

GREEN BANKSHARES, INC.

Form 10-Q

May 08, 2008

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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 March 31, 2008**

**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 14289  
GREEN BANKSHARES, 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**

**N/A**

(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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, 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:

(Do not check if a 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

As of May 8, 2008, the number of shares outstanding of the issuer's common stock was: 13,001,226.



**PART I FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

The unaudited condensed consolidated financial statements of Green Bankshares, Inc. and its wholly owned subsidiaries are as follows:

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**GREEN BANKSHARES, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**March 31, 2008 and December 31, 2007**  
(Amounts in thousands, except share and per share data)

	(Unaudited) March 31, 2008	December 31, 2007*
<b>ASSETS</b>		
Cash and due from banks	\$ 57,517	\$ 65,717
Securities available for sale	231,349	235,273
Securities held to maturity (with a market value of \$1,084 and \$1,280)	1,118	1,303
FHLB and other stock, at cost	12,887	12,322
Loans held for sale	2,350	2,331
Loans, net of unearned income	2,335,979	2,356,376
Allowance for loan losses	(33,927)	(34,111)
Premises and equipment, net	82,685	82,697
Goodwill and other intangible assets	157,172	157,827
Other assets	65,485	68,006
 Total assets	 \$ 2,912,615	 \$ 2,947,741
 <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Liabilities		
Deposits	\$ 2,059,382	\$ 1,986,793
Federal funds purchased	39,839	87,787
Repurchase agreements	92,957	106,738
FHLB advances and notes payable	272,342	318,690
Subordinated debentures	88,662	88,662
Accrued interest payable and other liabilities	29,268	36,594
 Total liabilities	 2,582,450	 2,625,264
 Shareholders equity		
Common stock: \$2 par, 20,000,000 shares authorized, 13,000,987 and 12,931,015 shares outstanding	26,002	25,862
Additional paid-in capital	185,222	185,170
Retained earnings	115,426	109,938
Accumulated other comprehensive income	3,515	1,507
 Total shareholders equity	 330,165	 322,477
 Total liabilities and shareholders equity	 \$ 2,912,615	 \$ 2,947,741

\*

This condensed consolidated balance sheet has been derived from the audited consolidated balance sheet, as filed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

See notes to condensed consolidated financial statements.

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**GREEN BANKSHARES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**  
**Three Months Ended March 31, 2008 and 2007**  
**(Amounts in thousands, except share and per share data)**

	<b>Three Months Ended March 31, 2008                      2007 (Unaudited)</b>	
Interest income		
Interest and fees on loans	\$ 42,749	\$ 31,915
Investment securities	3,357	708
Federal funds sold and other	3	15
	46,109	32,638
Interest expense		
Deposits	15,935	11,153
Borrowings	5,702	2,664
	21,637	13,817
Net interest income	24,472	18,821
Provision for loan losses	888	974
Net interest income after provision for loan losses	23,584	17,847
Noninterest income		
Service charges and fees	6,227	4,289
Other	1,079	1,110
	7,306	5,399
Noninterest expense		
Salaries and employee benefits	9,848	7,458
Occupancy and furniture and equipment expense	3,449	2,096
Other	6,264	4,488
	19,561	14,042

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Income before income taxes	11,329	9,204
Provision for income taxes	4,151	3,588
Net income	\$ 7,178	\$ 5,616
Comprehensive Income	\$ 9,186	\$ 5,657
Per share of common stock:		
Basic earnings	\$ 0.56	\$ 0.57
Diluted earnings	0.56	0.57
Dividends	0.13	0.13
Weighted average shares outstanding:		
Basic	12,931,169	9,815,452
Diluted	12,931,169	9,910,315

See notes to condensed consolidated financial statements.



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**GREEN BANKSHARES, INC.**  
**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY**  
**For the Three Months Ended March 31, 2008**  
**(Amounts in thousands, except share and per share data)**

	Common Stock		Additional	Retained	Accumulated	Total
	Shares	Amount	Paid-in	Earnings	Other	Share-
			Capital	(Unaudited)	Compre-	holders
					hensive	Equity
					Income	
<b>Balance, December 31, 2007</b>	12,931,015	\$ 25,862	\$ 185,170	\$ 109,938	\$ 1,507	\$ 322,477
Common stock transactions:						
Exercise of shares under stock option plan	439	1	6			7
Issuance of restricted common shares	69,533	139	(139)			
Compensation expense:						
Stock options			114			114
Restricted stock			71			71
Dividends paid (\$.13 per share)				( 1,690)		(1,690)
Comprehensive income:						
Net income				7,178		7,178
Change in unrealized gains , net of reclassification and taxes					2,008	2,008
Total comprehensive income						9,186
<b>Balance, March 31, 2008</b>	13,000,987	\$ 26,002	\$ 185,222	\$ 115,426	\$ 3,515	\$ 330,165

See notes to condensed consolidated financial statements.

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**GREEN BANKSHARES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Three Months Ended March 31, 2008 and 2007**  
**(Amounts in thousands, except share and per share data)**

	<b>March 31, 2008</b>	<b>March 31, 2007</b>
	<b>(Unaudited)</b>	
<b>Cash flows from operating activities</b>		
Net income	\$ 7,178	\$ 5,616
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for loan losses	888	974
Depreciation and amortization	1,742	1,056
Security amortization and accretion, net	(304)	(3)
Loss on sale of securities		23
FHLB stock dividends	(148)	
Net gain on sale of mortgage loans	(178)	(271)
Originations of mortgage loans held for sale	(15,351)	(17,196)
Proceeds from sales of mortgage loans	15,510	16,833
Increase in cash surrender value of life insurance	(263)	(190)
Net losses (gains) from sales of fixed assets	383	(1)
Stock-based compensation expense	185	112
Net (gain) loss on other real estate and repossessed assets	14	(111)
Deferred tax expense	(1,085)	(251)
Net changes:		
Other assets	6,838	1,535
Accrued interest payable and other liabilities	(7,326)	(1,396)
Net cash provided by operating activities	8,083	6,730
<b>Cash flows from investing activities</b>		
Purchase of securities available for sale	(18,853)	(16,695)
Proceeds from sale of securities available for sale		1,262
Proceeds from maturities of securities available for sale	26,515	7,631
Proceeds from sale of securities held to maturity		496
Proceeds from maturities of securities held to maturity	185	405
Purchase of FHLB stock	(417)	
Net change in loans	13,963	(64,807)
Proceeds from sale of other real estate	1,037	776
Improvements to other real estate	(82)	
Proceeds from sale of fixed assets	50	1
Premises and equipment expenditures	(1,510)	(2,250)
Net cash provided (used) by investing activities	20,888	(73,181)
<b>Cash flows from financing activities</b>		
Net change in deposits	72,589	57,937
Net change in federal funds purchased and repurchase agreements	(61,729)	(593)

