

PINNACLE BANKSHARES CORP
Form DEF 14A
March 11, 2005

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934
(Amendment No. __)

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

Pinnacle Bankshares Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

LOGO

Dear Fellow Shareholders:

You are cordially invited to attend the 2005 Annual Meeting of Shareholders of Pinnacle Bankshares Corporation, the holding company for The First National Bank of Altavista. The meeting will be held on Tuesday, April 12, 2005, at 11:30 a.m. at the Fellowship Hall of Altavista Presbyterian Church, located at 707 Broad Street, Altavista, Virginia. The accompanying Notice and Proxy Statement describe the matters to be presented at the meeting. Enclosed is our 2004 Annual Report to Shareholders that will be reviewed at the Annual Meeting.

Please complete, sign, date and return the enclosed proxy card as soon as possible. Whether or not you will be able to attend the Annual Meeting, it is important that your shares be represented and your vote recorded. Your proxy may be revoked at any time before it is voted at the Annual Meeting.

We appreciate your continuing loyalty and support of The First National Bank of Altavista and Pinnacle Bankshares Corporation.

Sincerely,

/s/ Robert H. Gilliam, Jr.
Robert H. Gilliam, Jr.
President &

Chief Executive Officer

Altavista, Virginia

March 11, 2005

Pinnacle Bankshares Corporation

622 Broad Street

Altavista, Virginia 24517

NOTICE OF 2005 ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD APRIL 12, 2005

The 2005 Annual Meeting of Shareholders of Pinnacle Bankshares Corporation will be held at the Fellowship Hall of Altavista Presbyterian Church, located at 707 Broad Street, Altavista, Virginia, on Tuesday, April 12, 2005, at 11:30 a.m. for the following purposes:

1. To elect three Class II directors to serve until the 2008 Annual Meeting of Shareholders, as described in the Proxy Statement accompanying this notice.
2. To transact such other business as may properly come before the meeting or any adjournment thereof.

Shareholders of record at the close of business on February 22, 2005, are entitled to notice of and to vote at the Annual Meeting or any adjournment thereof.

By Order of the Board of Directors

/s/ Bryan M. Lemley
Bryan M. Lemley

Secretary

March 11, 2005

IMPORTANT NOTICE

Please complete, sign, date and return the enclosed proxy card in the accompanying postage paid envelope so that your shares will be represented at the meeting. Shareholders attending the meeting may personally vote on all matters which are considered, in which event their signed proxies will be revoked.

Pinnacle Bankshares Corporation

622 Broad Street

Altavista, Virginia 24517

PROXY STATEMENT

2005 ANNUAL MEETING OF SHAREHOLDERS

April 12, 2005

GENERAL

The following information is furnished in connection with the solicitation by and on behalf of the Board of Directors of the enclosed proxy to be used at the 2005 Annual Meeting of Shareholders (the Annual Meeting) of Pinnacle Bankshares Corporation (the Company) to be held Tuesday, April 12, 2005, at 11:30 a.m. at the Fellowship Hall of Altavista Presbyterian Church, located at 707 Broad Street, Altavista, Virginia. The approximate mailing date of this Proxy Statement and accompanying proxy is March 11, 2005.

Revocation and Voting of Proxies

Execution of a proxy will not affect a shareholder's right to attend the Annual Meeting and to vote in person. Any shareholder who has executed and returned a proxy may revoke it by attending the Annual Meeting and requesting to vote in person. A shareholder may also revoke his proxy at any time before it is exercised by filing a written notice with the Company or by submitting a proxy bearing a later date. Proxies will extend to, and will be voted at, any properly adjourned session of the Annual Meeting. If a shareholder specifies how the proxy is to be voted with respect to any proposal for which a choice is provided, the proxy will be voted in accordance with such specifications. If a shareholder fails to specify with respect to Proposal 1 set forth in the accompanying notice and further described herein, the proxy will be voted FOR the director nominees named in Proposal 1.

Voting Rights of Shareholders

Only those shareholders of record at the close of business on February 22, 2005, are entitled to notice of and to vote at the Annual Meeting, or any adjournments thereof. The number of shares of common stock of the Company outstanding and entitled to vote at the Annual Meeting is 1,458,706. The Company has no other class of stock outstanding. A majority of the votes entitled to be cast, represented in person or by proxy, will constitute a quorum for the transaction of business. Each share of Company common stock entitles the record holder thereof to one vote upon each matter to be voted upon at the Annual Meeting.

