PINNACLE FINANCIAL PARTNERS INC
Form 10QSB
May 08, 2003

Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

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

For the Quarterly Period Ended March 31, 2003

OR

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

For the Transition Period from _____________ to _____________

Commission File No: 000-31225

Pinnacle Financial Partners, Inc.

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

Tennessee	62-1812853
(State or jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

(Address of principal executive offices)

(615) 744-3700

(Issuer s telephone number)

Not Applicable

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

3,692,053 shares of common stock, $1.00 par value per share, issued and outstanding as of April 30, 2003.

Transitional Small Business Disclosure Format (check one): YES o NO x

TABLE OF CONTENTS

Table of Contents

Pinnacle Financial Partners, Inc.
Report on Form 10-QSB
March 31, 2003

TABLE OF CONTENTS

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 a 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 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, Tennessee area, (iv) rapid fluctuations or unanticipated changes in interest rates, (v) the inability of Pinnacle Financial to satisfy regulatory requirements for its expansion plans, (vi) changes in the legislative and regulatory environment and (vii) other risk factors including those discussed in Pinnacle Financial s annual report on Form 10-KSB and other reports filed with the Securities and Exchange Commission. 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.

Table of Contents

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

	March 31, 2003	December 31, 2002
ASSETS		
Cash and noninterest bearing due from banks	$ 11,477,529	$ 8,061,300
Interest-bearing due from banks	935,614	4,195,647
Federal funds sold and securities purchased under agreements to resell	4,318,135	685,182
Cash and cash equivalents	16,731,278	12,942,129
Securities available-for-sale, at fair value	92,477,968	73,980,054
Mortgage loans held-for-sale	790,150	
Loans	228,842,646	209,743,436
Less allowance for loan losses	(2,860,000)	(2,677,043)
Loans, net	225,982,646	207,066,393
Premises and equipment, net	4,393,627	3,611,504
Other assets	7,990,763	7,678,894
Total assets	$348,366,432	$305,278,974
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits:		
Noninterest-bearing demand	$ 38,817,830	$ 31,599,897
Interest-bearing demand	13,962,696	13,234,956
Savings and money market accounts	87,700,475	75,995,881
Time	126,250,590	113,185,655
Total deposits	266,731,591	234,016,389
Securities sold under agreements to repurchase	15,845,627	15,050,208
Federal Home Loan Bank advances	32,500,000	21,500,000
Other liabilities	885,973	2,308,730
Total liabilities	315,963,191	272,875,327
Commitments and contingent liabilities		
Stockholders equity:		
Preferred stock, no par value; 10,000,000 shares authorized; no shares issued and outstanding		
Common stock, par value $1.00; 10,000,000 shares authorized; 3,692,053 issued and outstanding at March 31, 2003 and December 31, 2002	3,692,053	3,692,053
Additional paid-in capital	30,682,947	30,682,947
Accumulated deficit	(2,370,815)	(2,743,794)
Accumulated other comprehensive income, net	399,056	772,441
Total stockholders equity	32,403,241	32,403,647
Total liabilities and stockholders equity	$348,366,432	$305,278,974

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Three months ended March 31, 2003	Three months ended March 31, 2002
Interest income:		
Loans, including fees	$2,963,513	$2,264,696
Securities, available-for-sale:		
Taxable	908,046	274,222
Tax-exempt	37,863	
Federal funds sold and other	36,411	34,162
Total interest income	3,945,833	2,573,080
Interest expense:		
Deposits	1,072,672	796,126
Securities sold under agreements to repurchase	14,796	21,611
Federal funds purchased and other borrowings	222,130	73,688
Total interest expense	1,309,598	891,405
Net interest income	2,636,235	1,681,675
Provision for loan losses	288,026	209,000
Net interest income after provision for loan losses	2,348,209	1,472,675
Noninterest income:		
Service charges on deposit accounts	101,753	53,640
Investment sales commissions and fees	155,932	181,510
Gain on sale of investment securities, net	17,689	
Gain on loan participations sold, net	2,189	19,773
Other noninterest income	184,610	49,227
Total noninterest income	462,182	304,150
Noninterest expense:		
Compensation and employee benefits	1,434,912	1,108,312
Equipment and occupancy	396,825	340,871
Marketing and other business development	75,490	45,898
Postage and supplies	73,262	54,914
Other noninterest expense	261,775	154,924
Total noninterest expense	2,242,264	1,704,914
Income before income taxes	568,127	71,911
Income tax expense	195,148	27,327
Net income	$ 372,979	$ 44,584
Per share information:		
Basic net income per common share	$ 0.10	$ 0.02
Diluted net income per common share	$ 0.10	$ 0.02

Weighted average shares outstanding:		
Basic	3,692,053	2,312,053
Diluted	3,841,631	2,323,076