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Tax benefit resulting from stock options		9
Proceeds from FHLB advances and notes payable	20,000	30,000
Repayments of FHLB advances and notes payable	(66,348)	(35,692)
Dividends paid	(1,690)	(1,275)
Proceeds from issuance of common stock	7	223
Net cash (used) provided by financing activities	(37,171)	50,609
<b>Net change in cash and cash equivalents</b>	<b>(8,200)</b>	<b>(15,842)</b>
Cash and cash equivalents, beginning of year	65,717	70,640
<b>Cash and cash equivalents, end of period</b>	<b>\$ 57,517</b>	<b>\$ 54,798</b>
<b>Supplemental disclosures cash and noncash</b>		
Interest paid	\$ 22,314	\$ 13,635
Income taxes paid	683	560
Loans converted to other real estate	5,483	988
Unrealized gain on available for sale securities, net of tax	2,008	41

See notes to condensed consolidated financial statements.

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**GREEN BANKSHARES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2008**  
**Unaudited**

(Amounts in thousands, except share and per share data)

**NOTE 1 PRINCIPLES OF CONSOLIDATION**

The accompanying unaudited condensed consolidated financial statements of Green Bankshares, Inc. (the Company) and its wholly owned subsidiary, GreenBank (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 (SEC). 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 month period ended March 31, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007. Certain amounts from prior period financial statements have been reclassified to conform to the current year's presentation.

**NOTE 2 LOANS**

Loans at March 31, 2008 and December 31, 2007 were as follows:

	<b>March 31, 2008</b>	<b>December 31, 2007</b>
Commercial real estate	\$ 1,539,821	\$ 1,549,457
Residential real estate	392,171	398,779
Commercial	320,134	320,264
Consumer	94,751	97,635
Other	3,445	3,871
Unearned income	(14,343)	(13,630)
 Loans, net of unearned income	 \$ 2,335,979	 \$ 2,356,376
 Allowance for loan losses	 \$ (33,927)	 \$ (34,111)

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**GREEN BANKSHARES, INC.**  
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**March 31, 2008**

**Unaudited**

**(Amounts in thousands, except share and per share data)**

**NOTE 2 LOANS** (Continued)

Transactions in the allowance for loan losses and certain information about nonaccrual loans and loans 90 days past due but still accruing interest for the three months ended March 31, 2008 and twelve months ended December 31, 2007 were as follows:

	<b>March 31, 2008</b>	<b>December 31, 2007</b>
Balance at beginning of year	\$ 34,111	\$ 22,302
Add (deduct):		
Reserve of acquired bank		9,022
Provision for loan losses	888	14,483
Loans charged off	(1,590)	(13,471)
Recoveries of loans charged off	518	1,775
Ending balance	\$ 33,927	\$ 34,111
	<b>March 31, 2008</b>	<b>December 31, 2007</b>
Loans past due 90 days still on accrual	\$ 201	\$ 18
Nonaccrual loans	29,901	32,060
Total	\$ 30,102	\$ 32,078

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**GREEN BANKSHARES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
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**Unaudited**

(Amounts in thousands, except share and per share data)

**NOTE 3 EARNINGS PER SHARE OF COMMON STOCK**

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 and restricted common shares are regarded as potential common shares. Potential common shares are computed using the treasury stock method. For the three months ended March 31, 2008, 371,763 options are excluded from the effect of dilutive securities because they are anti-dilutive; 55,604 options are similarly excluded from the effect of dilutive securities for the three months ended March 31, 2007.

The following is a reconciliation of the numerators and denominators used in the basic and diluted earnings per share computations for the three months ended March 31, 2008 and 2007:

	<b>Three Months Ended March 31,</b>			
	<b>2008</b>		<b>2007</b>	
	<b>Income</b>	<b>Shares</b>	<b>Income</b>	<b>Shares</b>
	<b>(Numerator)</b>	<b>(Denominator)</b>	<b>(Numerator)</b>	<b>(Denominator)</b>
<b>Basic EPS</b>				
Income available to common shareholders	\$ 7,178	12,931,169	\$ 5,616	9,815,452
Effect of dilutive shares				94,863
<b>Diluted EPS</b>				
Income available to common shareholders plus assumed conversions <sup>(1)</sup>	\$ 7,178	12,931,169	\$ 5,616	9,910,315

(1) During the three month period ending March 31, 2008 the treasury stock method used to calculate earnings per share produced a result which was anti-dilutive. Therefore the basic shares outstanding were used as the denominator.

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**GREEN BANKSHARES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2008**  
**Unaudited**

(Amounts in thousands, except share and per share data)

**NOTE 4 SEGMENT INFORMATION**

The Company's operating segments include banking, mortgage banking, consumer finance, automobile lending and title insurance. The reportable segments are determined by the products and services offered, and internal reporting. Loans, investments and deposits provide the revenues in the banking operation; loans and fees provide the revenues in consumer finance and mortgage banking and insurance commissions provide revenues for the title insurance company. Consumer finance, automobile lending and title insurance do not meet the quantitative threshold on an individual basis, and are therefore shown below in Other Segments. Mortgage banking operations are included in Bank. All operations are domestic.

Segment performance is evaluated using net interest income and noninterest income. Income taxes are allocated based on income before income taxes, and indirect expenses (includes management fees) are allocated based on time spent for each segment. Transactions among segments are made at fair value. Information reported internally for performance assessment follows.

<b>Three months ended March 31, 2008</b>	<b>Bank</b>	<b>Other Segments</b>	<b>Holding Company</b>	<b>Eliminations</b>	<b>Totals</b>
Net interest income (expense)	\$ 24,070	\$ 1,834	\$ (1,432)	\$	\$ 24,472
Provision for loan losses	414	474			888
Noninterest income	6,874	498	147	(213)	7,306
Noninterest expense	18,006	1,293	475	(213)	19,561
Income tax expense (benefit)	4,631	221	(701)		4,151
<b>Segment profit (loss)</b>	<b>\$ 7,893</b>	<b>\$ 344</b>	<b>\$ (1,059)</b>	<b>\$</b>	<b>\$ 7,178</b>
<b>Segment assets at March 31, 2008</b>	<b>\$ 2,860,701</b>	<b>\$ 39,165</b>	<b>\$ 12,749</b>	<b>\$</b>	<b>\$ 2,912,615</b>
<b>Three months ended March 31, 2007</b>	<b>Bank</b>	<b>Other Segments</b>	<b>Holding Company</b>	<b>Eliminations</b>	<b>Totals</b>
Net interest income (expense)	\$ 17,532	\$ 1,557	\$ (268)	\$	\$ 18,821
Provision for loan losses	614	360			974
Noninterest income	5,099	588	11	(299)	5,399
Noninterest expense	12,866	1,230	245	(299)	14,042
Income tax expense (benefit)	3,563	217	(192)		3,588
<b>Segment profit (loss)</b>	<b>\$ 5,588</b>	<b>\$ 338</b>	<b>\$ (310)</b>	<b>\$</b>	<b>\$ 5,616</b>
<b>Segment assets at March 31, 2007</b>	<b>\$ 1,790,899</b>	<b>\$ 34,610</b>	<b>\$ 2,125</b>	<b>\$</b>	<b>\$ 1,827,634</b>



