

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. 1)**

(Mark One)

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

For the quarterly period ended June 30, 2005

OR

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

For the transition period from _____ to _____

Commission file number **0-14289**

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

Tennessee
(State or other jurisdiction of
incorporation or organization)

62-1222567
(I.R.S. Employer Identification No.)

100 North Main Street, Greeneville, Tennessee
(Address of principal executive offices)

37743-4992
(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 NO

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

As of July 29, 2005, the number of shares outstanding of the issuer's common stock was: 7,651,016.

EXPLANATORY NOTE

Greene County Bancshares, Inc., a Tennessee corporation (the "Company"), is filing this Amendment No. 1 (the "Amendment No. 1") to its Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, as filed with the Securities and Exchange Commission on August 1, 2005 (the "Original Form 10-Q"), to correct a typographical error related to its effective income tax rate for the six months ended June 30, 2005 in Item 2 of Part I of the Original Form 10-Q and to reflect that the Company has withdrawn its confidential treatment request with respect to the Branch Purchase and Assumption Agreement dated as of July 20, 2005 by and between the Company's wholly-owned bank subsidiary, Greene County Bank, and Old National Bank. Except as identified above, no other amendments or changes to the Original Form 10-Q are made by this Amendment No. 1 and the remainder of the Original Form 10-Q shall remain in effect as of the date of filing of the Original Form 10-Q. Additionally, this Amendment No. 1 does not purport to provide an update or discussion of any other developments subsequent to the filing of the Original Form 10-Q.

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

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements, which are based on assumptions and estimates and describe our future plans, strategies and expectations, are generally identifiable by the use of the words "anticipate," "will," "believe," "may," "could," "would," "should," "estimate," "expect," "intend," "seek," or similar expressions. Forward-looking statements may address, among other things, the Company's business plans, objectives or goal for future operations or expansion, the Company's forecasted revenues, earnings, assets or other measures of performance, or estimates of risks and future costs and benefits. Although these statements reflect the Company's good faith belief based on current expectations, estimates and projections, they are subject to risks, uncertainties and assumptions and are not guarantees of future performance. Important factors that could cause actual results to differ materially from the forward-looking statements we make in this Quarterly Report on Form 10-Q include, but are not limited to, the following:

the Company's potential growth, including its entrance or expansion into new markets, and the need for sufficient capital to support that growth;

changes in the quality or composition of the Company's loan or investment portfolios, including adverse developments in borrower industries or in the repayment ability of individual borrowers or issuers;

an insufficient allowance for loan losses as a result of inaccurate assumptions;

changes in interest rates, yield curves and interest rate spread relationships;

the strength of the economies in the Company's target market areas, as well as general economic, market or business conditions;

changes in demand for loan products and financial services;

increased competition or market concentration;

concentration of credit exposure;

new state or federal legislation, regulations, or the initiation or outcome of litigation; and

other circumstances, many of which may be beyond the Company's control.

If one or more of these risks or uncertainties materialize, or if any of the Company's underlying assumptions prove incorrect, the Company's actual results, performance or achievements may vary materially from future results, performance or achievements expressed or implied by these forward-looking statements. All forward-looking statements included in this Quarterly Report on Form 10-Q are expressly qualified in their entirety by the cautionary statements in this section. The Company does not intend to and assumes no responsibility for updating or revising any forward-looking statements contained in or incorporated by reference into this Quarterly Report on Form 10-Q, whether as a result of new information, future events or otherwise.

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. The Company is the second largest bank holding company headquartered in Tennessee. The Bank currently maintains a main office in Greeneville, Tennessee and 42 full-service bank branches primarily in East and Middle Tennessee. 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 a trust and money management function doing business as Presidents Trust from an office in Wilson County, Tennessee.

Growth 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. Since 2003, the Company has focused on bringing its community-focused style of banking to Middle Tennessee, including the Nashville metropolitan statistical area, and on continuing its growth in the Knoxville metropolitan statistical area.

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, in Davidson County, with the opening of a full-service branch operating under the name of Middle Tennessee Bank & Trust. This new branch, like all of the Bank's bank brands, operates within the Bank's structure. This new branch expanded the Company's presence in the Middle Tennessee market and helped fill in the market between Sumner and Rutherford Counties. In 2005, Middle Tennessee Bank & Trust has opened a new branch in Williamson County, Tennessee and expects to open another new branch in Davidson County, Tennessee by the end of 2005.

