GREENE COUNTY BANCSHARES INC
Form 10-Q/A
September 12, 2005

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

FORM 10-Q/A
(Amendment No. 2)

(Mark One)

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

For the quarterly period ended March 31, 2005

OR

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

For the transition period from ____________________ to _______________

Commission file number **0-14289**

GREENE COUNTY BANCSHARES, INC.
(Exact name of registrant as specified in its charter)

Tennessee	**62-1222567**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
100 North Main Street, Greeneville, Tennessee	**37743-4992**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(423) 639-5111**

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act.) YES x NO o

As of May 5, 2005, the number of shares outstanding of the issuer’s common stock was: 7,650,816.

EXPLANATORY NOTE

Greene County Bancshares, Inc., a Tennessee corporation (the "Company"), is filing this Amendment No. 2 (the "Amendment No. 2") to its Quarterly Report on Form 10-Q for the quarter ended March 31, 2005, as filed with the Securities and Exchange Commission on May 5, 2005 (the “Original Form 10-Q”), as amended by Amendment No. 1 filed with the Securities and Exchange Commission on August 1, 2005 (the "Amendment No. 1"), to correct certain typographical errors and reclassify certain amounts in Item 2 of Part I of the Original Form 10-Q. Except as identified above, no other amendments or changes to the Original Form 10-Q are made by this Amendment No. 2 and the remainder of the Original Form 10-Q, as amended by Amendment No. 1, shall remain in effect as of the date of filing of the Original Form 10-Q. Additionally, this Amendment No. 2 does not purport to provide an update or discussion of any other developments subsequent to the filing of the Original Form 10-Q.

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

Forward-Looking Statements

The information contained herein contains forward-looking statements that involve a number of risks and uncertainties. A number of factors, including those discussed herein, could cause results to differ materially from those anticipated by such forward-looking statements which are within the meaning of that term in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. In addition, such forward-looking statements are necessarily dependent upon assumptions, estimates and data that may be incorrect or imprecise. Accordingly, any forward-looking statements included herein do not purport to be predictions of future events or circumstances and may not be realized. Forward-looking statements can be identified by, among other things, the use of forward-looking terminology such as "intends," "believes," "expects," "may," "will," "should," "seeks," or "anticipates," or the negatives thereo variations thereon of comparable terminology, or by discussions of strategy or intentions. Such statements may include, but are not limited to, projections of income or loss, expenditures, acquisitions, plans for future operations, financing needs or plans relating to services of the Company, as well as assumptions relating to the foregoing. The use of "annualized" information statements, which extrapolates three months actual financial results as to full year 2005, is also forward-looking. The Company's actual results may differ materially from the results anticipated in forward-looking statements due to a variety of factors, including, but not limited to (1) unanticipated deterioration in the financial condition of borrowers resulting in significant increases in loan losses and provisions for those losses; (2) lack of sustained growth in the economy in the markets that the Bank serves; (3) increased competition with other financial institutions in the markets that the Bank serves; (4) changes in the legislative and regulatory environment; (5) the Company's successful implementation of its growth strategy; and (6) the loss of key personnel. All forward-looking statements herein are based on information available to us as of the date the Company's Quarterly Report on Form 10-Q was filed with the Securities and Exchange Commission ("SEC").

Presentation of Amounts

All dollar amounts set forth below, other than per-share amounts, are in thousands unless otherwise noted.

General

Greene County Bancshares, Inc. (the "Company") is the bank holding company for Greene County Bank (the "Bank"), a Tennessee-chartered commercial bank that conducts the principal business of the Company. In addition to its commercial banking operations, the Bank conducts separate businesses through its three wholly-owned subsidiaries: Superior Financial Services, Inc. ("Superior Financial"), a consumer finance company; GCB Acceptance Corporation ("GCB Acceptance"), a subprime automobile lending company; and Fairway Title Co., a title company formed in 1998. The Bank also operates a mortgage banking operation which has its main office in Knox County, Tennessee and this operation also has representatives located throughout the Company's branch system.

On November 21, 2003, the Company entered the Middle Tennessee market by completing its acquisition of Gallatin, Tennessee-based Independent Bankshares Corporation ("IBC"). IBC was the bank holding company for First Independent Bank, which had four offices in Gallatin and Hendersonville, Tennessee, and Rutherford Bank and Trust, with three offices in Murfreesboro and Smyrna, Tennessee. First Independent Bank and Rutherford Bank and Trust were subsequently merged with the Bank, with the Bank as the surviving entity.