Shares for which the holder has elected to abstain or to withhold the proxies' authority to vote (including broker non-votes) on a matter will count toward a quorum, but will not be included in determining the number of votes cast with respect to such matter. With regard to the election of directors, votes may be cast in favor or withheld. If a quorum is present, the nominees receiving the greatest number of affirmative votes cast at the Annual Meeting will be elected directors; therefore, votes withheld will have no effect. Thus, although abstentions and broker non-votes

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(shares held by customers which may not be voted on certain matters because the broker has not received specific instructions from the customer) are counted for purposes of determining the presence or absence of a quorum, they are generally not counted for purposes of determining whether a proposal has been approved and, therefore, have no effect.

Solicitation of Proxies

The cost of solicitation of proxies will be borne by the Company. Solicitations will be made only by the use of the mails, except that officers and regular employees of the Company and The First National Bank of Altavista (the Bank) may make solicitations of proxies in person, by telephone or mail, acting without compensation other than their regular compensation. We anticipate that brokerage houses and other nominees, custodians, and fiduciaries will be requested to forward the Company's proxy soliciting material to the beneficial owners of the stock held of record by such persons, and the Company will reimburse them for their charges and expenses in connection with this activity.

Securities Ownership of Certain Beneficial Owners

The following table sets forth the beneficial ownership of the Company's common stock, as of March 1, 2005, for each director, director nominee, certain executive officers, and for all directors, director nominees and executive officers as a group. To the Company's knowledge, no shareholder of the Company owns more than 5% of the Company's outstanding common stock.

Name	Amount and Nature of Beneficial Ownership (1)	Ownership as a
		Percentage of Common Stock Outstanding
A. Willard Arthur	2,162	*
James E. Burton, IV	13,500(2)	*
John P. Erb	4,627(3)	*
Robert H. Gilliam, Jr.	23,185(4)	1.59%
R. B. Hancock, Jr.	3,906(6)	*
James P. Kent, Jr.	19,504(5)	1.34%
William F. Overacre	600	*
Herman P. Rogers, Jr.	3,345(6)	*
Carroll E. Shelton	15,255(7)	1.05%
John L. Waller	3,897	*
Michael E. Watson	365(6)	*
All directors, director nominees and executive officers as a group (12 persons)	92,846(8)	6.36%

* Less than 1.0%, based on total outstanding shares of 1,458,706 shares as of March 1, 2005.

- (1) For purposes of this table, beneficial ownership has been determined in accordance with the provisions of Rule 13d-3 of the Securities Exchange Act of 1934 under which, in general, a person is deemed to be the beneficial owner of a security if he has or shares the power to vote or direct the voting of the security or the power to dispose of or direct the disposition of the security, or if he has the right to acquire beneficial ownership of the security within sixty days.
- (2) Includes 9,311 shares held as custodian for minor children, and excludes 735 shares held solely in spouse's name.
- (3) Includes 39 shares held in name of majority child living at home.

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- (4) Includes 12,000 shares that Mr. Gilliam has the option to purchase under the 1997 Incentive Stock Plan.
- (5) Excludes 2,135 shares held solely in spouse's name.
- (6) Shares held jointly with spouse.
- (7) Includes 7,255 shares held jointly with spouse and 8,000 shares that Mr. Shelton has the option to purchase under the 1997 Incentive Stock Plan.

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- (8) In addition to the executive officer named in the Summary Compensation Table, the beneficial ownership shown for executive officers of the Company reflects 2,500 shares that Bryan M. Lemley, Secretary, Treasurer and Chief Financial Officer, has the option to purchase under the 1997 Incentive Stock Plan.

PROPOSAL 1

ELECTION OF DIRECTORS

The Company's Board is divided into three classes (I, II and III) of directors. The term of office for Class II directors will expire at the Annual Meeting. The three persons named below are being nominated to serve as Class II directors. If elected, the Class II nominees will serve until the 2008 Annual Meeting of Shareholders.

The nominees for election as Class II directors, James E. Burton, IV, James P. Kent, Jr. and William F. Overacre, currently serve as directors of the Company and are standing for re-election.

The persons named in the proxy will vote for the election of the nominees named below unless authority is withheld. The Company's Board believes that the nominees will be available and able to serve as directors, but if any of these persons should not be available or able to serve, the proxies may exercise discretionary authority to vote for a substitute proposed by the Company's Board.

Certain information concerning the nominees for election at the Annual Meeting is set forth below, as well as certain information about the Class I and Class III directors who will continue in office.