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Three months ended March 31, 2003	2002
Operating activities:		
Net income	$ 372,979	$ 44,584
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Net amortization of available-for-sale securities	163,879	23,875
Depreciation and amortization	216,212	167,438
Provision for loan losses	288,026	209,000
Gain on sale of investment securities, net	(17,689)	
Gain on participations sold	(2,189)	(19,773)
Deferred tax expense	195,148	27,327
Originated mortgage loans held-for-sale	(790,150)	
Increase in other assets	(548,741)	(65,062)
Decrease in other liabilities	(949,325)	(22,812)
Net cash provided by (used in) operating activities	(1,071,850)	364,577
Investing activities:		
Activities in securities available-for-sale:		
Purchases	(42,333,066)	(2,015,313)
Sales	12,403,500	
Maturities, prepayments and calls	10,683,228	1,323,458
Net increase in loans	(19,204,279)	(16,840,271)
Purchases of premises and equipment and software	(906,305)	(33,212)
Purchases of other assets	(292,700)	(148,200)
Net cash used in investing activities	(39,649,622)	(17,713,538)
Financing activities:		
Net increase in deposits	32,715,202	16,200,960
Net increase in securities sold under agreements to repurchase	795,419	(4,434,226)
Advances from Federal Home Loan Bank	11,000,000	3,000,000
Decrease in Federal funds purchased		2,500,000
Net cash provided by financing activities	44,510,621	17,266,734
Net increase (decrease) in cash and cash equivalents	3,789,149	(82,230)
Cash and cash equivalents, beginning of period	12,942,129	14,582,076
Cash and cash equivalents, end of period	$ 16,731,278	$ 14,499,846
Supplemental disclosure:		
Cash paid for interest	$ 1,374,243	$ 829,929
Cash paid for income taxes	$	$

See accompanying notes to consolidated financial statements.

Table of Contents

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business Pinnacle Financial Partners, Inc. (Pinnacle Financial) was formed on February 28, 2000 (inception) and is a bank holding company whose business is conducted by its wholly-owned subsidiary, Pinnacle National Bank (Pinnacle National). Additionally, PFP Title Company is a wholly-owned subsidiary of 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 area of Davidson County and the surrounding counties. Pinnacle National commenced its banking operations on October 27, 2000. Prior to October 27, 2000, Pinnacle Financial was a development stage enterprise as defined by Statement of Financial Accounting Standard No. 7, Accounting and Reporting by Development Stage Enterprises , and devoted substantially all its efforts to establishing Pinnacle National.

Basis of Presentation These consolidated financial statements include the accounts of Pinnacle Financial. Significant intercompany transactions and accounts are eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-QSB. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company s Form 10-KSB for the fiscal year ended December 31, 2002 as filed with the Securities and Exchange Commission.

Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and valuation of deferred income tax assets.

Stock-Based Compensation In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, an amendment of FASB Statement No. 123 . This Statement amends Statement No. 123, Accounting for Stock-Based Compensation , to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement No. 123 to require prominent disclosures in both annual and interim financial statements. Certain of the disclosure modifications are required for fiscal years ending after December 15, 2002 and are included below.

Pinnacle Financial applies APB Opinion 25 and related interpretations in accounting for the stock option plan. 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 has been recognized. Had compensation cost for Pinnacle Financial s stock option plan been determined based on the fair value at the grant dates for awards under the plan consistent with the method prescribed in SFAS No. 123, Accounting for Stock-Based Compensation, Pinnacle Financial s net income and net income per share would have been adjusted to the pro forma amounts indicated below for the three months ended March 31, 2003 and 2002:

Table of Contents

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

		2003	2002
Net income, as reported		$372,979	$ 44,584
Deduct: Total stock-based compensation expense determined under the fair value based method for all awards, net of related tax effects		(43,909)	(32,771)
Pro forma net income		$329,070	$ 11,813
Per share information:			
Basic net income	As reported	$ 0.10	$ 0.02
	Pro forma	$ 0.09	$
Diluted net income	As reported	$ 0.10	$ 0.02
	Pro forma	$ 0.09	$

For purposes of these calculations, the fair value of options granted for the three months ended March 31, 2003 and 2002 was estimated using the Black-Scholes option pricing model and the following assumptions:

	2003	2002
Risk free interest rate	1.25%	1.74%
Expected life of the options	5.0 years	5.0 years
Expected dividend yield	0.00%	0.00%
Expected volatility	38.1%	69.7%
Weighted average fair value	$4.67	$5.69

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 and warrants.

As of March 31, 2003, there were common stock options outstanding to purchase up to 404,100 common shares. Substantially all of these shares have exercise prices, which when considered in relation to the average market price of Pinnacle Financial s common stock for the respective reporting period, are considered dilutive and are considered in Pinnacle Financial s diluted income per share calculation for the three months ended March 31, 2003 and 2002. Additionally, as of March 31, 2003, Pinnacle Financial had dilutive warrants outstanding to purchase 203,000 common shares which have also been considered in the calculation of Pinnacle Financial s diluted income per share for the three months ended March 31, 2003 and 2002.