On November 15, 2004 the Company established banking operations in Nashville, Tennessee, with the opening of its first full-service branch of Middle Tennessee Bank & Trust, which, like all of the Bank's bank brands, operates within the Bank's structure. This new branch in Davidson County, Tennessee expands the Company's presence in the Middle Tennessee market and helps fill in the market between Sumner and Rutherford Counties.

On December 10, 2004 the Company purchased three full-service branches from National Bank of Commerce located in Lawrence County Tennessee. This purchase ("NBC transaction") fits strategically with the Bank's operations in Rutherford and Sumner Counties, as well as the November 2004 initiative into Davidson County.

Growth and Business Strategy

The Company expects that, over the intermediate term, its growth from mergers and acquisitions, including acquisitions of both entire financial institutions and selected branches of financial institutions, will continue. De novo branching is also expected to be a method of growth, particularly in high-growth and other demographically-desirable markets.

The Company's strategic plan outlines a geographic expansion policy within a 300-mile radius of Greene County, Tennessee. This policy could result in the Company expanding westward and eastward up to and including Nashville, Tennessee and Roanoke, Virginia, respectively, east/southeast up to and including the Piedmont area of North Carolina and western North Carolina, southward to northern Georgia and northward into eastern and central Kentucky. In particular, the Company believes the markets in and around Knoxville, Nashville, and Chattanooga, Tennessee are highly desirable areas with respect to expansion and growth plans.

The Company is continuously investigating and analyzing other lines and areas of business. These include, but are not limited to, various types of insurance and real estate activities. Conversely, the Company frequently evaluates and analyzes the profitability, risk factors and viability of its various business lines and segments and, depending upon the results of these evaluations and analyses, may conclude to exit certain segments and/or business lines. Further, in conjunction with these ongoing evaluations and analyses, the Company may decide to sell, merge or close certain branch facilities.

Overview

The Company's results of operations for the first quarter ended March 31, 2005, compared to the same period in 2004, reflected an increase in net interest income due primarily to loan growth as a result of the Company's expansion initiatives. This increase in net interest income was offset, in part, by increases in non-interest expense which was reflective of the Company's expansion programs.

Critical Accounting Policies and Estimates

The Company's consolidated financial statements and accompanying notes have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported periods.

Management continually evaluates the Company's accounting policies and estimates it uses to prepare the consolidated financial statements. In general, management's estimates are based on historical experience, information from regulators and third party professionals and various assumptions that are believed to be reasonable under the facts and circumstances. Actual results could differ from those estimates made by management.

The Company believes its critical accounting policies and estimates include the valuation of the allowance for loan losses and the fair value of financial instruments and other accounts. Based on management's calculation, an allowance of $16,564, or 1.49%, of total loans, net of unearned interest, was an adequate estimate of losses within the loan portfolio as of March 31, 2005. This estimate resulted in a provision for loan losses on the income statement of $1,622 during the first quarter of 2005. If the mix and amount of future charge-off percentages differ significantly from those assumptions used by management in making its determination, the allowance for loan losses and provision for loan losses on the income statement could be materially affected.

The consolidated financial statements include certain accounting and disclosures that require management to make estimates about fair values. Estimates of fair value are used in the accounting for securities available for sale, loans held for sale, goodwill, other intangible assets, and acquisition purchase accounting adjustments. Estimates of fair values are used in disclosures regarding securities held to maturity, stock compensation, commitments, and the fair values of financial instruments. Fair values are estimated using relevant market information and other assumptions such as interest rates, credit risk, prepayments and other factors. The fair values of financial instruments are subject to change as influenced by market conditions.

Liquidity and Capital Resources

Liquidity. Liquidity refers to the ability or the financial flexibility to manage future cash flows to meet the needs of depositors and borrowers and fund operations. Maintaining appropriate levels of liquidity allows the Company to have sufficient funds available for reserve requirements, customer demand for loans, withdrawal of deposit balances and maturities of deposits and other liabilities. The Company's liquid assets include cash and due from banks, federal funds sold, investment securities and loans held for sale. Including securities pledged to collateralize municipal deposits, these assets represented 11.19% of the total liquidity base at March 31, 2005, as compared to 10.63% at December 31, 2004. The liquidity base is generally defined to include deposits, repurchase agreements, notes payable and subordinated debentures. While the Company usually maintains borrowing availability with the Federal Home Loan Bank of Cincinnati ("FHLB"), it had no availability at March 31, 2005, as the Company utilized this borrowing capacity in conjunction with the funding of its strong loan demand. However, the Company also maintains Federal funds lines of credit totaling $106,000 at eight correspondent banks, of which $106,000 was available at March 31, 2005. The Company believes it has sufficient liquidity to satisfy its current operating needs.

