

GREENE COUNTY BANCSHARES INC  
Form 10-Q  
August 06, 2003

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(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, 2003

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)

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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 ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 6,823,315.

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**PART 1 FINANCIAL INFORMATION**

**ITEM 1.     FINANCIAL STATEMENTS**

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The unaudited condensed consolidated financial statements of the Registrant and its wholly owned subsidiaries are as follows:

Condensed Consolidated Balance Sheets June 30, 2003 and December 31, 2002.

Condensed Consolidated Statements of Income and Comprehensive Income - For the three and six months ended June 30, 2003 and 2002.

Condensed Consolidated Statement of Stockholders' Equity For the six months ended June 30, 2003.

Condensed Consolidated Statements of Cash Flows - For the six months ended June 30, 2003 and 2002.

Notes to Condensed Consolidated Financial Statements.

**GREENE COUNTY BANCSHARES, INC.**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

**June 30, 2003 and December 31, 2002**

**(Dollar amounts in thousands, except share and per share data)**

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	(Unaudited) June 30, 2003	December 31, 2002*
<b>ASSETS</b>		
Cash and due from banks	\$ 42,035	\$ 23,466
Federal funds sold		39,493
Securities available for sale	42,111	33,322
Securities held to maturity (fair value \$458 and \$455)	448	448
FHLB, Bankers Bank and other stock, at cost	5,446	4,744
Loans held for sale	5,172	6,646
Loans	772,848	750,257
Less: Allowance for loan losses	(12,411)	(12,586)
Net loans	760,437	737,671
Premises and equipment, net	27,096	26,377
Other assets	26,356	27,229
Total assets	\$ 909,101	\$ 899,396
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Deposits	\$ 704,909	\$ 719,323
Federal funds purchased and repurchase agreements	26,443	10,038
Notes payable	87,076	82,359
Accrued interest payable and other liabilities	12,682	13,081
Total liabilities	831,110	824,801
<b>Shareholders' equity</b>		
Common stock: \$2 par, 15,000,000 shares authorized, 6,823,315 and 6,820,540 shares outstanding	13,647	13,641
Additional paid-in capital	4,901	4,870
Retained earnings	59,210	55,928
Accumulated other comprehensive income	233	156
Total shareholders' equity	77,991	74,595
Total liabilities and shareholders' equity	\$ 909,101	\$ 899,396

\* Condensed from audited financial statements.

See accompanying notes.

## GREENE COUNTY BANCSHARES, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Three and Six Months Ended June 30, 2003 and 2002

(Dollar amounts in thousands, except share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
	(Unaudited)		(Unaudited)	
Interest income				
Interest and fees on loans	\$ 13,721	\$ 14,403	\$ 27,339	\$ 28,693
Investment securities	318	440	644	823
Federal funds sold and interest-earning deposits	43	123	99	372
	14,082	14,966	28,082	29,888
Interest expense				
Deposits	3,276	3,790	6,754	8,001
Borrowings	753	814	1,470	1,711
	4,029	4,604	8,224	9,712
Net interest income	10,053	10,362	19,858	20,176
Provision for loan losses	1,729	1,369	2,855	2,676
Net interest income after provision for loan losses	8,324	8,993	17,003	17,500
Noninterest income				
Service charges and fees	2,436	1,950	4,531	3,868
Other	461	622	1,090	1,291
	2,897	2,572	5,621	5,159
Noninterest expense				
Salaries and employee benefits	3,884	4,312	8,089	8,540
Occupancy and furniture and equipment expense	1,124	1,001	2,173	2,033
Other	2,684	1,960	4,662	3,735
	7,692	7,273	14,924	14,308
Income before income taxes	3,529	4,292	7,700	8,351
Provision for income taxes	1,228	1,625	2,781	3,115



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Net income	\$	2,301	\$	2,667	\$	4,919	\$	5,236
Comprehensive Income	\$	2,299	\$	2,833	\$	4,996	\$	5,328
Per share of common stock:								
Basic earnings	\$	0.34	\$	0.39	\$	0.72	\$	0.77
Diluted earnings		0.33		0.39		0.71		0.77
Dividends		0.12		0.12		0.24		0.24
Weighted average shares outstanding:								
Basic		6,822,235		6,818,890		6,821,392		6,818,890
Diluted		6,905,852		6,834,909		6,905,437		6,834,909

See accompanying notes.

**GREENE COUNTY BANCSHARES, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

**For Six Months Ended June 30, 2003**

**(Dollar amounts in thousands, except share and per share data)**

	<b>Common Stock</b>	<b>Additional Paid-in Capital</b>	<b>Retained Earnings (Unaudited)</b>	<b>Accumulated Other Compre- Hensive Income</b>	<b>Total Share- Holders Equity</b>
<b>Balance, January 1, 2003</b>	\$ 13,641	\$ 4,870	\$ 55,928	\$ 156	\$ 74,595
Issuance of 2,775 shares	6	31			37
Dividends paid (\$.24 per share)			(1,637)		(1,637)
Comprehensive income:					
Net income			4,919		4,919
Change in unrealized gains (losses), net of reclassification				77	77
Total comprehensive income					4,996
<b>Balance, June 30, 2003</b>	\$ 13,647	\$ 4,901	\$ 59,210	\$ 233	\$ 77,991

See accompanying notes.