The Company opened a new branch in Knoxville, Tennessee in late 2003 and expects that it will open its second branch in that city during the first-half of 2006.

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") adds to the Bank's presence in Middle Tennessee.

Following the end of the quarter ended June 30, 2005, the Bank agreed to purchase five bank branches in Clarksville, Tennessee from Old National Bank, Evansville, Indiana. These branches had approximately \$172,000 in deposits and approximately \$120,000 in loans at June 30, 2005. The consummation of this transaction is subject to the satisfaction of various customary closing conditions, including the receipt of required regulatory approvals, and is expected to occur in the fourth quarter of 2005.

Overview

The Company's results of operations for the second quarter and the six-month period ended June 30, 2005, compared to the same periods in 2004, reflected an increase in interest income due primarily to loan growth as a result of the Company's expansion initiatives, offset, in part, by an increase in interest expense as a result of increased deposit levels resulting from its expansion efforts and competitive deposit pricing pressures.

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The increase in net interest income was also offset, in part, by an increase in noninterest expense which was reflective of the Company's expansion efforts into Middle Tennessee and the Company's branch expansion in its Knoxville, Tennessee market as well as expenses associated with the establishment of the Company's High Performance Checking Program. Noninterest income also increased for both the three and six months ended June 30, 2005 as compared to the comparable periods in 2004 as a result of increased deposit service charges and Non-Sufficient Funds ("NSF") fees resulting from the Company's expansion efforts and recently introduced High Performance Checking Program.

The Company's net interest margin for the quarter and six months ended June 30, 2005 continued to experience compression as a result of deposit pricing pressures that the Company continued to experience as it aggressively attempted to generate deposits to support its loan growth and as deposit growth outpaced loan growth for the six months ended June 30, 2005 following the implementation of the Company's High Performance Checking Program. The Company's net interest margin also experienced compression as a result of the Company's competitive pricing of its loans particularly in its Middle Tennessee market and its emphasis on originating more traditional loans while controlling the growth of its higher-yielding subprime loans at its non-bank subsidiaries. The Company believes that if interest rates remain stable it will continue to experience compression in its net interest margin for the remainder of 2005 as a result of loan and deposit pricing pressures but that if interest rates continue to rise, based on the Company's current mix of interest-earning assets and interest-bearing liabilities, the Company believes its net interest margin will begin to increase.

At June 30, 2005, the Company had total consolidated assets of approximately \$1,374,000, total consolidated deposits of approximately \$1,148,000, total consolidated net loans, net of unearned income and allowance for loan losses, of approximately \$1,142,000, and total consolidated shareholders' equity of approximately \$113,500. The Company's annualized return on average shareholders' equity for the three and six months ended June 30, 2005, was 13.11% and 11.86%, respectively and its return on average total assets for the same periods was 1.11% and 1.02%, respectively. The Company expects that its total assets, total consolidated deposits, total consolidated net loans and total shareholders' equity will continue to increase over the remainder of 2005 as a result of its expansion efforts, including its branch expansion in Middle Tennessee and its anticipated acquisition of the five bank branches in Clarksville, Tennessee from Old National Bank, which is expected to close in the fourth quarter of 2005.

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 significantly 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 \$16,880, or 1.46%, of total loans, net of unearned interest, was an adequate estimate of losses within the loan portfolio as of June 30, 2005. This estimate resulted in a provision for loan losses on the income statement of \$1,060 and \$2,682, respectively, for the three and six months ended June 30, 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.

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Changes in Results of Operations

Net income. Net income for the three months ended June 30, 2005 was \$3,714 as compared to \$3,275 for the same period in 2004. This increase of \$439, or 13.40%, resulted primarily from a \$2,089, or 17.43%, increase in net interest income reflecting principally increased volume of interest-earning assets arising primarily from the Company's expansion initiatives and related growth in the loan portfolio. Offsetting this increase was a \$1,848, or 21.55%, increase in total noninterest expense from \$8,574 for the three months ended June 30, 2004 to \$10,422 for the same period of 2005. This increase is also primarily attributable to the Company's expansion initiatives, as discussed above.