Name (Age) and Address	Principal Occupation Last Five Years	Director of Company Since (1)
Class II Directors (Nominees) (To Serve until the 2008 Annual Meeting)		
James E. Burton, IV (48) Lynchburg, Virginia	Vice President, Operations Marvin V. Templeton & Sons, Inc.	1998
James P. Kent, Jr. (65) Hurt, Virginia	Partner Kent & Kent, P.C.	1980
William F. Overacre (63) Forest, Virginia	President & Owner Overacre, Inc., d/b/a RE/MAX 1 st Olympic	2002

THE BOARD OF DIRECTORS RECOMMENDS THAT THE SHAREHOLDERS VOTE FOR THE ELECTION OF THE NOMINEES LISTED ABOVE.

Name (Age) and Address	Principal Occupation Last Five Years	Director of Company Since (1)
Class III Directors (Serving until the 2006 Annual Meeting)		
Herman P. Rogers, Jr. (61) Altavista, Virginia	Vice President of Manufacturing BGF Industries, Inc.	1997
Carroll E. Shelton (54) Hurt, Virginia	Senior Vice President The First National Bank of Altavista and Pinnacle Bankshares Corporation	1990
John L. Waller (61) Hurt, Virginia	Owner & Operator Waller Farms, Inc.	1989
Michael E. Watson (50) Forest, Virginia	Financial Manager Flippin, Bruce & Porter, Inc.	2003
Class I Directors (Serving until the 2007 Annual Meeting)		
A. Willard Arthur (59) Rustburg, Virginia	Chairman and Secretary Marvin V. Templeton & Sons, Inc.	1998
John P. Erb (61) Altavista, Virginia	Assistant Superintendent Campbell County Schools	1989
Robert H. Gilliam, Jr. (59) Lynch Station, Virginia	President & CEO The First National Bank of Altavista and Pinnacle Bankshares Corporation	1979
R. B. Hancock, Jr. (54) Huddleston, Virginia	President & Owner R.B.H., Inc. d/b/a Napa Auto Parts	1994

(1) If prior to May 1, 1997, reflects year that director joined the Board of the Bank, the Company's sole subsidiary. Effective May 1, 1997, the Company became the holding company for the Bank.

Meetings and Committees of the Board of Directors

Board of Directors. The members of the Board of the Directors of the Company also constitute the members of the Board of Directors of the Bank. The Board of Directors conducts its business through meetings of the Company's Board and through committees of the Bank's Board, certain of which are described below. The Company became the holding company for the Bank in May 1997, and currently, the Bank's committees make recommendations to the Company's Board regarding the audit, personnel and nominating functions. During calendar year 2004, the Company's Board of Directors held four meetings and the Bank's Board of Directors held twelve meetings. No director attended fewer than 75 percent of the total meetings of the Company's Board of Directors and the Bank committees on which he or she served during this period.

The Company has not adopted a formal policy on board members' attendance at our annual meeting of shareholders, although all board members are encouraged to attend. All board members attended our 2004 Annual Meeting of Shareholders.

Audit Committee. The Bank's Audit Committee meets to review reports of the Bank's internal auditor, who reports directly to the Audit Committee, and reviews the annual report of the Company's independent auditors. The members of the Audit Committee are Messrs. Burton (Chair), Hancock, Moore, Waller and Watson and they met five times in 2004. In addition, the Chairman of the Audit Committee held discussions with the Company's independent auditors each quarter prior to the filing of the Company's Quarterly Reports on Form 10-QSB as required by Statement on Auditing Standards No. 90 (Audit Committee Communications). The Company's Board of Directors has determined that all of the members of the Audit Committee are independent for audit committee purposes under the listing standards of the Nasdaq Stock Market and applicable SEC regulations. The Board of Directors has also determined that Mr. Watson qualifies as an audit committee financial expert within the meaning of applicable regulations of the SEC, promulgated pursuant to the Sarbanes-Oxley Act of 2002.

Personnel Committee. The Bank's Personnel Committee reviews officer and employee compensation and employee benefit plans and makes recommendations to the Bank's Board concerning such matters. The Personnel Committee makes recommendations as to the employment of officers of the Bank. Members of the Personnel Committee are Messrs. Arthur, Erb, Gilliam, Hancock, Overacre and Rogers, and they met three times in 2004.

