the fair value at each reporting date. SFAS No. 156 is effective for fiscal years beginning after December 15, 2006. We are currently evaluating the impact of SFAS No. 156 on our consolidated financial statements.

In July 2006, the FASB issued FASB Interpretation 48, “Accounting for Income Tax Uncertainties” (“FIN 48”). FIN 48 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. The recently issued literature also provides guidance on the derecognition, measurement and classification of income tax uncertainties, along with any related interest and penalties. FIN 48 also includes guidance concerning accounting for income tax uncertainties in interim periods and increases the level of disclosures associated with any recorded income tax uncertainties. FIN 48 is effective for fiscal years beginning after December 15, 2006. The differences between the amounts recognized in the statements of financial position prior to the adoption of FIN 48 and the amounts reported after adoption will be accounted for as a cumulative-effect adjustment recorded to the beginning balance of retained earnings. We are currently evaluating the impact of FIN 48 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, 2006. We are currently evaluating the impact of EITF No. 06-4 on our consolidated financial statements.

In June 2006, the Emerging Issues Task Force issued EITF No. 06-5, “Accounting for Purchases of Life Insurance - Determining the Amount that Could Be Realized in Accordance with FASB Tech Bulletin 85-4.” The EITF concluded that a policyholder should consider any additional amounts included in the contractual terms of the life insurance policy in determining the “amount that could be realized under the insurance contract.” For group policies with multiple certificates or multiple policies with a group rider, the EITF also tentatively concluded that the amount that could be realized should be determined at the individual policy or certificate level, i.e., amounts that would be realized only upon surrendering all of the policies or certificates would not be included when measuring the assets. The effective date is for fiscal years beginning after December 15, 2006. We are currently evaluating the impact of EITF No. 06-5 on our consolidated financial statements.

SFAS No. 157, “Fair Value Measurements” - SFAS No. 157 defines fair value, establishes a framework for measuring fair value in 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. Pinnacle Financial is currently evaluating the impact of EITF 06-5 on its consolidated financial statements.

Page 47

FASB Statement No. 158, "An Amendment to Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" was issued September 29, 2006. SFAS No. 158 requires the recognition on the balance sheet of the overfunded or underfunded status of a defined benefit postretirement obligation measured as the difference between the fair value of plan assets and the benefit obligation. Recognition of "delayed" items should be considered in other comprehensive income. The effective date of SFAS No. 158 for public entities is for fiscal years ending after December 15, 2006. Pinnacle Financial does not anticipate that SFAS No. 158 will have a material impact on Pinnacle Financial's consolidated financial statements.

In September 2006, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The SEC staff believes that registrants should quantify errors using both the balance sheet and income statement approach when quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. SAB 108 is effective for our fiscal year ending December 31, 2006. We are currently evaluating the impact of SAB 108 on the Company's consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by this Item 3 is included on pages 44 through 46 of Item 2 - “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Controls

For the three months ended September 30, 2006, Pinnacle Financial continued to expand its internal control system over financial reporting to incorporate procedures specifically related to its merger with Cavalry Bancorp, Inc. We reviewed the financial information obtained from Cavalry from April 1, 2006 thru 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. Pinnacle Financial anticipates that it will continue to monitor and enhance its system of internal controls over financial reporting in the fourth quarter of 2006, particularly with respect to the continued integration of Cavalry.

There were no other changes in Pinnacle Financial’s internal control over financial reporting during Pinnacle Financial’s fiscal quarter ended September 30, 2006 that have materially affected, or are reasonably likely to materially affect, Pinnacle Financial’s internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

There have been no material changes to our risk factors as previously disclosed in Part I, Item IA of our Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

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

(a) Not applicable
(b) Not applicable
(c) The Company did not repurchase any shares of the Company's common stock during the quarter ended September 30, 2006.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable

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

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

10.1	Cavalry Bancorp, Inc. 1999 Stock Option Plan
10.2	Amendment No. 1 to Cavalry Bancorp, Inc. 1999 Stock Option Plan
10.3	Amendment No. 1 to Pinnacle Financial Partners, Inc. 2000 Stock Incentive Plan
10.4	Amendment No. 3 to Pinnacle Financial Partners, Inc. 2004 Equity Incentive Plan
10.5	Form of Nonqualified Stock Option Agreement
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

Pinnacle Financial is a party to certain agreements entered into in connection with the offering by PNFP Statutory Trust III of $20,000,000 in trust preferred securities, as more fully described in this Quarterly Report on Form 10-Q.

In accordance with Item 601(b)(4)(ii) of Regulation SB, and because the total amount of the trust preferred securities issued by PNFP Statutory Trust III, as well as similar securities issued by PNFP Statutory Trust I and PNFP Statutory Trust II, 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 will, however, furnish copies of the various documents and agreements associated with the trust preferred securities to the Securities and Exchange Commission upon request.

Page 50

SIGNATURES

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

.

PINNACLE FINANCIAL PARTNERS, INC

	/s/ M. Terry Turner M. Terry Turner
November 8, 2006	President and Chief Executive Officer
	/s/ Harold R. Carpenter Harold R. Carpenter
November 8, 2006	Chief Financial Officer

Page 51