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**GREEN BANKSHARES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2008**

**Unaudited**

**(Amounts in thousands, except share and per share data)**

**NOTE 4 SEGMENT INFORMATION (Continued)****Asset Quality Ratios**

As of and for the period ended March 31, 2008	Bank	Other	Total
Nonperforming loans as percentage of total loans, net of unearned income	1.27%	1.37%	1.29%
Nonperforming assets as a percentage of total assets	1.32%	1.83%	1.35%
Allowance for loan losses as a percentage of total loans, net of unearned income	1.32%	8.00%	1.45%
Allowance for loan losses as a percentage of nonperforming loans	104.16%	582.16%	112.71%
YTD net charge-offs to average total loans, net of unearned income	0.03%	1.01%	0.05%
As of and for the period ended March 31, 2007	Bank	Other	Total
Nonperforming loans as percentage of total loans, net of unearned income	0.18%	1.43%	0.21%
Nonperforming assets as a percentage of total assets	0.24%	2.04%	0.28%
Allowance for loan losses as a percentage of total loans, net of unearned income	1.26%	8.01%	1.43%
Allowance for loan losses as a percentage of nonperforming loans	713.22%	560.16%	690.10%
YTD net charge-offs to average total loans, net of unearned income	0.01%	0.73%	0.02%
As of and for the year ended December 31, 2007	Bank	Other	Total
Nonperforming loans as percentage of total loans, net of unearned income	1.35%	1.30%	1.36%
Nonperforming assets as a percentage of total assets	1.22%	2.11%	1.25%
Allowance for loan losses as a percentage of total loans, net of unearned income	1.32%	7.96%	1.45%
Allowance for loan losses as a percentage of nonperforming loans	98.37%	609.80%	106.34%
Net charge-offs to average total loans, net of unearned income	0.50%	4.14%	0.57%
Net charge-offs	Bank	Other	Total
Actual for the three month period ending March 31, 2008	\$ 682	\$ 390	\$ 1,072
Actual for the three month period ending March 31, 2007	\$ 92	\$ 252	\$ 344
Actual for the year ended December 31, 2007	\$ 10,193	\$ 1,503	\$ 11,696

**NOTE 5 REVOLVING CREDIT AGREEMENT**

The Company is a party to a revolving credit agreement with SunTrust Bank pursuant to which SunTrust agreed to loan the Company up to \$15,000. This agreement currently is scheduled to expire on August 27, 2008. The fee for maintaining this credit agreement is 0.15% per annum on the unused portion of the commitment.

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**GREEN BANKSHARES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2008**  
**Unaudited**

(Amounts in thousands, except share and per share data)

**NOTE 6 BUSINESS COMBINATION**

On May 18, 2007, the Company acquired Civitas BankGroup, Inc. ( CVBG ), parent of Cumberland Bank. CVBG, headquartered in Franklin, Tennessee, which operated 12 full-service branches in the Middle Tennessee area. The primary reason for the acquisition of CVBG, and the premium paid, was to provide accelerated entry for the Company in the Middle Tennessee area in some of the fastest growing areas in the Nashville MSA. Operating results of CVBG are included in the consolidated financial statements since the date of the acquisition.

The acquisition was accounted for under the purchase method of accounting, and accordingly, the purchase price has been allocated to the tangible and identified intangible assets purchased and the liabilities assumed based upon preliminary estimated fair values at the date of acquisition. The aggregate purchase price was \$164,268, including \$45,793 paid in cash and 3,091,495 shares of the Company's common stock. Identified intangible assets and purchase accounting fair value adjustments are being amortized under various methods over the expected lives of the corresponding assets and liabilities. Goodwill will not be amortized and is not deductible for tax purposes, but will be reviewed for impairment on an annual basis. Currently, identified intangible assets from the acquisition subject to amortization are \$9,485 and total goodwill from the acquisition is \$111,813.

The following table summarizes the fair value of assets acquired and liabilities assumed at the date of acquisition:

Cash and due from banks	\$ 21,182
Securities	200,081
FHLB stock	2,863
Bankers Bank stock	100
Loans held for sale	8,642
Loans, net of unearned income	631,496
Allowance for loan losses	(9,022)
Premises and equipment	18,332
Goodwill	111,813
Core deposit intangible	8,740
Mortgage servicing rights	745
Other assets	16,618
<b>Total assets acquired</b>	<b>1,011,590</b>
Deposits	(699,089)
Federal funds purchased	(52,500)
Repurchase agreements	(42,790)
FHLB advances	(32,000)
Subordinated debentures	(17,527)
Other liabilities	(3,416)
<b>Total liabilities assumed</b>	<b>(847,322)</b>
<b>Net assets acquired</b>	<b>\$ 164,268</b>

The Company also incurred \$761 in direct costs that were capitalized into goodwill associated with the merger for legal, advisory and conversion cost.

The following table presents pro forma information as if the acquisition had occurred at the beginning of 2007 for the three month period ending March 31, 2007. The pro forma information includes adjustments for interest income on loans and securities acquired, amortization of intangibles arising from the acquisition, depreciation expense on property acquired, interest expense on deposits assumed, and the related income tax effects. The pro forma financial information is not necessarily indicative of the results of operations as they would have been had the acquisition been effected on the assumed dates.

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**GREEN BANKSHARES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2008**  
**Unaudited**  
**(Amounts in thousands, except share and per share data)**

**NOTE 6 BUSINESS COMBINATION (Continued)**

	<b>Three Months Ended March 31, 2007</b>
Net interest income	\$ 25,469
Net income	\$ 7,565
Basic earnings per share	\$ 0.59
Diluted earnings per share	\$ 0.58

**NOTE 7 BORROWINGS**

In May 2007, the Company formed GreenBank Capital Trust I ( GB Trust I ). GB Trust I issued \$56,000 of variable rate trust preferred securities as part of a pooled offering of such securities. The Company issued \$57,732 of subordinated debentures to the GB Trust I in exchange for the proceeds of the offering, which debentures represent the sole asset of GB Trust I. The debentures pay interest quarterly at the three-month LIBOR plus 1.65% adjusted quarterly (4.45% at March 31, 2008). The Company may redeem the subordinated debentures, in whole or in part, beginning June 2012 and in certain events prior to that date, at a premium. The subordinated debentures must be redeemed no later than 2037.