Nominating Committee. The Nominating Committee's duties include consideration of candidates for board election. At this time, the Nominating Committee does not have a formal written charter. The Nominating Committee makes a recommendation to the Bank's Board concerning candidates for any vacancy that may occur and the entire Board then determines which candidate(s) should be nominated for the shareholders' approval. The members of the Nominating Committee are Messrs. Arthur, Burton, Erb and Gilliam, and they met twice in 2004. The Company's Board of Directors has determined that all of the members of the Nominating Committee are independent under the listing standards of the Nasdaq Stock Market.

The Board of Directors will accept for consideration shareholders' nominations for directors if made in writing by a shareholder entitled to vote in the election of directors. Such a nomination must include the information required by the Company's bylaws as well as the nominee's written consent to the nomination. Shareholder nominations must be received by the Company's Secretary no later than February 8, 2006, in order to be considered for the next annual election of directors.

The Nominating Committee may identify director nominees through a combination of referrals, including by management, existing Board members and shareholders, and direct solicitations, where warranted. Once a candidate has been identified, the Nominating Committee reviews the individual's experience and background, and may discuss the proposed nominee with the source of the recommendation. If the committee believes it to be appropriate, the Nominating Committee members may meet with the proposed nominee before making a final determination whether to recommend the individual as a nominee to the entire Board of Directors to stand for election to the Board.

Shareholder Communications with the Board of Directors

The Company provides an informal process for shareholders to send communications to our board of directors. Shareholders who wish to contact the board of directors or any of its members may do so in writing to Pinnacle Bankshares Corporation, P.O. Box 29, Altavista, Virginia 24517. Correspondence directed to an individual board member will be referred, unopened, to that member. Correspondence not directed to a particular board member will be referred, unopened, to the acting Chairman.

Directors Fees

All directors of the Company received an annual retainer of \$1,500 in 2004. In addition, directors of the Bank received an annual retainer of \$4,000 in 2004 and, in addition, the Bank's outside directors received \$250 for each committee meeting attended.

Directors may defer payment of all retainers and fees. The Company established a nonqualified deferred compensation plan in January 1998 for directors, which is administered by the Virginia Bankers Association Benefits Corporation.

Interest of Management in Certain Transactions

As of December 31, 2004, borrowing by all policy-making officers, directors, and principal shareholders and their associates amounted to \$2,131,000, or 9.60% of total capital. The maximum aggregate amount of such indebtedness during 2004 was \$2,131,000, or 9.60% of total year-end capital. These loans were made in the ordinary course of the Bank's business, and in the opinion of management of the Bank, all such loans and commitments for loans were made on substantially the same terms, including interest rates, collateral and repayment terms as those prevailing at the same time for comparable transactions with other persons and do not involve more than a normal risk of collectibility or present other unfavorable features. The Bank expects to have in the future similar banking transactions with officers, directors, principal shareholders and their associates.

EXECUTIVE COMPENSATION

The following table provides certain compensation information concerning Mr. Gilliam, President and CEO, the only executive officer of the Company whose compensation exceeded \$100,000 for any year in the three-year period ended December 31, 2004. All compensation, other than director fees for service on the Company's Board of Directors, was paid by the Bank, the Company's wholly-owned subsidiary.

Summary Compensation Table

Annual Compensation(2)	Long-Term Compensation	All Other Compensation (\$)
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Name and Principal Position	Year	Salary\$(1)	Bonus(\$)	Options
				Granted (#)
Robert H. Gilliam, Jr.	2004	159,640	5,268	2,916
<i>President & Chief</i>	2003	158,500	6,140	2,735
<i>Executive Officer</i>	2002	151,925	7,235	655

(1) Includes combined Company and Bank Board retainers of \$5,500 in 2004, \$5,000 in 2003, and \$5,000 in 2002.

- (2) The amount of compensation in the form of perquisites or other personal benefits received by Mr. Gilliam did not exceed the lesser of either \$50,000 or 10% of Mr. Gilliam's total annual salary and bonus in any of the three years reported.
- (3) All Other Compensation for each year reported consists entirely of premiums paid by the Bank for group-term life insurance for Mr. Gilliam's benefit.

Stock Options Grants and Year-End Values

No options were granted to Mr. Gilliam during 2004, 2003, or 2002.

Mr. Gilliam did not exercise any stock options during 2004. The following table reflects certain information regarding unexercised options held at December 31, 2004 by Mr. Gilliam.