## GREENE COUNTY BANCSHARES, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Six Months Ended June 30, 2003 and 2002

(Dollar amounts in thousands, except share and per share data)

	June 30, 2003	(Unaudited)	June 30, 2002
<b>Cash flows from operating activities</b>			
Net income	\$ 4,919	\$	5,236
Adjustments to reconcile net income to net cash from Operating activities			
Provision for loan losses	2,855		2,676
Depreciation and amortization	961		954
Security amortization and accretion, net	81		(24)
FHLB stock dividends	(92)		(101)
Net gain on sale of mortgage loans	(607)		(199)
Originations of mortgage loans held for sale	(44,474)		(23,184)
Proceeds from sales of mortgage loans	46,555		28,222
Net (gain) losses on sales of fixed assets			(112)
Net (gain) loss on OREO and repossessed assets	185		75
Net changes:			
Accrued interest receivable and other assets	1,052		(85)
Accrued interest payable and other liabilities	(400)		(789)
Net cash from operating activities	11,035		12,669
<b>Cash flows from investing activities</b>			
Net change in interest-bearing deposits with banks			1,100
Net change in securities and other interest-earning investments	(9,355)		(9,639)
Increase in cash surrender value of life insurance	(458)		(175)
Net increase in loans	(29,138)		(41,868)
Improvements to other real estate and proceeds from sales of other real estate owned, net	3,483		2,447
Proceeds from sale of fixed assets and fixed asset additions, net	(1,599)		(669)
Net cash used in investing activities	(37,067)		(48,804)
<b>Cash flows from financing activities</b>			
Net change in deposits	(14,413)		(5,048)
Net change in federal funds purchased and repurchase agreements	16,404		19,591
Net change in notes payable	4,717		(177)
Dividends paid	(1,637)		(1,637)
Proceeds from issuance of common stock	37		
Net cash from financing activities	5,108		12,729

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<b>Net change in cash and cash equivalents</b>	(20,924)	(23,406)
Cash and cash equivalents, beginning of period	62,959	48,053
<b>Cash and cash equivalents, end of period</b>	<b>\$ 42,035</b>	<b>\$ 24,647</b>

See accompanying notes.



**NOTE 1 PRINCIPLES OF CONSOLIDATION**

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The accompanying unaudited condensed consolidated financial statements of Greene County Bancshares, Inc. (the "Company") and its wholly owned subsidiary, Greene County Bank (the "Bank"), have been prepared in accordance with accounting principles generally accepted in the United States of America for interim information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X as promulgated by the Securities and Exchange Commission. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002. Certain amounts from prior period financial statements have been reclassified to conform to the current year's presentation.

**NOTE 2 STOCK COMPENSATION**



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Employee compensation expense under stock option plans is reported if options are granted below market price at grant date, whereas expense for options granted at market price are reported on a pro forma basis. Pro forma disclosures of net income and earnings per share are shown below using the fair value method of SFAS No. 123 to measure expense for options using the Black-Scholes option pricing model to estimate fair value.

The following disclosures show the effect on income and earnings per share had the options fair value been recorded using an option pricing model.

Three Months Ended June 30,					
2003			2002		
	As Reported	Proforma		As Reported	Proforma
Net income	\$ 2,301	\$ 2,273		\$ 2,667	\$ 2,646
Basic earnings per share	\$ 0.34	\$ 0.33		\$ 0.39	\$ 0.38
Diluted earnings per share	\$ 0.33	\$ 0.32		\$ 0.39	\$ 0.38

Six Months Ended June 30,					
2003			2002		
	As Reported	Proforma		As Reported	Proforma
Net income	\$ 4,919	\$ 4,862		\$ 5,236	\$ 5,190
Basic earnings per share	\$ 0.72	\$ 0.71		\$ 0.77	\$ 0.76
Diluted earnings per share	\$ 0.71	\$ 0.70		\$ 0.77	\$ 0.76



**NOTE 3 ALLOWANCE FOR LOAN LOSSES**

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Transactions in the allowance for loan losses for the six months ended June 30, 2003 and twelve months ended December 31, 2002 were as follows:

	<b>June 30, 2003</b>	<b>December 31, 2002</b>
Balance at beginning of year	\$ 12,586	\$ 11,221
Add (deduct):		
Charge-offs	(3,850)	(7,648)
Recoveries	820	1,948
Provisions	2,855	7,065
Ending balance	\$ 12,411	\$ 12,586

	<b>June 30, 2003</b>	<b>December 31, 2002</b>
Loans past due 90 days still on accrual	\$ 411	\$ 307
Nonaccrual loans	4,178	7,475
Total	\$ 4,589	\$ 7,782



**NOTE 4 EARNINGS PER SHARE OF COMMON STOCK**

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Basic earnings per share (EPS) of common stock is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share of common stock is computed by dividing net income by the weighted average number of common shares and potential common shares outstanding during the period. Stock options are regarded as potential common shares. Potential common shares are computed using the treasury stock method. For the three and six months ended June 30, 2003, 70,105 options are excluded from the effect of dilutive securities because they are anti-dilutive; 155,935 options are similarly excluded from the effect of dilutive securities for the three and six months ended June 30, 2002.

The following is a reconciliation of the numerators and denominators used in the basic and diluted earnings per share computations for the three and six months ended June 30, 2003 and 2002:

	2003		Three Months Ended June 30,		2002
	Income (Numerator)	Shares (Denominator)	Income (Numerator)	Shares (Denominator)	
<b>Basic EPS</b>					
Income available to common shareholders	\$ 2,301	6,822,235	\$ 2,667	6,818,890	
<b>Effect of dilutive securities</b>					
Stock options outstanding		83,617		16,019	
<b>Diluted EPS</b>					