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)

x 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

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 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 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the six months ended June 30, 2005 in Item 2 of Part I of the Original Form 10-Q and to reflect that the Company has withdrawn its confidential treatment request with respect to the Branch Purchase and Assumption Agreement dated as of July 20, 2005 by and between the Company’s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.

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 e 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.

-2-

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.

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.

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.

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%
Total interest-bearing liabilities	$ 1,095,925	$ 6,631	2.43%	$ 899,811	$ 3,886	1.74%
Noninterest bearing liabilities:						
Demand deposits	116,436			104,966		
Other liabilities	12,942			12,819		
Total noninterest bearing liabilities	129,378			117,785		
Total liabilities	1,225,303			1,017,596		
Shareholders' equity	113,297			105,766		
Total liabilities and shareholders' equity	$ 1,338,600			$ 1,123,362		
Net interest income		$ 14,072			$ 11,983	
Interest rate spread			4.30%			4.48%

Net yield on interest-earning assets	4.57%	4.69%

	Six Months Ended June 30,					
	2005			2004		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Interest-earning assets:						
Loans	$ 1,110,231	$ 37,930	6.89%	$ 976,613	$ 31,047	6.39%
Investment securities	55,874	1,065	3.84%	41,145	725	3.54%
Other short-term investments	33,694	443	2.65%	5,830	27	0.93%
Total interest-earning assets	1,199,799	$ 39,438	6.63%	1,023,588	$ 31,799	6.25%
Noninterest earning assets	103,339			99,989		
Total assets	$ 1,303,138			$ 1,123,577		
Interest-bearing liabilities:						
Deposits:						
Now accounts, money market and savings	$ 395,246	$ 2,027	1.03%	$ 340,165	$ 805	0.48%
Time Deposits	561,428	7,736	2.78%	474,379	5,387	2.28%
Total interest-bearing deposits	$ 956,674	$ 9,763	2.06%	$ 814,544	$ 6,192	1.53%
Securities sold under repurchase agreement and short-term borrowings	16,712	184	2.22%	16,826	67	0.80%
Notes payable	86,740	2,092	4.86%	71,852	1,677	4.69%
Total interest-bearing liabilities	$ 1,060,126	$ 12,039	2.29%	$ 903,222	$ 7,936	1.77%
Noninterest bearing liabilities:						
Demand deposits	116,644			102,755		
Other liabilities	14,235			12,794		
Total noninterest bearing liabilities	130,879			115,549		
Total liabilities	1,191,005			1,018,771		
Shareholders' equity	112,133			104,806		
Total liabilities and shareholders' equity	$ 1,303,138			$ 1,123,577		
Net interest income		$ 27,399			$ 23,863	
Interest rate spread			4.34%			4.48%
Net yield on interest-earning assets			4.61%			4.69%

-7-

Provision for Loan Losses. During the three and six months ended June 30, 2005, loan charge-offs were $1,281 and $2,481, respectively, and recoveries of charged-off loans were $537 and $958, respectively. The Company's provision for loan losses decreased by $102, or 8.78%, and $3, or 0.11%, to $1,060 and $2,682 for the three and six months ended June 30, 2005, respectively, as compared to $1,162 and $2,685 for the same periods in 2004. The Company's allowance for loan losses increased by $1,159 to $16,880 at June 30, 2005 from $15,721 at December 31, 2004, with the ratio of the allowance for loan losses to total loans, net of unearned income, declining to 1.46% at June 30, 2005 from 1.50% and 1.51% at December 31, 2004 and June 30, 2004, respectively. As of June 30, 2005, indicators of credit quality, as discussed below, are mixed compared to December 31, 2004 but generally improved compared to June 30, 2004. Management continually evaluates the Company's credit policies and procedures for effective risks and controls management. The Company's trend in asset quality improvement is attributable to improved underwriting policies and management controls. Management believes the Company's asset quality indicators are sustainable within the current economic environment. The ratio of allowance for loan losses to nonperforming assets was 177.74%, 185.56% and 158.23% at June 30, 2005, December 31, 2004 and June 30, 2004, respectively, and the ratio of nonperforming assets to total assets was 0.69%, 0.69% and 0.84% at June 30, 2005, December 31, 2004 and June 30, 2004, respectively. The ratio of nonperforming loans to total loans, excluding loans held for sale, was 0.62%, 0.66% and 0.59% at June 30, 2005, December 31, 2004 and June 30, 2004, respectively. Within the Bank, the Company's largest subsidiary, the ratio of nonperforming assets to total assets was 0.64%, 0.61% and 0.74% at June 30, 2005, December 31, 2004 and June 30, 2004, respectively.