Name	Year-End Option Values	
	Number of Unexercised Options at Year End(#) Exercisable/ Unexercisable	Value of Unexercised In the Money Options at Year End\$(1) Exercisable/ Unexercisable
Robert H. Gilliam, Jr.	12,000/0	\$ 120,000/0

- (1) Calculated as the difference between the current market value and the exercise price of the options. Assumes a current market value of \$20.00 per share as of December 31, 2004.

Change in Control Agreement

The Company has entered into an agreement with Mr. Gilliam that provides for severance payments and certain other benefits if his employment terminates under specified conditions after a change in control (as defined therein) of the Company. Payments and benefits will be paid under the agreement only if, within two years and 60 days following a change in control, Mr. Gilliam (i) is terminated involuntarily without cause (as defined therein) and not as a result of death or disability, or (ii) terminates his employment voluntarily for good reason (as defined therein), including Mr. Gilliam's unilateral decision to leave during any of three 60 day window periods (each beginning on the date of the change in control and the first and second anniversaries thereof). Change in control is defined generally to include (i) an acquisition of 20% or more of the Company's common or voting stock, (ii) certain changes in the composition of the Company's Board of Directors, (iii) consummation of certain business combinations or asset sales in which the Company's historic shareholders hold less than 60% of

the resulting or purchasing company or (iv) shareholder approval of the liquidation or dissolution of the Company.

In the event of a covered termination following a change in control, Mr. Gilliam will be entitled to receive (i) a severance payment made over three years or in a lump sum equal to 2.5 times the sum of Mr. Gilliam's highest annual base salary during the 24 month period ending on the date of the change in control and his highest bonuses for any of the Company's three fiscal years ending immediately prior to the date of the change in control and (ii) a continuation of employee welfare benefits for three years. In addition, Mr. Gilliam will have the right to require the Company to purchase his principal residence at its fair market value if he requests within one year after his termination of employment. The total payments and benefits payable, including any parachute payments otherwise made, to Mr. Gilliam may not exceed the maximum amount that may be paid without the imposition of a golden parachute federal excise tax on Mr. Gilliam and may also be limited by applicable banking limitations on golden parachutes.

Employee Benefit Plans

Retirement Plan. The Bank maintains a Non-Contributory Defined Benefit Retirement Plan (the Retirement Plan) covering substantially all employees who have reached the age of 21 and have been fully employed for at least one year. The Retirement Plan, sponsored by the Virginia Bankers Association, provides participants with retirement benefits related to salary and years of credited service. Employees become vested after five plan years of service, and the normal retirement date is the first day of the month coinciding with or following the employee's 65th birthday. The Retirement Plan does not cover directors who are not active employees. The amount expensed for the Retirement Plan during the year ended December 31, 2004, was \$385,821.

The following table shows the estimated annual retirement benefits payable to employees in the average annual salary and years of service classifications set forth below assuming retirement at the normal retirement age of 65.

ANNUAL RETIREMENT BENEFIT:

The First National Bank of Altavista

Five-Year Average Salary	YEARS OF CREDITED SERVICE					
	10	15	20	25	30	35
\$ 25,000	\$ 3,750	\$ 5,625	\$ 7,500	\$ 9,375	\$ 11,250	\$ 12,188
40,000	6,525	9,788	13,050	16,313	19,575	21,338
55,000	9,900	14,850	19,800	24,750	29,700	32,588
75,000	14,400	21,600	28,800	36,000	43,200	47,588
100,000	20,025	30,038	40,050	50,063	60,075	66,338
125,000	25,650	38,475	51,300	64,125	76,950	85,088
150,000	31,275	46,913	62,550	78,188	93,835	103,838
175,000	36,900	55,350	73,800	92,250	110,700	122,588
200,000	42,525	63,788	85,050	106,313	127,575	141,338

Benefits under the Retirement Plan are based on a straight life annuity assuming full benefit at age 65, no offsets, and covered compensation of \$36,000 for a person age 65 in 2004. Compensation taken into account under the Retirement Plan is limited by the Internal Revenue Code's compensation limit, which is \$205,000 for the plan years beginning October 1, 2003 and 2004 and which is adjusted

periodically for inflation. The estimated annual benefit payable under the Retirement Plan upon retirement is \$98,131 for Mr. Gilliam, credited with 40 years of service. Benefits are estimated on the basis that he will continue to receive, until age 65, covered salary in the same amount paid in 2004.