The basic net income per share information for the three months ended March 31, 2002 was computed based on 2,312,053 common shares. On June 14, 2002, Pinnacle Financial issued 1,200,000 additional common shares in conjunction with a common stock offering to the general public and then on June 24, 2002 issued an additional 180,000 shares in conjunction with the underwriters exercise of the over-allotment option. As a result, 3,692,053 common shares were outstanding for the three months ended March 31, 2003.

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

The following is a summary of the basic and diluted earnings per share calculation for the three months ended March 31, 2003 and 2002:

	2003	2002
Basic earnings per share calculation:		
Numerator Net income	$ 372,979	$ 44,584
Denominator Average common shares outstanding	3,692,053	2,312,053
Basic net income per share	$ 0.10	$ 0.02
Diluted earnings per share calculation:		
Numerator Net income	$ 372,979	$ 44,584
Denominator Average common shares outstanding	3,692,053	2,312,053
Dilutive shares contingently issuable	149,578	11,023
Average dilutive common shares outstanding	3,841,631	2,323,076
Diluted net income per share	$ 0.10	$ 0.02

Comprehensive Income (Loss) Statement of Financial Accounting Standards (SFAS) No. 130, Reporting Comprehensive Income describes comprehensive income as the total of all components of comprehensive income including net income. Other comprehensive income refers to revenues, expenses, gains and losses that under generally accepted accounting principles are included in comprehensive income but excluded from net income. Currently, Pinnacle Financial s other comprehensive income (loss) consists of unrealized gains and losses, net of deferred income taxes, on available-for-sale securities. Other comprehensive loss for the three months ended March 31, 2003 of $372,000 compared to an other comprehensive loss of $163,000 for the three months ended March 31, 2002.

Business Segments Pinnacle Financial operates in one business segment, commercial banking, and has no additional individually significant business segments.

Recent Accounting Pronouncements On July 30, 2002, the FASB issued Statement of Financial Accounting Standards Statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities (SFAS No. 146). The standard replaces EITF Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring) and requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. SFAS 146 is effective prospectively to exit or disposal activities initiated after December 31, 2002. Pinnacle Financial adopted this new standard on January 1, 2003. The adoption of this new standard had no effect on the financial position or results of operations of Pinnacle Financial as of and for the three months ended March 31, 2003.

In November 2002, the FASB issued Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57, and 107 and a rescission of FASB Interpretation No. 34. This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002 and are not expected to have a material effect on the Company s financial statements. The disclosure requirements are effective for financial statements of interim and annual periods ending after December 15, 2002. Pinnacle Financial adopted this new standard on January 1, 2003. The adoption of this new standard had no effect on the financial position or results of operations of Pinnacle Financial as of and for the three months ended March 31, 2003.

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

Reclassifications Certain previous amounts have been reclassified to conform to the 2003 presentation. Such reclassifications had no impact on net income or loss during any period.

NOTE 2. SECURITIES AVAILABLE-FOR-SALE

The amortized cost and fair value of securities available-for-sale at March 31, 2003 and December 31, 2002 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale - 2003:				
U.S. government and agency securities	$19,584,690	$ 409,554	$ (38,471)	$19,955,773
Mortgage-backed securities	67,897,170	501,583	(308,170)	68,090,583
State and municipal securities	4,352,470	81,587	(2,445)	4,431,612
	$91,834,330	$ 992,724	$(349,086)	$92,477,968
Securities available-for-sale - 2002:				
U.S. government and agency securities	$14,588,520	$ 455,021	$ (18,355)	$15,025,186
Mortgage-backed securities	54,566,041	815,806	(8,149)	55,373,698
State and municipal securities	3,579,620	13,066	(11,516)	3,581,170
	$72,734,181	$1,283,893	$ (38,020)	$73,980,054

The Company realized $18,000 in net gains from the sale of $12,404,000 of available-for-sale securities during the three months ended March 31, 2003. At March 31, 2003, approximately $50,739,000 of the Company s available-for-sale portfolio was pledged to secure public fund deposits and securities sold under agreements to repurchase.

NOTE 3. LOANS AND ALLOWANCE FOR LOAN LOSSES

The composition of loans at March 31, 2003 and December 31, 2002 is summarized as follows:

	2003	2002
Commercial real estate Mortgage	$ 64,123,902	$ 58,964,823
Commercial real estate Construction	6,372,706	5,396,697
Commercial Other	107,798,263	98,722,136
Total Commercial	178,294,871	163,083,656
Consumer real estate Mortgage	40,369,215	37,533,445
Consumer real estate Construction	2,122,186	1,971,152
Consumer Other	8,056,374	7,155,183
Total Consumer	50,547,775	46,659,780
Total Loans	228,842,646	209,743,436
Allowance for loan losses	(2,860,000)	(2,677,043)

Loans, net	$225,982,646	$207,066,393

Using standard industry codes, 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 has a meaningful credit exposure (loans outstanding plus unfunded lines of credit) to borrowers in the trucking industry and to operators of nonresidential buildings. Credit exposure to the trucking industry approximated $29.5 million and $27.1 million, while credit exposure to operators of nonresidential buildings approximated $7.8 million and $9.6 million at March 31, 2003 and December 31, 2002, respectively. Levels of exposure to these industry groups are periodically evaluated in order to determine if additional allowance allocations are warranted.