Net income for the six months ended June 30, 2005 was \$6,649 as compared to \$6,127 for the same period in 2004. The increase of \$522, or 8.52%, reflects substantially the same trends that existed during the quarter ended June 30, 2005.

Net Interest Income. The largest source of earnings for the Company is net interest income, which is the difference between interest income on interest-earning assets and interest paid on deposits and other interest-bearing liabilities. The primary factors which affect net interest income are changes in volume and yields of interest-earning assets and interest-bearing liabilities, which are affected in part by management's responses to changes in interest rates through asset/liability management. During the three months ended June 30, 2005, net interest income was \$14,072 as compared to \$11,983 for the same period in 2004, representing an increase of 17.43%. While the Company's average balances of interest-earning assets increased more than the average balances of interest-bearing liabilities in the three months ended June 30, 2005, as compared to the same quarter in 2004, thus enhancing net interest income, such increase was offset, in part, by the smaller increase in yield on these interest-earning assets as compared to the cost of interest-bearing liabilities. Nevertheless, the Company experienced a substantial increase in net interest income, as noted above, in the three months ended June 30, 2005 as compared to the same quarter in 2004. The Company's net interest margin decreased to 4.57% for the three months ended June 30, 2005 as compared to 4.69% for the same period in 2004, and declined 24 basis points from the 4.81% net interest margin for the three months ended December 31, 2004. The Company's net interest margin also declined for the six months ended June 30, 2005, falling to 4.61% when compared to 4.69% for the same period in 2004. In order to fund its strong loan growth, the Company has pursued aggressive deposit rates throughout all its markets, resulting in margin compression that is not expected to abate in the near term despite the Company's asset-sensitive interest rate risk position. In addition, management has been controlling the growth of higher-yielding subprime loans in the Bank's subsidiaries and focusing on increasing the balances of its traditional commercial, commercial real estate and residential real estate loans, thus reducing the percentage of subprime loans in the Company's portfolio. This trend in the loan mix also constrains the increases in loan yields during a rising interest rate environment notwithstanding the Company's asset-sensitive balance sheet. Nevertheless, if interest rates continue to increase, based on the Company's current mix of interest-earning assets and interest-bearing liabilities, the Company believes its net interest margin will begin to increase over the course of the remainder of 2005. Further, in view of the Company's asset-sensitive position, management anticipates declines in net interest margin if product mixes remain relatively unchanged and interest rates reverse their upward trend and begin to decline. In addition, even if interest rates remain stable, the Company's net interest margin could decline due to competitive pressures related to both loan and deposit pricing.

For the six months ended June 30, 2005, net interest income increased by \$3,536, or 14.82%, to \$27,399 from \$23,863 for the same period in 2004, and the same trends outlined above with respect to the three months ended June 30, 2005 were observed.

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The following tables set forth certain information relating to the Company's consolidated average interest-earning assets and interest-bearing liabilities and reflects the average yield on assets and average cost of liabilities for the periods indicated. These yields and costs are derived by dividing income or expense by the average daily balance of assets or liabilities, respectively, for the periods presented.

	Three Months Ended June 30,					
	2005			2004		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Interest-earning assets:						
Loans	\$ 1,140,537	\$ 19,851	6.98%	\$ 984,417	\$ 15,522	6.34%
Investment securities	60,691	592	3.91%	39,203	339	3.48%
Other short-term investments	33,265	260	3.13%	3,560	8	0.90%
Total interest-earning assets	1,234,493	\$ 20,703	6.73%	1,027,180	\$ 15,869	6.21%
Noninterest earning assets	104,107			96,182		
Total assets	\$ 1,338,600			\$ 1,123,362		
Interest-bearing liabilities:						
Deposits:						
Now accounts, money market and savings	\$ 401,441	\$ 1,161	1.16%	\$ 345,250	\$ 403	0.47%
Time Deposits	598,470	4,340	2.91%	465,914	2,603	2.25%
Total interest-bearing deposits	\$ 999,911	\$ 5,501	2.21%	\$ 811,164	\$ 3,006	1.49%
Securities sold under repurchase agreements and short-term borrowings	15,014	95	2.54%	16,026	34	0.85%
Notes payable	81,000	1,035	5.13%	72,621	846	4.69%
Tot						