Also in May 2007 the Company acquired two Trusts in the CVBG acquisition, Civitas Statutory Trust I ( CS Trust I ) and Cumberland Capital Statutory Trust II ( CCS Trust II ).

In December 2005, CS Trust I issued \$13,000 of variable rate trust preferred securities as part of a pooled offering of such securities. CVBG issued \$13,403 of subordinated debentures to CS Trust I in exchange for the proceeds of the offering, which debentures represent the sole asset of CS Trust I. The debentures pay interest quarterly at the three-month LIBOR plus 1.54% adjusted quarterly (4.34% at March 31, 2008). The Company may redeem the subordinated debentures, in whole or in part, beginning March 2011 and in certain events prior to that date, at a premium. The subordinated debentures must be redeemed no later than March 2036.

In July 2001, CCS Trust II issued \$4,000 of variable rate trust preferred securities as part of a pooled offering of such securities. CVBG issued \$4,124 of subordinated debentures to CCS Trust II in exchange for the proceeds of the offering, which debentures represent the sole asset of CCS Trust II. The debentures pay interest quarterly at the three-month LIBOR plus 3.58% adjusted quarterly (6.82% at March 31, 2008). As of July 2007 the Company may redeem the subordinated debentures, in whole or in part at a price of 100% of face value. The subordinated debentures must be redeemed no later than July 2031.

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**GREEN BANKSHARES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2008**  
**Unaudited**  
**(Amounts in thousands, except share and per share data)**

**NOTE 8 FAIR VALUE DISCLOSURES**

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards ( SFAS ) No. 157, Fair Value Measurements and SFAS No. 159 The Fair Value Option for Financial Assets and Liabilities . SFAS No. 157, which was issued in September 2006, establishes a framework for using fair value. It defines fair value rules as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 159, which was issued in February 2007, generally permits the measurement of selected eligible financial instruments at fair value at specified election dates. Upon adoption of SFAS No. 159, the Company did not elect to adopt the fair value option for any financial instruments.

SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

**Level 1**

Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury, other U.S. Government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets.

**Level 2**

Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes certain U.S. Government and agency mortgage-backed debt securities, corporate debt securities, derivative contracts and residential mortgage loans held-for-sale.

**Level 3**

Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments, retained residual interests in securitizations, residential mortgage servicing rights, and highly structured or long-term derivative contracts.

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value.

**Investment Securities Available-for-Sale**

Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices of like or similar securities, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions.

(Continued)



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**GREEN BANKSHARES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2008**  
**Unaudited**

(Amounts in thousands, except share and per share data)

**NOTE 8 FAIR VALUE DISCLOSURES** (Continued)Loans Held for Sale

Loans held for sale are carried at the lower of cost or market value. The fair value of loans held for sale is based on what secondary markets are currently offering for portfolios with similar characteristics. As such, the Company classifies loans subjected to nonrecurring fair value adjustments as Level 2.

Loans

The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with SFAS 114, Accounting by Creditors for Impairment of a Loan, (SFAS 114). The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At March 31, 2008, substantially all of the total impaired loans were evaluated based on the fair value of the collateral. In accordance with SFAS 157, impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as nonrecurring Level 3.

Loan Servicing Rights

Loan servicing rights are subject to impairment testing. A valuation model, which utilizes a discounted cash flow analysis using interest rates and prepayment speed assumptions currently quoted for comparable instruments and a discount rate determined by management, is used in the completion of impairment testing. If the valuation model reflects a value less than the carrying value, loan servicing rights are adjusted to fair value through a valuation allowance as determined by the model. As such, the Company classifies loan servicing rights subjected to nonrecurring fair value adjustments as Level 3.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

Below is a table that presents information about certain assets and liabilities measured at fair value:

Description	Fair Value Measurement Using			Total Carrying Amount in Statement of Financial Position	Assets/Liabilities Measured at Fair Value
	Level 1	Level 2	Level 3		
Securities available for sale	\$	\$ 231,349	\$	\$ 231,349	\$ 231,349

(Continued)



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**GREEN BANKSHARES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2008**  
**Unaudited**

(Amounts in thousands, except share and per share data)

**NOTE 8 FAIR VALUE DISCLOSURES** (Continued)Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

The Company may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. Assets measured at fair value on a nonrecurring basis are included in the table below.

Description	Fair Value Measurement Using			March 31, 2008		Assets/Liabilities Measured at Fair Value
	Level 1	Level 2	Level 3	Total Carrying Amount in Statement	of Financial Position	
Loans	\$	\$	\$ 532	\$	532	\$ 532

(Continued)

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**Table of Contents****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Green Bankshares, Inc. (the Company) is the bank holding company for GreenBank (the Bank), a Tennessee-chartered commercial bank that conducts the principal business of the Company. The Company is the third largest bank holding company headquartered in Tennessee based on asset size at March 31, 2008 and at that date was also the second largest NASDAQ Listed bank holding company headquartered in Tennessee. The Bank currently maintains a main office in Greeneville, Tennessee and 65 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), an automobile lending company; and Fairway Title Co., a title company formed in 1998. The Bank also operates a wealth management office in Sumner County, Tennessee, and a mortgage banking operation in Knox County, Tennessee. All dollar amounts reported or discussed in Part I, Item 2 of this Quarterly Report on Form 10-Q are shown in thousands, except share and per share amounts.

The following discussion and analysis provides information that management believes is relevant to an assessment and understanding of the Company's consolidated results of operations and financial condition. This discussion should be read in conjunction with the (i) condensed consolidated financial statements and notes thereto in this Form 10-Q and (ii) the financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007 (the 2007 10-K). Except for specific historical information, many of the matters discussed in this Form 10-Q may express or imply projections of revenues or expenditures, plans and objectives for future operations, growth or initiatives, expected future economic performance, or the expected outcome or impact of pending or threatened litigation. These and similar statements regarding events or results which the Company expects will or may occur in the future, are forward-looking statements that involve risks, uncertainties and other factors which may cause actual results and performance of the Company to differ materially from those expressed or implied by those statements. All forward-looking information is provided pursuant to the safe harbor established under the Private Securities Litigation Reform Act of 1995 and should be evaluated in the context of these risks, uncertainties and other factors. **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 forward-looking terminology and words such as trends, "assumptions, target, guidance, outlook, opportunity, future, plans, goals, expectations, near-term, long-term, projection, may, will, would, could, expect, intend, believe, potential, regular, or continue (or the negative or other derivatives of each of these terms) or similar terminology and expressions.**