At March 31, 2003 and 2002, Pinnacle Financial had certain impaired loans on nonaccruing interest status. The principal balance of these nonaccrual loans amounted to $1,095,000 and $220,000 at March 31, 2003 and 2002, respectively. In each case, Pinnacle Financial reversed all previously accrued interest income

Table of Contents

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

against current year earnings. Had these loans been on accruing status, interest income would have been higher by $29,000 and $4,000 for the three months ended March 31, 2003 and 2002, respectively.

Changes in the allowance for loan losses for the three months ended March 31, 2003 and for the year ended December 31, 2002 are as follows:

	2003	2002
Balance at beginning of period	$2,677,043	$1,832,000
Charged-off loans	(105,069)	(92,957)
Recovery of previously charged-off loans		
Provision for loan losses	288,026	938,000
Balance at end of period	$2,860,000	$2,677,043

At March 31, 2003, Pinnacle Financial has granted loans and other extensions of credit amounting to approximately $7,084,000 to certain directors, executive officers, and their related entities of which $3,799,000 had been drawn upon. The terms on these loans and extensions are on substantially the same terms customary for other persons for the type of loan involved.

During the three months ended March 31, 2003 and 2002, 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 generally accepted accounting principles, Pinnacle Financial has reflected a gain on the sale of these participated loans for the three months ended March 31, 2003 and 2002 of approximately $2,000 and $20,000, 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 based on their future participation in the loan.

NOTE 4. INCOME TAXES

Income tax expense for the three months ended March 31, 2003 and 2002 consists of the following:

	2003	2002
Current tax expense:		
Federal	$	$
State		
Total current tax expense		
Deferred tax expense:		
Federal	164,310	22,968
State	30,838	4,359
Total deferred tax expense	195,148	27,327
Change in valuation allowance		
	$195,148	$27,327

Pinnacle Financial s income tax expense differs from the amounts computed by applying the Federal income tax statutory rates of 34% in 2003 and 2002 to income before income taxes. A reconciliation of the differences for the three months ended March 31, 2003 and 2002 is as follows:

	2003	2002
Income taxes at statutory rate	$193,163	$24,450
State tax benefit, net of federal tax effect	20,353	2,877
Other items	(18,368)	
Change in valuation allowance		
Income tax expense	$195,148	$27,327

Table of Contents

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

The components of deferred income taxes included in other assets in the accompanying consolidated balance sheets at March 31, 2003 and December 31, 2002 are as follows:

	2003	2002
Deferred tax assets:		
Loan loss allowance	$ 1,120,522	1,015,703
Other accruals	159,466	169,846
Net operating loss carryforward	430,960	690,219
	1,710,948	1,875,768
Deferred tax liabilities:		
Depreciation and amortization	197,047	166,719
Securities available for sale	244,583	473,432
	441,630	640,151
Net deferred tax assets	$ 1,269,318	$ 1,235,617

At March 31, 2003, Pinnacle Financial has available net operating loss carryforwards of approximately $1,104,000 for Federal and state income tax purposes. If unused, the carryforwards will expire beginning in 2020.

NOTE 5. OFF-BALANCE SHEET 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 (ie. including unfunded lines of credit) and standby letters of credit. Commitments to extend credit are usually the result of lines of credit granted to existing borrowers under agreements that the total outstanding indebtedness will not exceed a specific amount during the term of the indebtedness. Typical borrowers are commercial concerns that use lines of credit to supplement their treasury management functions, thus their total outstanding indebtedness may fluctuate during any time period based on the seasonality of their business and the resultant timing of their cash flows. Other typical lines of credit are related to home equity loans granted to consumers. Commitments to extend credit generally have fixed expiration dates or other termination clauses and may require payment of a fee.

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

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

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

Table of Contents

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

A summary of Pinnacle Financial s total contractual amount for all off-balance sheet commitments at March 31, 2003 is as follows:

Commitments to extend credit	$71,373,000
Standby letters of credit	17,480,000

At March 31, 2003, the fair value of Pinnacle Financial s standby letters of credit was $24,000. 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.

In the normal course of business, Pinnacle Financial may become involved in various legal proceedings. As of March 31, 2003, the management of Pinnacle Financial is not aware of any such proceedings against Pinnacle Financial.

NOTE 6. COMMON STOCK

Three executives of the Company (the Chairman of the Board, the President and Chief Executive Officer and the Chief Administrative Officer) along with nine members of the Company s Board of Directors and two other organizers of the Company (collectively, the Company s Founders) purchased an aggregate of 406,000 shares of common stock during the initial public offering, which represented approximately 21% of the offering. The Founders were awarded common stock warrants which allow each individual the ability to purchase the common stock of the Company at $10 per share. Each person was given a warrant equal to one common share for every two shares purchased in connection with the initial public offering of the stock. As a group, 203,000 warrants were awarded. The warrants vest in one-third increments over a three-year period that began on August 18, 2000 and are exercisable until August 18, 2010. As of March 31, 2003, two thirds of the warrants for approximately 135,300 shares were exercisable.