Profit Sharing/401(k) Plan. The Bank adopted a Defined Contribution Profit Sharing Thrift Plan (the Thrift Plan) effective January 1, 1997. The Thrift Plan, sponsored by the Virginia Bankers Association, includes a 401(k) savings provision that authorizes a maximum voluntary salary deferral of up to 15% of compensation, subject to statutory limitations. All full-time employees who have reached the age of 21 with at least six months of service are eligible to participate. Contributions and earnings, which are tax-deferred, may be invested in various investment vehicles offered through the Virginia Bankers Association. The profit sharing arrangement allows for employer contributions in such amounts, if any, as the Board of Directors determines. Employees become 100% vested in any employer contributions that may be made after five plan years of service. The Bank made no contributions to the Thrift Plan for the year ended December 31, 2004.

Incentive Stock Plans. The Company adopted the 1997 Incentive Stock Plan effective May 1, 1997 and the 2004 Incentive Stock Plan effective May 1, 2004 (together, the Incentive Plans). The Incentive Plans make available up to 50,000 and 100,000 shares of common stock, respectively, for awards to key employees of the Company and its subsidiaries in the form of stock options, stock appreciation rights, and restricted stock (collectively, Awards). The purpose of the Incentive Plans is to promote the success of the Company and its subsidiaries by providing incentives to key employees that will promote the identification of their personal interests with the long-term financial success of the Company and with growth in shareholder value. The Incentive Plans are designed to provide flexibility to the Company in its ability to motivate, attract, and retain the services of key employees upon whose judgment, interest, and special effort the successful conduct of its operation is largely dependent.

Under the terms of both Incentive Plans, the non-employee directors of the Personnel Committee of the Board of Directors of the Bank (the Committee) administer the plans. No director may serve as a member of the Committee if he is eligible to participate in either Incentive Plan or was at any time within one year prior to his appointment to the Committee eligible to participate in either Incentive Plan. The Committee will have the power to determine the key employees to whom Awards shall be made.

Each Award under the Incentive Plans will be made pursuant to a written agreement between the Company and the recipient of the Award (the Agreement). In administering the Incentive Plans, the Committee will have the authority, subject to approval, amendment and modification by the Board of Directors of the Company, to determine the terms and conditions upon which Awards may be made and exercised, to determine terms and provisions of each Agreement, to construe and interpret the Incentive Plans and the Agreements, to establish, amend, or waive rules or regulations for the Incentive Plan s administration, to accelerate the exercisability of any Award, the end of any performance period, or termination of any period of restriction, and to make all other determinations and take all other actions necessary or advisable for the administration of the Incentive Plans.

The Board may terminate, amend, or modify the Incentive Plans from time to time in any respect without shareholder approval, unless the particular amendment or modification requires shareholder approval under the Internal Revenue Code of 1986, as amended (the Code), the rules and regulations under Section 16 of the Securities Exchange Act of 1934 or pursuant to any other applicable laws, rules, or regulations.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires directors, executive officers and 10% beneficial owners of the Company's common stock to file reports concerning their ownership of and transactions in such common stock. The Company believes that its officers and directors complied with all filing requirements under Section 16(a) of the Securities Exchange Act of 1934 during 2004.

AUDIT COMMITTEE REPORT

The Audit Committee of the Board of Directors, which consists entirely of directors who meet the independence requirements of applicable SEC regulations and the Nasdaq Stock Market's listing standards for audit committee members, has furnished the following report:

The Audit Committee (the "Committee") reviews the Company's financial reporting process on behalf of the Board. The role and responsibilities of the Committee are set forth in a written Charter adopted by the Board. Management has the primary responsibility for the consolidated financial statements and the reporting process, including the system of internal controls. The independent auditors are responsible for performing an independent audit of the Company's consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and to issue a report thereon. The Committee monitors these processes.

In this context, the Committee met and held discussions with management and the independent auditors to discuss the consolidated audited financial statements for the year ended December 31, 2004. Management represented to the Committee that the Company's audited financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, and the Committee reviewed and discussed the consolidated financial statements with management and the independent auditors. The Committee also discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees), as amended, including their judgments about the quality, not just the acceptability, of the Company's accounting principles and underlying estimates in the Company's consolidated financial statements; all critical accounting policies and practices to be used; all alternative treatments within Generally Accepted Accounting Principles for policies and practices related to material items that have been discussed with management of the Company; and other material written communications between the independent auditors and the management of the Company, such as any management letter or schedule of unadjusted differences.

