

GREEN BANKSHARES, INC.
Form 10-Q
August 10, 2012
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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, 2012

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

GREEN BANKSHARES, INC.

(Exact name of registrant as specified in its charter)

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Tennessee
(State or other jurisdiction of
incorporation or organization)

62-12222567
(I.R.S. Employer
Identification No.)

100 North Main Street, Greeneville, Tennessee 37743-4992

(Address of principal executive offices) (Zip Code)

(423) 639-5111

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "accelerated filer", "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange 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:

Common Stock, \$0.01 Par Value
Class

133,160,384
Outstanding as of August 1, 2012

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GREEN BANKSHARES, INC.

FORM 10-Q

For the Quarter Ended June 30, 2012

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****GREEN BANKSHARES, INC.****(UNAUDITED)****CONSOLIDATED BALANCE SHEETS***(Dollars and shares in thousands, except per share amounts)*

(Dollars and shares in thousands, except per share data)	Successor Company June 30, 2012	Successor Company December 31, 2011
Assets		
Cash and due from banks	\$ 653	\$ 2,091
Other assets	4,451	3,804
Equity method investment in Capital Bank, NA	324,281	315,293
Total assets	\$ 329,385	\$ 321,188
Liabilities and Shareholders Equity		
Liabilities		
Subordinated debentures	\$ 45,798	\$ 45,180
Deferred income tax liability	15,620	15,608
Accrued interest payable and other liabilities	307	255
Total liabilities	61,725	61,043
Shareholders Equity		
Preferred stock: no par value: 1,000 shares authorized, 0 shares outstanding		
Common stock \$.01 par value: 300,000 shares authorized, 133,160 shares outstanding	1,332	1,332
Additional paid in capital	257,628	257,627
Retained earnings	8,969	2,647
Accumulated other comprehensive (loss)	(269)	(1,461)
Total shareholders equity	267,660	260,145
Total Liabilities and Shareholders Equity	\$ 329,385	\$ 321,188

See accompanying notes to consolidated financial statements

Table of Contents**GREEN BANKSHARES, INC.****CONSOLIDATED STATEMENTS OF INCOME****(Unaudited)***(Dollars and shares in thousands, except per share amounts)*

	Successor Company Three Months Ended June 30, 2012	Predecessor Company Three Months Ended June 30, 2011	Successor Company Six Months Ended June 30, 2012	Predecessor Company Six Months Ended June 30, 2011
Interest and dividend income				
Loans, including fees	\$	\$ 23,804	\$	\$ 48,404
Investment securities:				
Taxable		1,686		3,088
Tax-exempt		281		586
Federal Home Loan Bank and other stock		134		272
Federal funds sold and other		170		350
Total interest income		26,075		52,700
Interest expense				
Deposits		4,561		9,892
Federal funds purchased and repurchase agreements		4		8
Federal Home Loan Bank advances and notes payable		1,570		3,113
Subordinated debentures	841	488	1,683	969
Total interest expense	841	6,623	1,683	13,982
Net interest income (loss)	(841)	19,452	(1,683)	38,718
Provision for loan losses		14,333		28,229
Net interest income (loss) after provision for loan losses	(841)	5,119	(1,683)	10,489
Non-interest income				
Equity method income in Capital Bank, NA	3,801		7,796	
Service charges on deposit accounts		6,377		12,208
Other charges and fees		369		799
Trust and investment services income		497		1,012
Mortgage banking income		112		199
Other income	16	881	32	1,646
Total non-interest income	3,817	8,236	7,828	15,864
Non-interest expense				
Salaries and employee benefits		8,203		17,311

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Net occupancy and equipment expense		2,348		5,020
Foreclosed asset related expense		6,294		10,097
Other expense	430	7,925	624	15,370
Total non-interest expense	430	24,770	624	47,798
Income (loss) before income taxes	2,546	(11,415)	5,521	(21,445)
Income tax benefit	(503)	(281)	(801)	
Net income (loss)	\$ 3,049	\$ (11,134)	\$ 6,322	\$ (21,445)
Preferred dividends earned by preferred shareholders and discount accretion		1,250		2,500
Net income (loss) allocated to common shareholders	\$ 3,049	\$ (12,384)	\$ 6,322	\$ (23,945)
Basic income (loss) per common share	\$ 0.02	\$ (0.94)	\$ 0.05	\$ (1.83)
Diluted income (loss) per common share	\$ 0.02	\$ (0.94)	\$ 0.05	\$ (1.83)

See accompanying notes to consolidated financial statements

Table of Contents**GREEN BANKSHARES, INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(Unaudited)***(Dollars and shares in thousands, except per share amounts)*