Pinnacle Financial has a stock option plan under which it has granted options to its employees to purchase common stock at or above the fair market value on the date of grant. All of the options are intended to be incentive stock options qualifying under Section 422 of the Internal Revenue Code for favorable tax treatment. Options under the plan 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. The shareholders of Pinnacle Financial approved an allocation of 520,000 common shares toward this plan.

A summary of the plan changes during the three months ended March 31, 2003 and for the year ended December 31, 2002 is as follows:

	Number	Weighted-Average Exercise Price
Outstanding at December 31, 2001	**239,200**	**$ 9.48**
Granted	129,700	10.01
Exercised		
Forfeited	(6,550)	9.08
Outstanding at December 31, 2002	**362,350**	**$ 9.67**
Granted	42,700	13.30
Exercised		
Forfeited	(950)	9.47
Outstanding at March 31, 2003	**404,100**	**$10.06**

Table of Contents

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

The following table summarizes information about Pinnacle Financial s stock option plan at March 31, 2003.

Grant date	Number of Shares Outstanding	Remaining Contractual Life in Years	Exercise Price	Number of Shares Exercisable
December, 2000	184,550	7.75	$ 10.00	73,820
March, 2001	49,300	8.00	7.64	9,860
November, 2001	1,050	8.75	7.75	210
February, 2002	121,700	9.00	9.92	24,340
September, 2002	2,300	9.50	11.50	
December, 2002	2,500	9.75	12.91	
February, 2003	42,700	10.00	13.30	
	404,100	8.42	$ 10.06	108,230

NOTE 7. REGULATORY MATTERS

Pinnacle National is subject to certain restrictions on the amount of dividends that may be declared without prior regulatory approval. At March 31, 2003, no dividends could be declared by Pinnacle National without regulatory approval.

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

Quantitative measures established by regulation to ensure capital adequacy require Pinnacle Financial and Pinnacle National to maintain minimum amounts and ratios of Total and Tier I capital to risk-weighted assets and of Tier I capital to average assets. Management believes, as of March 31, 2003 and December 31, 2002, Pinnacle Financial and Pinnacle National meet all capital adequacy requirements to which they are subject.

Table of Contents

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

To be categorized as well-capitalized , Pinnacle National must maintain minimum Total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the following table. Pinnacle Financial and Pinnacle National s actual capital amounts and ratios are presented in the following table (dollars in thousands):

	Actual		Minimum Capital Requirement		Minimum To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
At March 31, 2003						
Total capital to risk weighted assets:						
Pinnacle Financial	$35,672	12.9%	$22,002	8.0%	not applicable	
Pinnacle National	$31,331	11.6%	$22,002	8.0%	$27,503	10.0%
Tier I capital to risk weighted assets:						
Pinnacle Financial	$32,802	11.9%	$11,001	4.0%	not applicable	
Pinnacle National	$28,461	10.5%	$11,001	4.0%	$16,502	6.0%
Tier I capital to average assets (*):						
Pinnacle Financial	$32,802	9.8%	$13,044	4.0%	not applicable	
Pinnacle National	$28,461	8.7%	$13,044	4.0%	$16,305	5.0%
At December 31, 2002						
Total capital to risk weighted assets:						
Pinnacle Financial	$34,318	13.8%	$19,960	8.0%	not applicable	
Pinnacle National	$30,777	12.3%	$19,960	8.0%	$24,951	10.0%
Tier I capital to risk weighted assets:						
Pinnacle Financial	$31,631	12.7%	$ 9,980	4.0%	not applicable	
Pinnacle National	$28,090	11.3%	$ 9,980	4.0%	$14,970	6.0%
Tier I capital to average assets (*):						
Pinnacle Financial	$31,631	11.1%	$11,437	4.0%	not applicable	
Pinnacle National	$28,090	9.8%	$11,437	4.0%	$14,296	5.0%

(*) Average assets for the above calculations were first quarter of 2003 for the March 2003 amounts and fourth quarter of 2002 for the December 2002 amounts.

In connection with approving Pinnacle National s deposit insurance application, the FDIC imposed an additional capital requirement which remains in effect until October 27, 2003. Pursuant to this requirement, Pinnacle National must maintain a Tier I capital to average assets ratio of at least 8%. At March 31, 2003 and December 31, 2002, as noted above, Pinnacle National s Tier 1 capital to average assets ratio was 8.7% and 9.8%, respectively.

Table of Contents

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

Unless this Management s Discussion and Analysis of Financial Condition and Results of Operations 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 subsidiary Pinnacle National Bank, which we sometimes refer to as Pinnacle National, our bank subsidiary or our bank.

The following is a discussion of our financial condition at March 31, 2003 and December 31, 2002 and our results of operations for the three months ended March 31, 2003 and 2002. 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 annual audited consolidated financial statements or the unaudited interim consolidated financial statements. You should read the following discussion and analysis along with our consolidated financial statements and the related notes included in our 2002 Annual Report on Form 10-KSB.