The Company's annualized net charge-offs for the six months ended June 30, 2005 were $3,046 compared to actual net charge-offs of $5,042 for the year ended December 31, 2004. Annualized net charge-offs as a percentage of average loans improved from 0.48% for the six months ended June 30, 2004 to 0.27% for the six months ended June 30, 2005. Net charge-offs as a percentage of average loans were 0.51% for the year ended December 31, 2004. Within the Bank, annualized net charge-offs as a percentage of average loans fell from 0.29% for the six months ended June 30, 2004 to 0.16% for the same period in 2005. Net charge-offs within the Bank as a percentage of average loans were 0.35% for the year ended December 31, 2004. Annualized net charge-offs in the Bank for the six months ended June 30, 2005 were $1,716 compared to actual net charge-offs of $3,418 for the year ended December 31, 2004. Annualized net charge-offs in Superior Financial for the six months ended June 30, 2005 were $497 compared to actual net charge-offs of $525 for the year ended December 31, 2004. Annualized net charge-offs in GCB Acceptance for the six months ended June 30, 2005 were $833 compared to actual net charge-offs of $1,099 for the year ended December 31, 2004. At this point, management believes that total charge-offs for 2005 in Superior Financial and GBC Acceptance will slightly improve compared to 2004 charge-offs based on asset quality trends.

Based on the Company's allowance for loan loss calculation and review of the loan portfolio, management believes the allowance for loan losses is adequate at June 30, 2005. Management anticipates that the provision for loan losses during the third quarter of 2005 will be consistent with the second quarter of 2005 and also anticipates that the provision for loan losses for the entire year of 2005 may be less than the provision for 2004 if indicators of credit quality remain stabilized. However, the provision for loan losses could increase for the entire year of 2005, as compared to 2004, if the Company's loan growth continues at the rate experienced through the six months ended June 30, 2005.

Noninterest Income. Income that is not related to interest-earning assets, consisting primarily of service charges, commissions and fees, has become an important supplement to the Company's traditional method of earning income through interest rate spreads.

Total noninterest income for the three and six months ended June 30, 2005 was $3,463 and $6,639 as compared to $3,070 and $6,164, respectively, for the same periods in 2004. Service charges, commissions and fees remain the largest component of total noninterest income and increased from $2,518 and $4,913 for the three and six months, respectively, ended June 30, 2004 to $2,836 and $4,978, respectively, for the same periods in 2005. This increase primarily reflects additional service charges and NSF fees from deposit-related products stemming primarily from increased volume as a result of the Bank's High Performance Checking Program introduced in the first quarter of 2005 and also its expansion efforts. The Company believes that noninterest income will continue to improve over the second half of 2005 when compared to prior comparable periods as a result of the increased volume in deposits resulting from the Bank's expansion efforts and its new High Performance Checking Program. In addition, other noninterest income increased by $75 and $410 to $627 and $1,661 for the three and six months ended June 30, 2005, respectively, from $552 and $1,251 for the same periods in 2004. This increase for the six months ended June 30, 2005 is primarily attributable to increased fees of $195 from the sale of mutual funds and annuities and $99 from the sale of the Company's interest in an ATM network vendor.

Noninterest Expense. Control of noninterest expense also is an important aspect in enhancing income. Noninterest expense includes personnel, occupancy, and other expenses such as data processing, printing and supplies, legal and professional fees, postage, FDIC assessment, etc. Total noninterest expense was $10,422 and $20,697 for the three and six months ended June 30, 2005 compared to $8,574 and $17,525 for the same periods in 2004. The $1,848, or 21.55%, increase in total noninterest expense for the three months ended June 30, 2005 compared to the same period of 2004 principally reflects increases in all expense categories primarily as a result of the Company’s expansion program as well as costs of $384 associated with the Bank’s High Performance Checking Program, which the Company expects will continue for the remainder of 2005. This program is designed to generate significant numbers and balances of core transaction accounts.

Similarly, the $3,172 or 18.10%, increase in total noninterest expense for the six months ended June 30, 2005 compared to the same period in 2004 reflects substantially the same trends that existed during the quarter ended June 30, 2005.