**Although the Company believes that the assumptions underlying any forward-looking statements are reasonable, any of the assumptions could be inaccurate, and therefore, actual results may differ materially from those projected in or implied by the forward-looking statements. Factors and risks that may result in actual results differing from this forward-looking information include, but are not limited to, those contained in the 2007 10-K in Part I, Item 1A thereof, which is incorporated herein by this reference, as well as other factors discussed throughout this document, including, without limitation the factors described under Critical Accounting Policies and Estimates on page 18 of this Quarterly Report on Form 10-Q, or from time to time, in the Company's filings with the SEC, press releases and other communications.**

**Readers are cautioned not to place undue reliance on forward-looking statements made in this document, since the statements speak only as of the document's date. 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 and to the more detailed risk factors included in the Company's 2007 10-K. The Company has no obligation and does not intend to publicly update or revise any forward-looking statements contained in or incorporated by reference into this Quarterly Report on Form 10-Q, to reflect events or circumstances occurring after the date of this document or to reflect the occurrence of unanticipated events. Readers are advised, however, to consult any further disclosures the Company may make on related subjects in its documents filed with or furnished to the SEC or in its other public disclosures.**



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**Growth and Business Strategy**

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

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

The Bank had historically operated under a single bank charter while conducting business under 18 bank brands. On January 23, 2007 the Bank announced that it was changing all brand names to GreenBank throughout all the communities it serves to better enhance recognition and customer convenience. The GreenBank name became effective on March 31, 2007. The Bank continues to offer local decision making through the presence of its regional executives in each of its markets, while maintaining a cost effective organizational structure in its back office and support areas.

The Bank focuses its lending efforts predominately on individuals and small to medium-sized businesses while it generates deposits primarily from individuals in its local communities. To aid in deposit generation efforts, the Bank offers its customers extended hours of operation during the week as well as on Saturday. During the first quarter of 2007, the Bank initiated Sunday banking hours from 1:00 pm to 4:00 pm at most branches. The Bank also offers free online banking and in early 2005 established its High Performance Checking Program which has generated a significant number of new core transaction accounts.

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

**Overview**

The Company's results of operations for the first quarter ended March 31, 2008, compared to the same period in 2007, reflected an increase of 30% in net interest income due primarily to the Company's continued expansion initiatives, evidenced by the CVBG acquisition, and organic loan growth. The increase in net interest income was additionally accompanied with a 35% increase in non-interest income. The combination of these improvements was partially offset by increases in noninterest expense resulting from the normal operating costs associated with the Company's CVBG acquisition.

Net charge-offs for the quarter totaled \$1,072 or five basis points compared with two basis points during the first quarter of 2007 and 57 basis points at December 31, 2007. Non-performing assets were \$39,308 at March 31, 2008 compared with \$36,937 at year end 2007, an increase of six percent. The majority of the increase in non-performing assets resulted from foreclosures initiated during the fourth quarter of 2007 and, reflects in most cases, the time frame for taking title to foreclosed real estate has expanded from weeks to months. Credit quality ratios have declined since the quarter-ended March 31, 2007. This decline since March 31, 2007 was principally a function of the rapid deterioration of residential real estate construction lending during the fourth quarter of 2007 in the Company's urban markets, primarily Nashville and Knoxville, and the aggressive action taken to identify and appropriately classify these assets. The Company's provision for loan losses decreased for the three months ended March 31, 2008 by \$86 compared to the same period in 2007 reflecting loan contraction during the first quarter of 2008 versus loan growth during the same period a year ago.



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At March 31, 2008, the Company had total consolidated assets of \$2,912,615, total consolidated deposits of \$2,059,382, total consolidated loans, net of unearned income, of \$2,335,979 and total consolidated shareholders' equity of \$330,165. The Company's annualized return on average shareholders' equity for the three months ended March 31, 2008 was 8.78% and its annualized return on average total assets was 0.99%. The Company expects that its total assets and total consolidated loans, net of unearned interest will remain stable or decline slightly over the remainder of 2008.

**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 existing facts and circumstances. Actual results could differ from those estimates made by management.

The Company believes its critical accounting policies and estimates include the valuation of the allowance for loan losses and the fair value of financial instruments and other accounts. Based on management's calculation, an allowance of \$33,927, or 1.45%, of total loans, net of unearned income, was an adequate estimate of losses inherent in the loan portfolio as of March 31, 2008. This estimate resulted in a provision for loan losses in the income statement of \$888 for the three months ended March 31, 2008. If the economic conditions, loan 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 disclosures that require management to make estimates about fair values. Independent third party valuations are used for securities available for sale and securities held to maturity as well as acquisition purchase accounting adjustments. Estimates of fair value are used in the accounting for loans held for sale, goodwill and other intangible assets. Estimates of fair values are used in disclosures regarding 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 March 31, 2008 was \$7,178, as compared to \$5,616 for the same period in 2007. This increase of \$1,562, or 28%, resulted primarily from a \$5,651, or 30%, increase in net interest income reflecting higher earning asset volume arising primarily from the CVBG acquisition and organic growth in the loan portfolio. During this period the net interest margin declined by 89 basis points to 3.81% at March 31, 2008 from 4.70% at March 31, 2007 reflecting the downward movement in market interest rates resulting from initiatives undertaken by the Federal Open Market Committee ( FOMC ) to reduce market interest rates by 300 basis points. Core non-interest income rose 35% from the first quarter of 2007 and totaled \$7,306 as of March 31, 2008. The principal driver of this increase was the ongoing success of the Company's High Performance Checking product. During the first quarter of 2008, the Company opened 5,235 net new checking accounts compared with 4,025 opened during the same period a year ago and 14,510 net new checking accounts opened for the full year 2007. Partially offsetting the increases in net interest income and non-interest income was a \$5,519, or 39%, increase in total noninterest expense from \$14,042 for the three months ended March 31, 2007 to \$19,561 for the same period of 2008. This change is primarily attributable to the increased recurring operating costs associated with the greater size of the Company's operations due to the CVBG acquisition.

**Net Interest Income.** The largest source of earnings for the Company is net interest income, which is the difference between interest income on earning assets and interest expense on deposits and other interest-bearing liabilities. The primary factors which affect net interest income are changes in volume and rates on 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 March 31, 2008, net interest income was \$24,472, as compared to \$18,821 for the same period in 2007, representing an increase of 30%.