Critical Accounting Policies

The accounting principles we follow and our methods of applying these principles conform with accounting principles generally accepted in the United States 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 (ALL) and the recognition of our deferred income tax assets, have been critical to the determination of our financial position, results of operations and cash flows.

Allowance for Loan Losses (ALL). Our management assesses the adequacy of the ALL 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 ALL consists of two portions (1) an allocated amount representative of specifically identified credit exposure and exposures readily predictable by historical or comparative experience; and (2) an unallocated amount representative of inherent loss which is not readily identifiable. Even though the ALL is composed of two components, the entire allowance is available to absorb any credit losses.

We establish the allocated amount separately for two different risk groups (1) unique loans (commercial loans, including those loans considered impaired); and (2) homogenous loans (generally consumer loans). We base the allocation for unique loans primarily on risk rating grades assigned to each of these loans as a result of our loan management and review processes. We then assign each risk-rating grade a loss ratio, which is determined based on the experience of management, discussions with banking regulators and our independent loan review process. We estimate losses on impaired loans based on estimated cash flows discounted at the loan s original effective interest rate or based on the underlying collateral value. We also assign loss ratios to our consumer portfolio. However, we base the loss ratios for these homogenous loans on the category of consumer credit (e.g., automobile, residential mortgage, home equity).

The unallocated amount is particularly subjective and does not lend itself to exact mathematical calculation. We use the unallocated amount to absorb inherent losses which may exist as of the balance sheet date for such matters as changes in the local or national economy, the depth or experience in the lending staff, any concentrations of credit in any particular industry group, and new banking laws or regulations. After we assess applicable factors, we evaluate the aggregate unallocated amount based on our management s experience.

Table of Contents

We then test the resulting ALL balance by comparing the balance in the ALL to historical trends 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 ALL in its entirety. The audit committee of our board of directors reviews the assessment prior to the filing of quarterly and annual financial information.

In assessing the adequacy of the ALL, we also rely on an 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, who is not an employee of Pinnacle National, and reviews that may have been conducted by bank regulatory agencies as part of their usual examination process.

Deferred Income Tax Assets. During the period from inception through December 31, 2001, we incurred net operating losses and, as a result, recorded deferred tax assets associated with these loss carryforwards. However, prior to the fourth quarter of 2001, we also recorded a full valuation allowance against our net deferred tax assets, and we did not recognize any income tax benefit in our statement of operations. Our judgment was based on our inability to conclude that it was more likely than not that we could be sufficiently profitable in the future to recognize these tax benefits. In the fourth quarter of 2001, this judgment changed, and we determined that based upon our evaluation of our recent operating results and future projections, it was more likely than not that we would realize such assets. We therefore, in that quarter, eliminated the full amount of the valuation allowance and recorded in our statement of operations a deferred tax benefit equal to the deferred tax asset. Unless our judgment changes as to the likelihood of realizing these deferred tax assets, we will continue to recognize such assets in our consolidated financial statements.

Results of Operations Three Months Ended March 31, 2003 and 2002

Our results for the three months ended March 31, 2003, when compared to the three months ended March 31, 2002, were highlighted by the continued growth of our earning assets which resulted in increased net interest income and growth in noninterest income. Net income for the three months ended March 31, 2003 was $373,000 compared to a net income of $45,000 for the three months ended March 31, 2002. The following is a more detailed discussion of results of our operations which focuses primarily on comparing, for each major item in the results, the first quarter of 2003 to the first quarter of 2002.

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 three months ended March 31, 2003, we recorded net interest income of $2,636,000 which resulted in a net interest margin of 3.5% for first quarter of 2003. For the three months ended March 31, 2002, we recorded net interest income of $1,682,000 which resulted in a net interest margin of 4.1% for the first quarter of 2002.

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 yield on average interest-earning assets for the three months ended March 31, 2003 and 2002 (dollars in thousands):

Table of Contents

	Three Months Ended March 31, 2003			Three Months Ended March 31, 2002		
	Average Balances	Interest	Yield/ Rate (1)	Average Balances	Interest	Yield/ Rate (1)
	(dollars in thousands)					
Interest-earning assets:						
Loans	$217,690	$2,964	5.52%	$143,402	$2,264	6.42%
Securities, available-for-sale:						
Taxable	83,129	908	4.43	19,438	274	5.73
Tax-exempt	3,995	38	4.61			
Federal funds sold and securities purchased under agreements to resell	5,458	12	0.88	3,930	20	2.03
Other	1,955	24	5.52	950	15	6.63
Total interest-earning assets	312,227	3,946	5.14	167,720	2,573	6.24
Nonearning assets	13,881			10,274		
Total assets	$326,108			$177,994		
Interest-bearing liabilities:						
Interest-bearing deposits:						
Interest checking	$ 13,571	22	0.64%	$ 8,474	23	1.11%
Savings and money market	79,262	205	1.05	52,662	233	1.80
Certificates of deposit	120,434	846	2.85	62,709	540	3.49
Total interest-bearing deposits	213,267	1,073	2.04	123,845	796	2.61
Securities sold under agreements to repurchase	14,106	15	0.43	10,644	22	0.82
Federal funds purchased	4,248	16	1.53	1,749	8	1.89
Federal Home Loan Bank advances	29,994	206	2.79	8,600	65	3.09
Total interest-bearing liabilities	261,615	1,310	2.03	144,838	891	2.50
Demand deposits	30,278			14,088		
Total deposits and interest-bearing liabilities	291,893	1,310	1.82	158,926	891	2.28
Other liabilities	1,540			776		
Stockholders equity	32,675			18,292		
Total liabilities and stockholders equity	$326,108			$177,994		
Net interest income		$2,636			$1,682	
Net interest spread			3.32%			3.96%
Net interest margin			3.46%			4.10%