Personnel costs are the primary element of the Company's noninterest expenses. For the three and six months ended June 30, 2005, salaries and benefits represented $5,099, or 48.93%, and $10,344, or 49.98%, respectively, of total noninterest expense. This was an increase of $635, or 14.22%, and $1,173, or 12.79%, respectively, from the $4,464 and $9,171 for the three and six months ended June 30, 2004. Including Bank branches and non-bank office locations, the Company had 53 locations at June 30, 2005 and at December 31, 2004, as compared to 49 at June 30, 2004, and the number of full-time equivalent employees increased 6.33% from 458 at June 30, 2004 to 487 at June 30, 2005. These increases in personnel costs, number of branches and employees are primarily the result of the Company’s expansion initiative and are expected to increase for the remainder of 2005 with the Company’s continued expansion efforts in Middle Tennessee and Knoxville and as a result of the Bank’s proposed acquisition of five Clarksville, Tennessee branches from Old National Bank.

Primarily as a result of this overall increase in noninterest expense, the Company’s efficiency ratio was negatively affected, as the ratio increased from 58.36% at June 30, 2004 to 60.81% at June 30, 2005. The efficiency ratio illustrates how much it cost the Company to generate revenue. For example, it cost the Company 60.81 cents to generate one dollar of revenue for the six months ended June 30, 2005 as compared to 58.36 cents for the six months ended June 30, 2004. The Company believes that its efficiency ratio will continue to be negatively impacted for the remainder of 2005 as a result of its continued expansion efforts.

Income Taxes. The effective income tax rate for the three and six months ended June 30, 2005 was 38.64% and 37.62%, respectively, compared to 38.41% and 37.59% for the same periods in 2004.

Changes in Financial Condition

Total assets at June 30, 2005 were $1,374,194, an increase of $140,791, or 11.41%, from total assets of $1,233,403 at December 31, 2004. The increase in assets was primarily reflective of the $110,618, or 10.73%, increase, as reflected on the Condensed Consolidated Balance Sheets, in net loans, excluding loans held for sale, and was funded by the $150,412, or 15.07%, increase in deposits resulting from the Company’s expansion efforts and its High Performance Checking Program.

At June 30, 2005, loans, net of unearned income and allowance for loan losses, were $1,141,764 compared to $1,031,146 at December 31, 2004, an increase of $110,618, or 10.73%, from December 31, 2004. The increase in loans during the first six months of 2005 primarily reflects an increase in commercial real estate loans and commercial loans and the growth in the loan portfolio of Middle Tennessee Bank & Trust.

Non-performing loans include non-accrual loans and loans 90 or more days past due. All loans that are 90 days past due are considered non-accrual unless they are adequately secured and there is reasonable assurance of full collection of principal and interest. Non-accrual loans that are 120 days past due without assurance of repayment are charged off against the allowance for loan losses. Nonaccrual loans and loans past due 90 days and still accruing increased slightly by $248, or 3.59%, during the six months ended June 30, 2005 to $7,154 from $6,906 at December 31, 2004. At June 30, 2005, the ratio of the Company's allowance for loan losses to non-performing assets (which include non-accrual loans) was 177.74% compared to 185.56% at December 31, 2004.

The Company maintains an investment portfolio to provide liquidity and earnings. Investments at June 30, 2005 with an amortized cost of $54,892 had a market value of $54,719. At December 31, 2004, investments with an amortized cost of $39,742 had a market value of $39,824. The increase in investments from December 31, 2004 to June 30, 2005 results from the purchase of short-term federal agency securities as well as mortgage-backed securities reflecting management's decision to channel more of the Company's liquid assets into more favorable positions on the yield curve.

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 11.53% of the total liquidity base at June 30, 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. In addition, the Company maintains borrowing availability with the Federal Home Loan Bank of Cincinnati ("FHLB") approximating $29,283 at June 30, 2005. The Company also maintains federal funds lines of credit totaling $111,000 at nine correspondent banks, of which $111,000 was available at June 30, 2005. The Company believes it has sufficient liquidity to satisfy its current operating needs.

For the six months ended June 30, 2005, operating activities of the Company provided $3,625 of cash flows. Net income of $6,649 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) $2,682 in provision for loan losses, and (ii) $1,763 of depreciation and amortization. These increases in cash flows were offset by (i) $5,327 decrease in accrued interest payable and other liabilities, (ii) $1,076 increase in other assets, and (iii) deferred tax benefit of $797. In addition, the cash flows provided by the proceeds from sales of mortgage loans exceeded the cash flows used by the originations of mortgage loans held for sale by $301.