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The Company's average balance for interest-earning assets increased 60% from \$1,625,574 for the three months ended March 31, 2007 to \$2,603,864 for the three months ended March 31, 2008. The Company experienced a 50% growth in average loan balances from \$1,572,640 for the three months ended March 31, 2007 to \$2,357,543 for the three months ended March 31, 2008 and a 376% increase in average investment securities balances from \$51,676 for the three months ended March 31, 2007 to \$245,863 for the three months ended March 31, 2008. The growth in loans and investment securities can be primarily attributed to the CVBG acquisition that took place during the second quarter of 2007 and the continued organic loan growth during 2007 of the Company. Please refer to Note 6 of the Notes to Condensed Consolidated Financial Statements for more information on interest-earning assets acquired in the CVBG acquisition.

The Company's average balance for interest-bearing liabilities increased 68% from \$1,425,058 for the three months ended March 31, 2007 to \$2,387,201 for the three months ended March 31, 2008. The Company experienced a 51% increase in average interest-bearing deposits from \$1,213,890 for the three months ended March 31, 2007 to \$1,834,612 for the three months ended March 31, 2008. The Company's CVBG acquisition in the second quarter of 2007 is the primary reason for the growth in deposits. Please refer to Note 6 of the Notes to Condensed Consolidated Financial Statements for more information on interest-bearing liabilities acquired in the CVBG acquisition.

The Company's yield on loans (the largest component of interest-earning assets) decreased by 94 basis points from the first quarter of 2007 to the first quarter of 2008. Approximately one-half of the Company's loan portfolio is set at variable rates and was impacted by the result of the FOMC's action to lower market interest rates by 300 basis points during this period of time.

FOMC Meeting Date	Beginning Rate	Increase/Decrease	Ending Rate
March 21, 2007	5.25%	0.00%	5.25%
May 9, 2007	5.25%	0.00%	5.25%
June 28, 2007	5.25%	0.00%	5.25%
August 7, 2007	5.25%	0.00%	5.25%
September 18, 2007	5.25%	(0.50%)	4.75%
October 31, 2007	4.75%	(0.25%)	4.50%
December 11, 2007	4.50%	(0.25%)	4.25%
January 22, 2008	4.25%	(0.75%)	3.50%
January 30, 2008	3.50%	(0.50%)	3.00%
March 18, 2008	3.00%	(0.75%)	2.25%

The Company's cost of interest-bearing liabilities decreased by 28 basis points from the first quarter ended March 31, 2007 to the first quarter ended March 31, 2008. The velocity of change on fixed maturity interest-bearing liabilities is slower than the immediate change on variable rate assets. The re-pricing characteristics of this portion of interest-bearing liabilities which comprise 64% of total interest-bearing liabilities will lag behind market interest rate changes especially in a rapidly changing interest rate environment.

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The following table sets 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.

	<b>Three Months Ended March 31,</b>					
	<b>2008</b>		<b>2007</b>			
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
<b>Interest-earning assets:</b>						
Loans <sup>(1) (2)</sup>	\$ 2,357,543	\$ 42,766	7.30%	\$ 1,572,640	\$ 31,937	8.24%
Investment securities <sup>(2)</sup>	245,863	3,536	5.78%	51,676	719	5.64%
Other short-term investments	458	3	2.63%	1,258	15	4.84%
Total interest-earning assets	\$ 2,603,864	\$ 46,305	7.15%	\$ 1,625,574	\$ 32,671	8.15%
Noninterest earning assets	324,207			153,345		
Total assets	\$ 2,928,071			\$ 1,778,919		
<b>Interest-bearing liabilities:</b>						
Deposits:						
Interest checking, savings and money market	\$ 697,424	\$ 3,325	1.92%	\$ 540,648	\$ 3,546	2.66%
Time deposits	1,137,188	12,610	4.46%	673,242	7,607	4.58%
Total interest-bearing deposits	\$ 1,834,612	\$ 15,935	3.49%	\$ 1,213,890	\$ 11,153	3.73%
Securities sold under repurchase agreements and short-term borrowings	153,059	1,092	2.87%	25,856	286	4.49%
Notes payable	310,868	3,178	4.11%	171,909	2,110	4.98%
Subordinated debentures	88,662	1,432	6.50%	13,403	268	8.11%
Total interest-bearing liabilities	\$ 2,387,201	\$ 21,637	3.65%	\$ 1,425,058	\$ 13,817	3.93%
<b>Noninterest bearing liabilities:</b>						
Demand deposits	186,454			145,185		
Other liabilities	25,640			20,398		
Total noninterest bearing liabilities	212,094			165,583		
Total liabilities	2,599,295			1,590,641		

Shareholders equity	328,776	188,278
Total liabilities and shareholders Equity	\$ 2,928,071	\$ 1,778,919
Net interest income	\$ 24,668	\$ 18,854
Interest rate spread	3.51%	4.22%
Net yield on interest-earning assets	3.81%	4.70%

<sup>1</sup> Average loan balances included nonaccrual loans. Interest income collected on nonaccrual loans has been included.

<sup>2</sup> Fully Taxable Equivalent ( FTE ) at the rate of 35%. The FTE basis adjusts for the tax benefits of income on certain tax-exempt loans and investments using the federal statutory rate of 35% for each period presented. The Company believes this measure to be the preferred industry measurement of net interest

income and  
provides  
relevant  
comparison  
between taxable  
and non-taxable  
amounts.

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**Provision for Loan Losses.** During the three months ended March 31, 2008, loan charge-offs were \$1,590 and recoveries of charged-off loans were \$518. The Company's provision for loan losses decreased by \$86 to \$888 for the three months ended March 31, 2008, as compared to \$974 for the same period in 2007 due to loan contraction during the first quarter of 2008 versus loan growth during the first quarter of 2007. The Company's allowance for loan losses decreased by \$184 to \$33,927 at March 31, 2008 from \$34,111 at December 31, 2007 while the reserve to outstanding loans remained constant at 1.45% between these two periods and increased from the ratio of 1.43% at March 31, 2007. Credit quality ratios have declined since March 31, 2007, principally as a result of the rapid deterioration of the residential real estate market during the fourth quarter of 2007 in the Company's urban markets, primarily Nashville and Knoxville. Management continually evaluates the Company's credit policies and procedures for effective risks and controls management. The ratio of allowance for loan losses to nonperforming loans was 112.71%, 106.34% and 690.10% at March 31, 2008, December 31, 2007 and March 31, 2007, respectively, and the ratio of nonperforming assets to total assets was 1.35%, 1.25% and 0.28% at March 31, 2008, December 31, 2007 and March 31, 2007, respectively. The ratio of nonperforming loans to total loans, net of unearned interest, was 1.29%, 1.36% and 0.21% at March 31, 2008, December 31, 2007 and March 31, 2007, respectively. Within the Bank, the Company's largest subsidiary, the ratio of nonperforming assets to total assets was 1.32%, 1.22% and 0.24% at March 31, 2008, December 31, 2007 and March 31, 2007, respectively.