(1) Yields computed on tax exempt instruments on a tax equivalent basis.

Net interest income for the three months ended March 31, 2003 was $954,000 greater than net interest income for the three months ended March 3, 2002. However, the net interest margin of 3.46% for the three months ended March 31, 2003 was 0.64% (or 64 basis points) less than the net interest margin of 4.10% for the three months ended March 31, 2002. The yield on interest-earning assets decreased by

110 basis points between the two periods, while the rate paid on funding sources only decreased by 46 basis points. Several factors contributed to this including:

a. The federal funds rate for the period from January 1, 2003 through March 31, 2003 was 1.25% compared to 1.75% for the same period in 2002, a decline of 50 basis points. A significant amount of our loans are to prime rate-based borrowers. As a result, as the federal funds rate adjusts then our prime rate adjusts in similar fashion.
b. During 2002 and 2003, we were able to grow our funding base. For asset/liability management purposes, we elected to allocate a proportionately greater amount of such funds to our investment portfolio versus our loan portfolio. Investment securities generally have lower yields than do loans.
c. Although deposit rates did decrease between the two periods, our deposit rates will adjust more slowly than our loan yields due to competitive market pressures.

Rate and Volume Analysis. As noted above, net interest income increased by $954,000 between the three months ended March 31, 2003 and 2002. 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):

Dollar change in interest income and expense	Increase (decrease) due to Volume	Increase (decrease) due to Rate	Total increase (decrease)
	(dollars in thousands)		
Interest-earning assets:			
Loans	$1,059	$(359)	$ 700
Securities, available-for-sale:			
Taxable	711	(77)	634
Tax-exempt	38		38
Federal funds sold and securities purchased under agreements to resell	6	(14)	(8)
Other	12	(3)	9
	1,826	(453)	1,373
Interest-bearing liabilities:			
Interest checking	$ 11	$ (12)	$ (1)
Savings and money market accounts	93	(121)	(28)
Certificates of deposit	423	(117)	306
Total interest-bearing deposits	526	(249)	277
Securities sold under agreements to repurchase	6	(13)	(7)
Federal funds purchased	10	(2)	8
Federal Home Loan Bank advances	148	(7)	141
	690	(271)	419
Increase (decrease) in net interest income	$1,136	$(182)	$ 954

(1) The above amounts are presented on a fully tax equivalent basis.

(2) 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 calculated as a change in rate times the previous volume. The change attributed to rates and volumes (change in rate times change in volume) is allocated between volume change and rate change at the ratio of how much each component bears to the absolute value of their total.

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 $288,000 and $209,000 for the three months ended March 31, 2003 and 2002, respectively.

Based upon our management s evaluation of the loan portfolio, our management believes the allowance for loan losses to be adequate to absorb losses on existing loans that may become uncollectible. The increase in the provision for loan losses in 2003 when compared to 2002 was due to the relative increase in the rate of loan growth in 2003 when compared to 2002. Based upon our management s assessment of the loan portfolio, we have adjusted our ALL to an amount deemed appropriate to adequately cover inherent risks in the loan portfolio. While our policies and procedures used to estimate the ALL, 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 Pinnacle National s 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 ALL and, thus, the resulting provision for loan losses.

Noninterest Income. Noninterest income consists predominately of fees from the sale of investment products. It also includes service charges on deposit accounts and other miscellaneous revenues and fees. Because fees from the sale of investment products, as well as various other components of noninterest income, often reflect market conditions, our noninterest income may tend to have more fluctuations than does net interest income.

Table of Contents

For the three months ended March 31, 2003, our noninterest income was $462,000, which was an increase of $304,000 from the three months ended March 31, 2002. The following is the makeup of our noninterest income for the three months ended March 31, 2003 and 2002 (dollars in thousands):

	2003	2002
Service charges on deposit accounts	$102	$ 54
Investment sales commissions and fees	156	182
Gain on sale of investment securities	18	
Gain on loan participations sold, net	2	20
Other noninterest income:		
Mortgage related fees	55	
Fees from issuance of letters of credit	48	11
Increase in cash value of insurance	25	
Other	56	37
Total noninterest income	$462	$304

As shown, the largest component of noninterest income is commissions and fees from our investment advisory unit, Pinnacle Asset Management, a division of Pinnacle National. At March 31, 2003, Pinnacle Asset Management was receiving commissions and fees in connection with approximately $177 million in brokerage assets held with Raymond James Financial Services, Inc. compared to $169 million at March 31, 2002. Investment sales commissions and fees decreased in 2003 from the same period in 2002 as trading activity decreased due to the national market conditions.