For the three months ended March 31, 2005, operating activities of the Company used $81 of cash flows. Net income of $2,935 comprised a substantial portion of the cash generated from operations. Cash flows from operating activities were also positively affected by various non-cash items, including (i) $1,622 in provision for loan losses, and (ii) $875 of depreciation and amortization. These increases in cash flows were offset by (i) $1,645 increase in other assets, (ii) $2,497 decrease in accrued interest payable and other liabilities, and (iii) deferred tax benefit of $489. In addition, the cash flows used by the originations of mortgage loans held for sale exceeded the cash flows provided by the proceeds from sales of mortgage loans by $713.

The Company's net increase in loans used $69,987 in cash flows and was the primary component of the $85,135 in net cash used in investing activities. In addition, the Company purchased $14,763 in investment securities available for sale. The increase in cash surrender value of life insurance, reflecting both normal increases via earnings and also purchases of additional insurance related to certain benefit plans, used $1,018 in cash flows, and fixed asset additions, net of proceeds from sale of fixed assets, used $706 in cash flows.

The net increase in deposits of $76,292 was the primary source of cash flows from financing activities. Also providing cash from financing activities were the proceeds from notes payable of $115,000 offset, in part, by repayments of notes payable of $105,035. In addition, dividends paid in the amount of $918 further reduced the total net cash provided from financing activities.

Capital Resources. The Company's capital position is reflected in its shareholders' equity, subject to certain adjustments for regulatory purposes. Shareholders' equity, or capital, is a measure of the Company's net worth, soundness and viability. The Company continues to exhibit a strong capital position while consistently paying dividends to its shareholders. Further, the capital base of the Company allows it to take advantage of business opportunities while maintaining the level of resources deemed appropriate by management of the Company to address business risks inherent in the Company's daily operations.

On September 25, 2003, the Company issued $10,310 of subordinated debentures, as part of a privately placed pool of trust preferred securities. The securities, due in 2033, bear interest at a floating rate of 2.85% above the three-month LIBOR rate, reset quarterly, and are callable in five years without penalty. The Company used the proceeds of the offering to support its acquisition of IBC, and the capital raised from the offering qualifies as Tier I capital for regulatory purposes.

Shareholders' equity on March 31, 2005 was $110,669, an increase of $1,951, or 1.79%, from $108,718 on December 31, 2004. The increase in shareholders' equity primarily reflected net income for the three months ended March 31, 2005 of $2,935 ($0.38 per share, assuming dilution). This increase was offset by quarterly dividend payments during the three months ended March 31, 2005 totaling $918 ($0.12 per share).

On September 18, 2002 the Company announced that its Board of Directors had authorized the repurchase of up to $2,000 of the Company's outstanding shares of common stock beginning in October 2002. The repurchase plan was renewed by the Board of Directors in September 2003. On June 4, 2004 the Company announced that its Board of Directors had approved an increase in the amount authorized to be repurchased from $2,000 to $5,000. The repurchase plan is dependent upon market conditions. To date, the Company has purchased 25,700 shares at an aggregate cost of approximately $538 under this program which was renewed by the Company's Board of Directors on November 15, 2004. Unless extended, the repurchase program will terminate on the earlier to occur of the Company's repurchase of the total authorized dollar amount of the Company's common stock or December 1, 2005.

The Company's primary source of liquidity is dividends paid by the Bank. Applicable Tennessee statutes and regulations impose restrictions on the amount of dividends that may be declared by the Bank. Further, any dividend payments are subject to the continuing ability of the Bank to maintain its compliance with minimum federal regulatory capital requirements and to retain its characterization under federal regulations as a "well-capitalized" institution.