The Company's year-to-date ( YTD ) net charge-offs as a percentage of average loans increased from 0.02% for the three months ended March 31, 2007 to 0.05% for the three months ended March 31, 2008. Net charge-offs as a percentage of average loans were 0.57% for the year ended December 31, 2007. Within the Bank, YTD net charge-offs as a percentage of average loans increased from 0.01% for the three months ended March 31, 2007 to 0.03% for the same period in 2008. Net charge-offs within the Bank as a percentage of average loans were 0.50% for the year ended December 31, 2007. YTD net charge-offs in Superior Financial for the three months ended March 31, 2008 were \$94 compared to actual net charge-offs of \$172 for the year ended December 31, 2007. YTD net charge-offs in GCB Acceptance for the three months ended March 31, 2008 were \$297 compared to actual net charge-offs of \$1,331 for the year ended December 31, 2007.

Management believes that credit quality indicators will be driven by the current economic environment and the resiliency of residential real estate markets. Management continually evaluates the existing portfolio in light of loan concentrations, current general economic conditions and economic trends. Management believes these evaluations strongly suggest an economic slowdown has and will continue to occur throughout 2008. Based on its evaluation of the allowance for loan loss calculation and review of the loan portfolio, management believes the allowance for loan losses is adequate at March 31, 2008. However, the provision for loan losses could increase for the entire year of 2008, as compared to 2007, if the general economic conditions continue to deteriorate.

**Noninterest Income.** Fee income, unrelated to interest-earning assets, consisting primarily of service charges, commissions and fees, has become an important component to the Company's total revenue stream.

Total noninterest income for the three months ended March 31, 2008 was \$7,306, as compared to \$5,399 for the same period in 2007. Service charges, commissions and fees remain the largest component of total noninterest income and increased from \$4,289 for the three months ended March 31, 2007 to \$6,227 for the same period in 2008. This increase primarily reflects additional service charges and NSF fees from deposit-related products stemming primarily from the continued increased volume due to the Bank's High Performance Checking Program introduced in the first quarter of 2005 and the CVBG acquisition in the second quarter of 2007. The Company believes that noninterest income will continue to improve over the remainder of 2008 with the introduction of this program in the former Cumberland Bank branches during the third quarter of 2007. In addition, other noninterest income decreased by \$31 to \$1,079 for the three months ended March 31, 2008 from \$1,110 for the same period in 2007.

**Noninterest Expense.** Control of noninterest expense is a critical aspect in enhancing income. Noninterest expense includes personnel, occupancy, and other expenses such as data processing, printing and supplies, legal and professional fees, postage, Federal Deposit Insurance Corporation assessment, etc. Total noninterest expense was \$19,561 for the three months ended March 31, 2008 compared to \$14,042 for the same period in 2007. The \$5,519, or 39%, increase in total noninterest expense for the three months ended March 31, 2008 compared to the same period of 2007 principally reflects increases in all expense categories primarily as a result of layering-on the normal operating

costs associated with the acquisition of CVBG during the second quarter of 2007.

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Personnel costs are the primary element of the Company's noninterest expenses. For the three months ended March 31, 2008, salaries and benefits represented \$9,848, or 50% of total noninterest expense. This was an increase of \$2,390, or 32%, from the \$7,458 for the three months ended March 31, 2007. Including Bank branches and non-bank office locations, and reflecting the impact of the CVBG acquisition, the Company had 76 locations at March 31, 2008 and December 31, 2007, as compared to 60 at March 31, 2007, and the number of full-time equivalent employees increased 23% from 604 at March 31, 2007 to 740 at March 31, 2008. These increases in personnel costs, number of branches and employees are primarily the result of the CVBG acquisition.

The Company's efficiency ratio increased from 57.98% at March 31, 2007 to 61.56% at March 31, 2008. The efficiency ratio illustrates how much it cost the Company to generate revenue; for example, it cost the Company 61.56 cents to generate one dollar of revenue for the three months ended March 31, 2008.

**Income Taxes.** The effective income tax rate for the three months ended March 31, 2008 was 36.6% compared to 38.98% for the same period in 2007. The decrease is primarily due to the increased holdings of tax exempt securities acquired in the CVBG acquisition.

**Changes in Financial Condition**

Total assets at March 31, 2008 were \$2,912,615, a decrease of \$35,126, or 1%, from December 31, 2007. The decrease in assets was primarily reflective of the \$20,397, or 0.9%, decrease in loans, net of unearned income. The Company expects that its total assets will remain stable or decline slightly over the remainder of 2008.

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 totaled \$30,102 at March 31, 2008 a decrease of \$1,976 from December 31, 2007. At March 31, 2008, the ratio of the Company's allowance for loan losses to non-performing loans (which include non-accrual loans) was 112.71%.

The Company maintains an investment portfolio to provide liquidity and earnings. Investments at March 31, 2008 with an amortized cost of \$226,554 had a market value of \$232,433. At year-end 2007, investments with an amortized cost of \$234,098 had a market value of \$236,553.

**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 12% of the total liquidity base at March 31, 2008 and December 31, 2007, respectively. The liquidity base is generally defined to include deposits, repurchase agreements, notes payable and subordinated debentures. The Company maintains borrowing availability with the Federal Home Loan Bank of Cincinnati ( FHLB ), which was fully utilized at March 31, 2008 in order to better optimize its funding costs. The Company also maintains federal funds lines of credit totaling \$166,000 at eight correspondent banks, of which \$126,161 was available at March 31, 2008. The Company believes it has sufficient liquidity to satisfy its current operating needs.

For the three months ended March 31, 2008, operating activities of the Company provided \$8,083 of cash flows. Net income of \$7,178 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) \$888 in provision for loan losses, (ii) \$1,742 of depreciation and amortization and (iii) \$6,838 increase in other assets. This was offset in part by a decrease of \$7,326 in accrued interest payable and other liabilities and a deferred tax benefit of \$1,085.

The Company's net decrease in loans of \$13,963 was the primary component of the \$20,888 in net cash provided from investing activities for the three months ended March 31, 2008. In addition, the Company used and purchased \$18,853 in investment securities available for sale. This was offset by \$26,515 in proceeds from the maturities of investment securities available for sale. Purchases of fixed asset additions, net of proceeds from sale of other real estate, used \$473 in cash flows.





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The net increase in deposits of \$72,589 was the primary source of cash flows provided in financing activities. This was offset by the net decrease in federal funds purchased and repurchase agreements of \$61,729, repayments of FHLB advances and notes payable of \$46,348. In addition, dividends paid in the amount of \$1,690 further increased the total net cash used in 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.