The Company's net increase in loans used $115,364 in cash flows and was the primary component of the $131,901 in net cash used in investing activities for the six months ended June 30, 2005. In addition, the Company purchased $16,860 in investment securities available for sale. Purchases of additional insurance related to certain benefit plans used $1,450 in cash flows, and fixed asset additions, net of proceeds from sale of fixed assets, used $1,188 in cash flows.

The net increase in deposits of $150,413 was the primary source of cash flows from financing activities. These cash flows were offset, in part, by the excess of repayments of notes payable over proceeds from notes payable in the amount of $14,713. In addition, dividends paid in the amount of $1,837 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 from the date of issuance 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 1 capital for regulatory purposes.

On June 28, 2005, the Company issued an additional $3,093 of subordinated debentures, as part of a privately placed pool of trust preferred securities. The securities, due in 2035, bear interest at a floating rate of 1.68% above the three-month LIBOR rate, reset quarterly, and are callable in five years from the date of issuance without penalty. The Company used the proceeds to augment its capital position in connection with its significant asset growth, and the capital raised from the offering qualifies as Tier 1 capital for regulatory purposes.

Shareholders' equity on June 30, 2005 was $113,486, an increase of $4,768, or 4.39%, from $108,718 on December 31, 2004. The increase in shareholders' equity primarily reflected net income for the six months ended June 30, 2005 of $6,649 ($0.86 per share, assuming dilution). This increase was offset by quarterly dividend payments during the six months ended June 30, 2005 totaling $1,837 ($0.24 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 common equity, retained earnings, and a limited amount of qualifying perpetual preferred stock and trust preferred securities, net of goodwill and other intangible assets and accumulated other comprehensive income). These guidelines also specify that bank holding companies that are experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels. At June 30, 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. The table below sets forth the capital position of the Bank and the Company at June 30, 2005.

	Required Minimum Ratio	Required to be Well Capitalized	Bank	Company
Tier 1 risk-based capital	4.00%	6.00%	9.02%	8.94%
Total risk-based capital	8.00%	10.00%	10.27%	10.19%
Leverage Ratio	4.00%	5.00%	7.93%	7.85%

The Company's proposed acquisition of five Clarksville, Tennessee bank branches from Old National Bank will require that the Company contribute additional capital to the Bank in order for the Bank to remain well-capitalized within the meaning of federal regulatory requirements. The acquisition agreement entered into by the Bank in connection with the Old National branch acquisition requires that the Company secure financing commitments no later than August 8, 2005 in the amount necessary to provide the required capital to the Bank at the closing of the transaction if the Company is unable to complete an offering of its common stock providing net proceeds sufficient to provide the necessary capital to the Bank, and to enter into a definitive credit agreement for such financing under certain circumstances.

On July 22, 2005, the Company secured a commitment from SunTrust Bank, National Association for a $35,000 line of credit, which expires on August 31, 2005 if a definitive credit agreement is not entered into by the parties and decreases to $15,000 on November 30, 2005. The Company expects that it will enter into the definitive credit agreement during August 2005 and anticipates that it will file a registration statement with the Securities and Exchange Commission in early August 2005 for an underwritten public offering of up to 1,725,000 shares of its common stock, the proceeds of which will be used to provide capital to the Bank in an amount sufficient for the Bank to remain well-capitalized following the acquisition and for other general corporate purposes. The Company anticipates that it will only access the line of credit if it is unable to consummate a public offering resulting in net proceeds in the required amount prior to the closing of the Clarksville branch acquisition.

Off-Balance Sheet Arrangements

At June 30, 2005, the Company had outstanding unused lines of credit and standby letters of credit totaling $302,080 and unfunded loan commitments outstanding of $76,048. 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 June 30, 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 June 30, 2005, which by their terms have contractual maturity dates subsequent to June 30, 2005:

	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	Total
Commitments to make loans - fixed	$ 10,904	$ --	$ --	$ --	$ 10,904
Commitments to make loans - variable	65,144	--	--	--	65,144
Unused lines of credit	191,573	38,078	4,689	39,085	273,425
Letters of credit	13,320	14,167	1,003	165	28,655
Total	$ 280,941	$ 52,245	$ 5,692	$ 39,250	$ 378,128

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 June 30, 2005:

	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	Total
Deposits without a stated maturity	$ 520,480	$ --	$ --	$ --	$ 520,480
Certificate of deposits	438,441	139,343	49,589	581	627,954
Repurchase agreements	16,426	--	--	--	16,426
FHLB advances and notes payable	369	2,624	60,362	7,154	70,509
Subordinated debentures	--	--	--	13,403	13,403
Operating lease obligations	568	858	250	136	1,812
Deferred compensation	412	1,170	--	710	2,292
Purchase obligations	43	--	--	--	43
Total	$ 976,739	$ 143,995	$ 110,201	$ 21,984	$ 1,252,919

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.