	Successor Company	Predecessor Company	Successor Company	Predecessor Company
	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Net income (loss)	\$ 3,049	\$ (11,134)	\$ 6,322	\$ (21,445)
Other comprehensive income:				
Unrealized holding gains on available for sale securities		1,768		1,831
Unrealized holding gains from investment in Capital Bank NA	3,255		1,940	
Net unrealized holding gains on available for sale securities	3,255	1,768	1,940	1,831
Tax effect	(1,254)	(693)	(748)	(718)
Other comprehensive income, net of tax:	2,001	1,075	1,192	1,113
Comprehensive income (loss)	\$ 5,050	\$ (10,059)	\$ 7,514	\$ (20,332)

Table of Contents**GREEN BANKSHARES, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)***(Dollars in thousands)*

	Successor Company Six Months Ended June 30, 2012	Predecessor Company Six Months Ended June 30, 2011
Cash flows from operating activities		
Net income (loss)	\$ 6,322	\$ (21,445)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Equity income from investment in Capital Bank, NA	(7,796)	
Provision for loan losses		28,229
Depreciation and amortization		3,442
Security amortization and accretion, net		199
Net gain on sale of mortgage loans		(185)
Originations of mortgage loans held for sale		(14,560)
Proceeds from sales of mortgage loans		15,427
Increase in cash surrender value of life insurance		(561)
Net losses from sales of fixed assets		223
Stock-based compensation expense		287
Net loss on other real estate and repossessed assets		6,429
Amortization of subordinated debenture discount	618	
Change in other assets	(647)	12,193
Change in accrued interest payable and other liabilities	65	2,779
Net cash (used in) provided by operating activities	(1,438)	32,457
Cash flows from investing activities		
Purchase of securities available for sale		(59,790)
Proceeds from maturities of securities available for sale		45,868
Proceeds from maturities of securities held to maturity		465
Net change in loans		111,627
Proceeds from sale of other real estate		15,154
Improvements to other real estate		(261)
Proceeds from sale of fixed assets		7
Premises and equipment expenditures		(516)
Net cash provided by investing activities		112,554
Cash flows from financing activities		
Net change in deposits		(93,466)
Net change in repurchase agreements		(700)
Repayments of FHLB advances and notes payable		(794)
Net cash used in financing activities		(94,960)

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Net change in cash and cash equivalents	(1,438)	50,051
Cash and cash equivalents, beginning of year	2,091	294,214
Cash and cash equivalents, end of year	\$ 653	\$ 344,265

Supplemental disclosures cash and noncash

Interest paid	\$ 1,066	\$ 13,313
Loans converted to other real estate		41,261
Loans originated to finance / sell other real estate		1,568
Preferred dividends declared		1,806

See accompanying notes to consolidated financial statements

Table of Contents**Green Bankshares, Inc.****Notes to Consolidated Financial Statements****(Dollars and shares in thousands except per share data)****Note 1 Basis of Presentation & Accounting Policies**

Green Bankshares, Inc. (the Company) is a bank holding company headquartered in Greeneville, Tennessee. Prior to September 7, 2011, the Company conducted its business primarily through its wholly-owned subsidiary, GreenBank. On September 7, 2011 (the Merger Date), the Bank (as defined below) merged with and into Capital Bank, a subsidiary of our majority shareholder, Capital Bank Financial Corp. (CBF), in an all-stock transaction, with Capital Bank, National Association (Capital Bank, NA) as the surviving entity (the Bank Merger). Pursuant to the Bank Merger, the Company acquired an approximately 34% ownership interest in Capital Bank, NA which is recorded as an equity-method investment in that entity. As of June 30, 2012, the Company's investment in Capital Bank, NA totaled \$324,281 which reflected the Company's pro rata ownership of Capital Bank, NA's total shareholders' equity. In periods subsequent to the Merger Date, the Company will adjust this equity investment balance based on its equity in Capital Bank, NA's net income and comprehensive income. In connection with the Bank Merger, assets and liabilities of the Bank were de-consolidated from the Company's balance sheet resulting in a significant decrease in the total assets and total liabilities of the Company in the third quarter of 2011. Accordingly, as of June 30, 2012 and December 31, 2011, no investments, loans or deposits are reported on the Company's Consolidated Balance Sheet. Subsequent to the Merger Date, the Company's significant assets and liabilities are comprised of cash, its equity method investment in Capital Bank, NA, deferred income tax liabilities and trust preferred securities. The Company's operating results subsequent to the Merger Date include the Company's proportionate share of equity method income from Capital Bank, NA and interest expense resulting from the outstanding trust preferred securities issued by the Company. Unless otherwise specified, this report describes Green Bankshares, Inc. and its subsidiaries including GreenBank through the Merger Date, and subsequent to that date, includes only Green Bankshares, Inc. and its equity method investment in Capital Bank, NA.

As used in this document, the terms we, us, our, Green Bankshares, and Company mean Green Bankshares, Inc. and its subsidiaries (unless context indicates another meaning) and the term Bank means GreenBank, and, after the Bank Merger, its successor entities.