Shareholders' equity on March 31, 2008 was \$330,165, an increase of \$7,688, or 2%, from \$322,477 on December 31, 2007. The increase in shareholders' equity primarily reflects net income for the three months ended March 31, 2008 of \$7,178 (\$0.56 per share) and the cumulative change of \$2,008 in unrealized gains, net of reclassification and taxes, on available for sale securities. These increases were offset in part by quarterly dividend payments during the three months ended March 31, 2008 totaling \$1,690 (\$0.13 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 has been renewed by the Board of Directors annually thereafter and will terminate on the earlier to occur of the Company's repurchase of the total authorized dollar amount or December 31, 2008. The repurchase plan is dependent upon market conditions and there is no guarantee as to the exact number of shares to be repurchased by the Company. To date, the Company has purchased 25,700 shares at an aggregate cost of approximately \$538 under this program.

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 March 31, 2008, 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 March 31, 2008.

	Required Minimum Ratio	Required to be Well Capitalized	Bank	Company
Tier 1 risk-based capital	4.00%	6.00%	10.22%	10.66%
Total risk-based capital	8.00%	10.00%	11.48%	11.91%
Leverage Ratio	4.00%	5.00%	8.85%	9.24%

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

**Table of Contents****Off-Balance Sheet Arrangements**

At March 31, 2008, the Company had outstanding unused lines of credit and standby letters of credit totaling \$684,309 and unfunded loan commitments outstanding of \$97,283. Because these commitments generally have fixed expiration dates and most will expire without being drawn upon, the total commitment level does not necessarily represent future cash requirements. If needed to fund these outstanding commitments, the Company has the ability to liquidate Federal funds sold or securities available-for-sale or, on a short-term basis, to borrow any then available amounts from the FHLB and/or purchase Federal funds from other financial institutions. At March 31, 2008, the Company had accommodations with upstream correspondent banks for unsecured Federal funds lines of \$121,161. These accommodations have various covenants related to their term and availability, and in most cases must be repaid within less than a month. The following table presents additional information about the Company's off-balance sheet commitments as of March 31, 2008, which by their terms have contractual maturity dates subsequent to March 31, 2008:

	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	Total
Commitments to make loans fixed	\$ 14,390	\$	\$	\$	\$ 14,390
Commitments to make loans variable	82,893				82,893
Unused lines of credit	417,732	118,754	6,925	88,504	631,915
Letters of credit	35,249	1,466	8,785	6,894	52,394
Total	\$ 550,264	\$ 120,220	\$ 15,710	\$ 95,398	\$ 781,592

**Disclosure of Contractual Obligations**

In the ordinary course of operations, the Company enters into certain contractual obligations. Such obligations include the funding of operations through debt issuances as well as leases for premises and equipment. The following table summarizes the Company's significant fixed and determinable contractual obligations as of March 31, 2008:

	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	Total
Certificates of deposits	\$ 1,055,808	\$ 85,227	\$ 7,243	\$ 4,463	\$ 1,152,741
Federal funds purchased and repurchase agreements	132,796				132,796
FHLB advances and notes payable	43,576	67,333	80,913	80,520	272,342
Subordinated debentures				88,662	88,662
Operating lease obligations	984	1,481	1,063	1,299	4,827
Deferred compensation	1,995			1,736	3,731
Purchase obligations	335				335
Total	\$ 1,235,494	\$ 154,041	\$ 89,219	\$ 176,680	\$ 1,655,434

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 2007, the FASB issued SFAS No. 141(R), *Business Combinations* and SFAS No. 160, *Accounting and Reporting of Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB No. 51*". These new standards will significantly change the accounting for and reporting of business combination transactions and noncontrolling (minority) interests in consolidated financial statements. SFAS Nos. 141(R) and 160 are required to be adopted simultaneously and are effective for the first annual reporting period beginning on or after December 15, 2008. Earlier adoption is prohibited. We are currently evaluating the impact of adopting SFAS Nos. 141(R) and 160 on our consolidated financial statements.

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In December 2007, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities ( SFAS 133 ), Implementation Issue No. E23, Hedging General: Issues Involving the Application of the Shortcut Method under Paragraph 68 ( Issue E23 ). Issue E23 amends SFAS 133 to explicitly permit use of the shortcut method for hedging relationships in which interest rate swaps have nonzero fair value at the inception of the hedging relationship, provided certain conditions are met. Issue E23 was effective for hedging relationships designated on or after January 1, 2008. The implementation of this guidance did not have a material impact on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 ( SFAS 161 ). SFAS 161 expands quarterly disclosure requirements in SFAS 133 about an entity s derivative instruments and hedging activities. SFAS 161 is effective for fiscal years beginning after November 15, 2008. The Company is currently assessing the impact of SFAS 161 on its consolidated financial position and results of operations.

In November 2007, the Securities and Exchange Commission ( SEC ) issued Staff Accounting Bulletin No. 109, Written Loan Commitments Recorded at Fair Value Through Earnings ( SAB 109 ). SAB 109 expresses the current view of the staff that the expected net future cash flows related to the associated servicing of the loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. SEC registrants are expected to apply the views in Question 1 of SAB 109 on a prospective basis to derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. The implementation of this guidance did not have a material impact on the Company s consolidated financial statements.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Part II, Item 7A of the 2007 10-K is incorporated in this item of this Quarterly Report by this reference. There have been no material changes in the quantitative and qualitative market risks of the Company since December 31, 2007.

**ITEM 4. CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

The Company s management, with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company s disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(f) promulgated under the Securities Exchange Act of 1934 (the Exchange Act ) as of the end of the period covered by this report. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2008, the Company s disclosure controls and procedures were effective for the purposes set forth in the definition thereof in Exchange Act Rule 13a-15(e).

**Internal Control Over Financial Reporting**

There have been no changes in the Company s internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) during the quarter ended March 31, 2008 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

The Company and its subsidiaries are subject to claims and suits arising in the ordinary course of business. In the opinion of management, the ultimate resolution of these pending claims and legal proceedings will not have a material adverse effect on the Company's results of operations.

**Item 1A. Risk Factors**

There have been no material changes to our risk factors as previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The Company made no unregistered sales of its equity securities or repurchases of its common stock during the quarter ended March 31, 2008.

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Submission of Matters to a Vote of Security Holders**

None

**Item 5. Other Information**

None

**Item 6. Exhibits**

See Exhibit Index immediately following the signature page hereto.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Green Bankshares, Inc.  
Registrant

Date: May 8, 2008

By: /s/ James E. Adams  
James E. Adams  
Executive Vice President, Chief  
Financial  
Officer and Assistant Secretary



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**EXHIBIT INDEX**

Exhibit No.	Description
31.1	Chief Executive Officer Certification Pursuant to Rule 13a-14(a)/15d-14(a)
31.2	Chief Financial Officer Certification Pursuant to Rule 13a-14(a)/15d-14(a)
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
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