Risk-based capital regulations adopted by the Board of Governors of the Federal Reserve Board ("FRB") and the Federal Deposit Insurance Corporation (the "FDIC") require bank holding companies and banks, respectively, to achieve and maintain specified ratios of capital to risk-weighted assets. The risk-based capital rules are designed to measure Tier 1 Capital and Total Capital in relation to the credit risk of both on- and off-balance sheet items. Under the guidelines, one of four risk weights is applied to the different on-balance sheet items. Off-balance sheet items, such as loan commitments, are also subject to risk-weighting after conversion to balance sheet equivalent amounts. All bank holding companies and banks must maintain a minimum total capital to total risk-weighted assets ratio of 8.00%, at least half of which must be in the form of core, or Tier 1, capital (consisting of shareholders' equity, less goodwill and other intangible assets and accumulated other comprehensive income). At March 31, 2005, the Bank and the Company each satisfied their respective minimum regulatory capital requirements, and the Bank was "well-capitalized" within the meaning of federal regulatory requirements.

	Required Minimum Ratio	**Bank**	**Company**
Tier 1 risk-based capital	4.00%	8.87%	8.76%
Total risk-based capital	8.00%	10.12%	10.02%
Leverage Ratio	4.00%	7.92%	7.82%

The FRB has recently issued regulations which will allow continued inclusion of outstanding and prospective issuances of trust preferred securities as Tier 1 capital subject to stricter quantitative and qualitative limits than allowed under prior regulations. The new limits will phase in over a five-year transition period and would permit the Company's trust preferred securities to continue to be treated as Tier 1 capital.

Off-Balance Sheet Arrangements

At March 31, 2005, the Company had outstanding unused lines of credit and standby letters of credit totaling $266,262 and unfunded loan commitments outstanding of $46,080. Because these commitments generally have fixed expiration dates and many will expire without being drawn upon, the total commitment level does not necessarily represent future cash requirements. If needed to fund these outstanding commitments, the Company has the ability to liquidate Federal funds sold or securities available-for-sale or, on a short-term basis, to borrow any then available amounts from the FHLB and/or purchase Federal funds from other financial institutions. At March 31, 2005, the Company had accommodations with upstream correspondent banks for unsecured Federal funds lines. These accommodations have various covenants related to their term and availability, and in most cases must be repaid within less than a month. The following table presents additional information about the Company's off-balance sheet commitments as of March 31, 2005, which by their terms have contractual maturity dates subsequent to March 31, 2005:

	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	Total
Commitments to make loans - fixed	$ 11,205	$ —	$ —	$ —	$ 11,205
Commitments to make loans - variable	34,875	—	—	—	34,875
Unused lines of credit	157,793	42,845	2,520	36,037	239,195
Letters of credit	278	24,789	2,000	—	27,067
Total	$ 204,151	$ 67,634	$ 4,520	$ 36,037	$ 312,342

Disclosure of Contractual Obligations

In the ordinary course of operations, the Company enters into certain contractual obligations. Such obligations include the funding of operations through debt issuances as well as leases for premises and equipment. The following table summarizes the Company's significant fixed and determinable contractual obligations as of March 31, 2005:

	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	Total
Deposits without a stated maturity	$ 516,713	$ —	$ —	$ —	$ 516,713
Certificate of deposits	392,330	113,185	51,462	623	557,600
Repurchase agreements	15,117	—	—	—	15,117
FHLB advances and notes payable	30,000	1,800	59,580	3,807	95,187
Subordinated debentures	—	—	—	10,310	10,310
Operating lease obligations	449	822	306	134	1,711
Deferred compensation	419	1,124	—	657	2,200
Purchase obligations	18	—	—	—	18
Total	$ 955,046	$ 116,931	$ 111,348	$ 15,531	$ 1,198,856

Additionally, the Company routinely enters into contracts for services. These contracts may require payment for services to be provided in the future and may also contain penalty clauses for early termination of the contract. Management is not aware of any additional commitments or contingent liabilities which may have a material adverse impact on the liquidity or capital resources of the Company.

Changes in Results of Operations

Net income. Net income for the three months ended March 31, 2005 was $2,935, as compared to $2,852 for the same period in 2004. This increase of $83, or 2.91%, resulted primarily from a $1,447, or 12.18%, increase in net interest income reflecting principally increased volume of interest-earning assets arising primarily from the Company's expansion initiatives. Offsetting this increase was a $1,324, or 14.79%, increase in total non-interest expense from $8,951 for the three months ended March 31, 2004 to $10,275 for the same period of 2005. This increase is also primarily attributable to the Company's expansion initiatives.

Net Interest Income.