Noninterest income for the three months ended March 31, 2003 increased over that of the same period in 2002 due to an increase in service charges on deposits which was attributable to increased deposit accounts subject to service charges and mortgage related fees which was attributable to Pinnacle National beginning a mortgage origination unit during the first quarter of 2003. These mortgage fees represent income earned on loans originated by Pinnacle National and subsequently sold at a discount to third-party investors.

During the year ended December 31, 2002, Pinnacle National acquired life insurance policies on five key executives. Pinnacle National is the beneficiary of the death proceeds from these policies. To acquire these policies, Pinnacle National paid a one-time premium of $1.8 million and, in return, Pinnacle National is guaranteed an initial crediting rate for the first year of the contracts which is then reset quarterly thereafter. This crediting rate serves to increase the cash surrender value of the policies over the life of the policies. At March 31, 2003, the aggregate cash value of these policies, which is reflected in other assets on our consolidated balance sheet, was $1,867,000. Pinnacle National has not borrowed any funds against these policies as of December 31, 2002.

Another noninterest income item for the three months ended March 31, 2003 and 2002 was related to our sale of certain loan participations to our correspondent banks which were primarily related to new lending transactions in excess of internal loan limits. At March 31, 2003 and pursuant to participation agreements with these correspondents, we had participated approximately $42 million of originated loans to these other banks. 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 Statement of Financial Accounting Standards No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities a replacement of FASB Statement No. 125, we recorded $2,000, which represents the net present value of these future net revenues, as a gain on sale of participations in our results of operations during the three months ended March 31, 2003 compared to $20,000 during the three months ended March 31, 2002. We intend to maintain relationships with our correspondents in order to participate future loans to these correspondents in a similar manner. However, the timing of participations may cause the level of gains, if any, to vary significantly.

Noninterest Expense. Noninterest expense consists of salaries and employee benefits, equipment and occupancy expenses, and other operating expenses. For the three months ended March 31, 2003, we incurred approximately $2,242,000 in noninterest expenses compared to approximately $1,705,000 during the three months ended March 31, 2002.

Table of Contents

The following is the makeup of our noninterest expense for the three months ended March 31, 2003 and 2002 (dollars in thousands):

	2003	2002
Compensation and benefits	$1,434	$1,108
Equipment and occupancy	397	341
Marketing and business development	76	46
Postage and supplies	73	55
Other noninterest expense	262	155
Total noninterest expense	$2,242	$1,705

Expenses have increased during the above periods due to personnel additions occurring throughout the periods, incentives, the continued development of our branch network and other expenses which increase in relation to our growth rate. We anticipate increases in our expenses during 2003 for such items as additional personnel, the opening of our Rivergate location in April of 2003, the opening of our Cool Springs location in fall of 2003, the development of new business lines, such as mortgage origination and other expenses which tend to increase in relation to our growth.

Income Taxes. The effective income tax expense rate for the three months ended March 31, 2003 was approximately 34.3% compared to 38.0% for the three months ended March 31, 2002. The reduction in the tax rate is attributable to the impact of nontaxable (for Federal purposes) investments and other assets.

Quarterly Information. The following is a summary of quarterly balance sheet and results of operations information for the last six quarters (dollars in thousands, except per share data).

	March 2003	December 2002	September 2002	June 2002	March 2002	December 2001
Balance sheet data, at quarter end:						
Total assets	$348,366	$305,279	$278,750	$229,795	$192,476	$175,439
Total loans	228,842	209,743	191,299	170,427	151,280	134,440
Allowance for loan losses	(2,860)	(2,677)	(2,427)	(2,182)	(2,041)	(1,832)
Securities available-for-sale	94,600	73,980	57,062	37,950	20,302	19,886
Total deposits	266,732	234,016	212,914	168,752	149,460	133,259
Securities sold under agreements to repurchase	15,846	15,050	16,720	16,855	10,233	14,658
Advances from FHLB	32,500	21,500	15,500	11,500	11,500	8,500
Total stockholders equity	32,403	32,404	32,089	31,402	18,172	18,291
Statement of operations data, for the three months ended:						
Interest income	$ 3,946	$ 3,691	$ 3,425	$ 2,872	$ 2,573	$ 2,212
Interest expense	1,310	1,268	1,146	1,057	891	792
Net interest income	2,636	2,423	2,279	1,815	1,682	1,420
Provision for loan losses	288	250	247	232	209	647
Net interest income after provision for loan losses	2,348	2,173	2,032	1,583	1,473	773
Noninterest income	462	469	497	462	304	498
Noninterest expense	2,242					