The Committee also discussed with the independent auditors the auditors' independence from the Company and its management, and the independent auditors provided to the Committee the written disclosures and letter required by the Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees).

The Committee also discussed with the Company's internal and independent auditors the overall scope and plans for their respective audits. The Committee met with the internal and independent auditors, with and without management present, to discuss the results of their examinations, the evaluations of the Company's internal controls, and the overall quality of the Company's financial reporting.

Based on the reviews and discussions referred to above, the Committee recommended to the Board of Directors, and the Board of Directors has approved, that the audited consolidated financial

statements be included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2004, for filing with the Securities and Exchange Commission.

Audit Committee Members

James E. Burton, IV - Chair

R.B. Hancock, Jr.

John L. Waller

Michael E. Watson

CHANGE IN INDEPENDENT AUDITORS

On January 22, 2004, the Company engaged Cherry, Bekaert & Holland LLP (CBH) as its independent auditors for the fiscal year ending December 31, 2004, and chose not to renew the engagement of KPMG LLP (KPMG), which served as the Company's independent auditors for the fiscal year ended December 31, 2003. The decision to change independent auditors was recommended by the Audit Committee and approved by the Board of Directors.

During the Company's two fiscal years ended December 31, 2003, and during the subsequent interim period through January 22, 2004, there was no disagreement between the Company and KPMG on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to KPMG's satisfaction, would have caused them to make reference to the subject matter of the disagreement in connection with its reports on Pinnacle's consolidated financial statements. The audit reports of KPMG on the consolidated financial statements of Pinnacle as of and for the two fiscal years ended December 31, 2003 did not contain any adverse opinion or disclaimer of opinion, nor were these opinions qualified or modified as to uncertainty, audit scope or accounting principles, except that the audit report of KPMG dated January 31, 2003, referred to a change in Pinnacle's method of accounting for reclassified goodwill in 2002.

We provided KPMG with a copy of the above disclosures, also set forth in our current reports on Form 8-K and 8-K/A filed with the SEC on January 29, 2004, and March 25, 2004, and requested that they furnish us with letters addressed to the SEC stating whether they agreed with the above statements and, if not, stating the respects in which they did not agree. KPMG's letters stating its agreement with the above statements were filed as exhibits to the Form 8-K and 8-K/A.

We engaged CBH as our new independent accountant as of January 22, 2004. During the two years ended December 31, 2003, and through January 22, 2004, we did not consult with CBH regarding the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our consolidated financial statements.

A representative of CBH is expected to attend the Annual Meeting and will be given the opportunity to make a statement and respond to appropriate questions from the shareholders.

PRINCIPAL ACCOUNTANT FEES

The following table presents fees for professional audit services rendered by Cherry, Bekaert & Holland, LLP for the audit of the Company's annual financial statements for the year ended December 31, 2004 and KPMG LLP for the audit of the Company's annual financial statements for the year ended December 31, 2003, and fees billed for other services rendered by Cherry, Bekaert & Holland, LLP and KPMG LLP during those periods.

Year Ended December 31	2004	2003
	(CBH)	(KPMG)
Audit Fees	\$ 27.5	\$ 55.8
Audit Related Fees(1)	2.5	4.7
Tax Fees(2)	7.5	7.2
All Other Fees(3)		
Total	\$ 37.5	\$ 67.7

(1) Includes annual financial statement audit and limited quarterly review services.

(2) Represents income tax services other than those directly related to the audit of the income tax accrual.

(3) No such services were provided by Cherry, Bekaert & Holland LLP in 2004 or by KPMG LLP in 2003.

Pre-Approval Policies

The Audit Committee reviews and pre-approves all auditing services and permitted non-audit services performed by the Company's independent auditors, as well as corresponding fees, subject to the de minimis exception for permitted non-audit services described in Section 10A(i)(1)(B) of the Exchange Act which are approved by the Committee prior to the completion of the audit.

The Audit Committee may form and delegate authority to, when appropriate, subcommittees consisting of one or more members, including the authority to grant pre-approvals of audit and permitted non-audit services, provided that decisions of such subcommittee to grant pre-approvals are presented to the Committee at its next scheduled meeting.

OTHER BUSINESS

As of the date of this Proxy Statement, management of the Company has no knowledge of any matters to be presented for consideration at the Annual Meeting other than those referred to above. If any other matters properly come before the Annual Meeting, the persons named in the accompanying proxy intend to vote such proxy, to the extent entitled, in accordance with the determination of a majority of the Board of Directors.