Effect of New Accounting Standards

In December 2004, the FASB issued SFAS No. 123(R), *Accounting for Stock-Based Compensation* (SFAS No. 123(R)). SFAS No. 123(R) establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123(R) requires that the fair value of such equity instruments be recognized as an expense in the historical financial statements as services are performed. Prior to SFAS No. 123(R), only certain pro forma disclosures of fair value were required. The provisions of this Statement are effective for the first fiscal year reporting period beginning after June 15, 2005. Accordingly, the Company will adopt SFAS No. 123(R) commencing with the quarter ending March 31, 2006. Had the fair value of employee stock option compensation been included in the consolidated financial statements, net income for the six month periods ending June 30, 2005 and 2004 would have been decreased by $123 and $75, respectively.

PART II - OTHER INFORMATION

Item 6. <u>Exhibits</u>

Exhibit No. 2.1	Branch Purchase and Assumption Agreement dated July 20, 2005 by and between Greene County Bank and Old National Bank (pursuant to Item 601(b)(2) of Regulation S-K the schedules and exhibits to this agreement have been omitted from this filing)*
Exhibit No. 31.1	Chief Executive Officer Certification Pursuant to Rule 13a-14(a)/15d-14(a)**
Exhibit No. 31.2	Chief Financial Officer Certification Pursuant to Rule 13a-14(a)/15d-14(a)**
Exhibit No. 31.3	Chief Executive Officer Certification Pursuant to Rule 13a-14(a)/15d-14(a)
Exhibit No. 31.4	Chief Financial Officer Certification Pursuant to Rule 13a-14(a)/15d-14(a)
Exhibit No. 32.1	Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
Exhibit No. 32.2	Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

---

* The Company has withdrawn its confidential treatment request with respect to this agreement and has filed the agreement in its entirety as Exhibit 2.1 to the Company's Amendment No. 1 to Registration Statement on Form S-3 (File No. 333-127120) as filed with the Securities and Exchange Commission on September 9, 2005.

** Previously filed with the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, as filed with the Securities Exchange Commission on August 1, 2005.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Amendment No. 1 to Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned thereunto duly authorized.

GREENE COUNTY BANCSHARES, INC.
(Registrant)

Date: September 12, 2005

By: /s/ R. Stan Puckett

R. Stan Puckett
Chairman of the Board and Chief Executive Officer
(Duly authorized representative)

Date: September 12, 2005

By: /s/ William F. Richmond

William F. Richmond
Senior Vice President, Chief Financial Officer
(Principal financial and accounting officer) and
Assistant Secretary

EXHIBIT INDEX

Exhibit No. 2.1	Branch Purchase and Assumption Agreement dated July 20, 2005 by and between Greene County Bank and Old National Bank (pursuant to Item 601(b)(2) of Regulation S-K the schedules and exhibits to this agreement have been omitted from this filing)*
Exhibit No. 31.1	Chief Executive Officer Certification Pursuant to Rule 13a-14(a)/15d-14(a)**
Exhibit No. 31.2	Chief Financial Officer Certification Pursuant to Rule 13a-14(a)/15d-14(a)**
Exhibit No. 31.3	Chief Executive Officer Certification Pursuant to Rule 13a-14(a)/15d-14(a)
Exhibit No. 31.4	Chief Financial Officer Certification Pursuant to Rule 13a-14(a)/15d-14(a)
Exhibit No. 32.1	Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
Exhibit No. 32.2	Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

* The Company has withdrawn its confidential treatment request with respect to this agreement and has filed the agreement in its entirety as Exhibit 2.1 to the Company's Amendment No. 1 to Registration Statement on Form S-3 (File No. 333-127120) as filed with the Securities and Exchange Commission on September 9, 2005.

** Previously filed with the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, as filed with the Securities Exchange Commission on August 1, 2005.