Capital Bank Financial Corp. Investment

On September 7, 2011 (the Transaction Date), the Company completed the issuance and sale to CBF of 119.9 million shares of common stock for aggregate consideration of \$217,019 (the CBF Investment). The consideration consisted of approximately \$148,319 in cash and approximately \$68,700 in the form of a contribution to the Company of all 72,278 outstanding shares of Series A Preferred Stock previously issued to the U.S. Treasury Department (Treasury) under the TARP Capital Purchase Program and the related warrant to purchase shares of the Company's common stock, which CBF purchased directly from the Treasury. The Series A Preferred Stock and the related warrant were retired on September 7, 2011 and are no longer outstanding.

As a result of the CBF Investment, pursuant to which CBF acquired approximately 90% of the voting securities of the Company, the Company followed the acquisition method of accounting as required by the Business Combinations Topic of the FASB Accounting Standards Codification (ASC) Topic 805, Business Combinations (ASC 805). Under the accounting guidance the application of push down accounting was applied.

Acquisition accounting requires that the assets purchased, the liabilities assumed, and non-controlling interests all be reported in the acquirer's financial statements at their fair value, with any excess of purchase consideration over the net assets being reported as goodwill. In addition to the new accounting basis established for assets, liabilities and noncontrolling interests, acquisition accounting also requires the reclassification of any retained earnings from periods prior to the acquisition to be recognized as common share equity and the elimination of any accumulated other comprehensive income or loss and surplus within the Company's Shareholders' Equity section of the Company's Consolidated Financial Statements. Accordingly, retained earnings and accumulated other comprehensive income at June 30, 2012 and December 31, 2011 represent only the results of operations subsequent to September 7, 2011, the date of the CBF Investment.

Balances and activity in the Company's consolidated financial statements prior to the CBF Investment have been labeled with Predecessor Company while balances and activity subsequent to the CBF Investment have been labeled with Successor Company. Balances and activity prior to the CBF Investment (Predecessor Company) are not comparable to balances and activity from periods subsequent to the CBF Investment (Successor Company) due to new accounting bases as a result of recording them at their fair values as of the CBF Investment date rather than their historical cost basis. To call attention to this lack of comparability, the Company has placed a black line between Successor Company and Predecessor Company columns in the Consolidated Financial Statements, the tables in the notes to the statements, and in the Management's Discussion and Analysis of Financial Condition and Results of Operations.

Table of Contents**Green Bankshares, Inc.****Notes to Consolidated Financial Statements****(Dollars and shares in thousands except per share data)****Critical Accounting Policies**

The accompanying unaudited consolidated financial statements for the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statement presentation. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. For further information and an additional description of the Company's accounting policies, refer to the Company's consolidated financial statements for the year ended December 31, 2011.

The accounting and reporting policies conform to general practices within the banking industry. The following is a summary of the more significant of these policies.

Earnings (Loss) Per Common Share

Basic earnings (loss) per share is net income (loss) allocated to common shareholders divided by the weighted average number of common shares and vested restricted shares outstanding during the period. Diluted earnings per share includes the dilutive effect of additional potential common shares issuable under stock options, warrants and restricted shares computed using the treasury stock method.

Earnings (loss) per share have been computed based on the following for the periods ended:

	Successor Company Three Months Ended June 30, 2012	Predecessor Company Three Months Ended June 30, 2011	Successor Company Six Months Ended June 30, 2012	Predecessor Company Six Months Ended June 30, 2011
Weighted average number of common shares outstanding:				
Basic	133,160	13,127	133,160	13,118
Dilutive effect of options outstanding				
Dilutive effect of restricted shares				
Dilutive effect of warrants outstanding				
Diluted	133,160	13,127	133,160	13,118

The dilutive effect of stock options and warrants and the dilutive effect of unvested restricted shares are the only common stock equivalents for purposes of calculating diluted earnings per common share.

Weighted average anti-dilutive stock options and warrants and unvested restricted shares excluded from the computation of diluted earnings per share are as follows:

Successor Company	Predecessor Company Three Months Ended June 30, 2011	Successor Company	Predecessor Company Six Months Ended June 30,

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	Three Months Ended June 30, 2012		Six Months Ended June 30, 2012	2011
Anti-dilutive stock options	313	344	313	345
Anti-dilutive restricted stock awards		93		86
Anti-dilutive warrants		635		635

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Green Bankshares, Inc.

Notes to Consolidated Financial Statements

(Dollars and shares in thousands except per share data)

Income Taxes

Income tax expense (or benefit) is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax basis of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

A tax position is recognized as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded. The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

The predecessor company filed a consolidated Federal and Tennessee income tax return for the short tax period ended September 7, 2011. For the tax periods ending December 31, 2011 and December 31, 2012, the successor company will be included in CBF's consolidated Federal and Tennessee consolidated income tax return.

Recent Accounting Pronouncements