SHAREHOLDER PROPOSALS FOR 2006 ANNUAL MEETING

In accordance with the Company's bylaws, proposals of shareholders intended to be presented at the 2006 Annual Meeting (other than director nominations) must be received by the Company no later than November 11, 2005. Under applicable law and in accordance with the Company's bylaws, the Board of Directors need not include an otherwise appropriate shareholder proposal (other than shareholder nominations for director candidates) in its proxy statement or form of proxy for that meeting unless the proposal is received by the Company's Secretary, at the Company's principal office in Altavista, Virginia, on or before the date set forth above.

In addition, the proxy solicited by the Board of Directors for the 2006 Annual Meeting will confer discretionary authority to vote on any shareholder proposal presented at the meeting if the Company has not received notice of such proposal by January 25, 2006, in writing delivered to the Company's Secretary.

By Order of the Board of Directors

/s/ Bryan M. Lemley
Bryan M. Lemley

Secretary

Altavista, Virginia

March 11, 2005

A copy of the Company's Annual Report on Form 10-KSB (including exhibits) as filed with the Securities and Exchange Commission for the year ended December 31, 2004, will be furnished without charge to shareholders upon written request directed to the Company's Secretary as set forth on the first page of this Proxy Statement.

<p>X PLEASE MARK VOTES AS IN THIS EXAMPLE</p>	<p>REVOCABLE PROXY PINNACLE BANKSHARES CORPORATION</p>	<p>For ..</p>	<p>With- hold ..</p>	<p>For All Except ..</p>
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**ANNUAL MEETING OF SHAREHOLDERS
APRIL 12, 2005**

1. To elect three Class II directors for three year terms (Proposal 1):

Nominees:

James E. Burton, IV, James P. Kent, Jr. and William F. Overacre

INSTRUCTION: To withhold authority to vote for any individual nominee(s), mark For All Except and write the name of the nominee(s) in the space provided below.

This proxy is solicited on behalf of the Board of Directors.

The undersigned shareholder of Pinnacle Bankshares Corporation (the Corporation) hereby appoints E.H. Frazier, Jr., Henry S. Pittard and Percy O. Moore as proxies, with full power to act alone, and with full power of substitution to represent the undersigned, and to vote all shares of the Corporation standing in the name of the undersigned shareholder as of February 22, 2005, at the annual meeting of shareholders (the Annual Meeting) to be held at 11:30 a.m. Eastern Time, on Tuesday, April 12, 2005, at the Fellowship Hall of Altavista Presbyterian Church, located at 707 Broad Street, Altavista, Virginia and at any adjournments thereof, upon each of the following matters. The undersigned shareholder hereby revokes any proxy or proxies heretofore given.

2. The proxies are authorized to vote upon such other business as may properly come before the Annual Meeting or any adjournments of the meeting in accordance with the determination of a majority of the Corporation s Board of Directors.

Please check box if you plan to attend the April 12, 2005 Annual Meeting.

Number Attending

This proxy will be voted as directed by the undersigned shareholder. If no direction is given, this proxy will be voted FOR the election of the nominees listed in Proposal 1. If any other matter shall be brought before the meeting, the shares represented by this proxy will be voted by the proxy agents in accordance with the determination of a majority of the Corporation s Board of Directors. The undersigned shareholder may revoke this proxy at any time before it is voted by delivering to the Secretary of the Corporation either a written revocation of the proxy or a duly executed proxy bearing a later date, or by appearing at the Annual Meeting and voting in person. The undersigned shareholder hereby acknowledges receipt of the Notice of the 2005 Annual Meeting of shareholders and related Proxy Statement.

Please be sure to sign and date this Proxy in the box below. Date

Shareholder sign above Co-holder (if any) sign above

é **Detach above card, sign, date and mail in postage paid envelope provided.** é

PINNACLE BANKSHARES CORPORATION

Please date and sign exactly as your name(s) appear(s) hereon. Each executor, administrator, trustee, guardian, attorney-in-fact and any other fiduciary should sign and indicate his or her full title. When shares have been issued in the name of two or more persons, all should sign.

PLEASE ACT PROMPTLY

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SIGN, DATE & MAIL YOUR PROXY CARD TODAY

IF YOUR ADDRESS HAS CHANGED, PLEASE CORRECT THE ADDRESS IN THE SPACE PROVIDED BELOW AND RETURN THIS PORTION WITH THE PROXY IN THE ENVELOPE PROVIDED.