

GREEN BANKSHARES, INC.

Form 10-Q

November 09, 2009

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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 September 30, 2009**

**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)

**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 principle 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 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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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 November 09, 2009, the number of shares outstanding of the issuer's common stock was: 13,171,474.



**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**  
**September 30, 2009 and December 31, 2008**  
**(Amounts in thousands, except share and per share data)**

|  | (Unaudited)<br>September 30,<br>2009 | December 31,<br>2008* |
|--|--------------------------------------|-----------------------|
| <b>ASSETS</b>  |                                      |                       |
| Cash and due from banks  | \$ 345,209                           | \$ 193,095            |
| Federal funds sold   | 922                                  | 5,263                 |
| Cash and cash equivalents  | 346,131                              | 198,358               |
| Interest earning deposits in other banks                             | 1,000                                |                       |
| Securities available for sale  | 154,937                              | 203,562               |
| Securities held to maturity (with a market value of \$644 and \$601) | 636                                  | 657                   |
| Loans held for sale  | 1,064                                | 442                   |
| Loans, net of unearned interest                                      | 2,099,267                            | 2,223,390             |
| Allowance for loan losses  | (50,196)                             | (48,811)              |
| Other real estate owned and repossessed assets                       | 56,413                               | 45,371                |
| Premises and equipment, net  | 82,551                               | 83,359                |
| FHLB and other stock, at cost  | 12,734                               | 13,030                |
| Cash surrender value of life insurance                               | 29,997                               | 29,539                |
| Goodwill   |                                      | 143,389               |
| Core deposit and other intangibles                                   | 9,981                                | 12,085                |
| Deferred tax asset   | 10,228                               | 12,496                |
| Other assets   | 39,474                               | 27,804                |
| <br>   |                                      |                       |
| Total assets   | \$ 2,794,217                         | \$ 2,944,671          |
| <br>   |                                      |                       |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>                           |                                      |                       |
| <b>Liabilities</b>   |                                      |                       |
| Non-interest bearing deposits  | \$ 156,797                           | \$ 176,685            |
| Interest bearing deposits  | 1,998,157                            | 1,645,115             |
| Brokered deposits  | 59,807                               | 362,347               |
| <br>   |                                      |                       |
| Total deposits   | 2,214,761                            | 2,184,147             |
| <br>   |                                      |                       |
| Repurchase agreements  | 25,294                               | 35,302                |
| FHLB advances and notes payable                                      | 216,578                              | 229,349               |
| Subordinated debentures  | 88,662                               | 88,662                |
| Accrued interest payable and other liabilities                       | 21,534                               | 25,980                |
| <br>   |                                      |                       |
| Total liabilities  | \$ 2,566,829                         | \$ 2,563,440          |
| <br>   |                                      |                       |
| Shareholders equity  |                                      |                       |

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|  |    |               |    |               |
|--|----|---------------|----|---------------|
| Preferred stock: no par, 1,000,000 shares authorized, 72,278 shares outstanding                      | \$ | 66,388        | \$ | 65,346        |
| Common stock: \$2 par, 20,000,000 shares authorized, 13,171,474 and<br>13,112,687 shares outstanding |    | 26,343        |    | 26,225        |
| Common stock warrants  |    | 6,934         |    | 6,934         |
| Additional paid-in capital   |    | 188,146       |    | 187,742       |
| Retained earnings (deficit)  |    | (61,666)      |    | 95,647        |
| Accumulated other comprehensive income (loss)  |    | 1,243         |    | (663)         |
| <br>Total shareholders equity  |    | <br>227,388   |    | <br>381,231   |
| <br>Total liabilities and shareholders equity  | \$ | <br>2,794,217 | \$ | <br>2,944,671 |

\* 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,  
2008

See notes to condensed consolidated financial statements.

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**GREEN BANKSHARES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
**Three and Nine Months Ended September 30, 2009 and 2008**  
**(Amounts in thousands, except share and per share data)**

|  | <b>Three Months Ended</b> |               | <b>Nine Months Ended</b> |                |
|--|---------------------------|---------------|--------------------------|----------------|
|  | <b>September 30,</b>      |               | <b>September 30,</b>     |                |
|  | <b>2009</b>               | <b>2008</b>   | <b>2009</b>              | <b>2008</b>    |
|  | <b>(Unaudited)</b>        |               | <b>(Unaudited)</b>       |                |
| Interest income  |                           |               |                          |                |
| Interest and fees on loans                                 | \$ 32,559                 | \$ 38,497     | \$ 97,732                | \$ 120,653     |
| Taxable securities   | 1,669                     | 3,487         | 5,732                    | 9,134          |
| Nontaxable securities                                      | 315                       | 320           | 949                      | 977            |
| FHLB and other stock                                       | 151                       | 176           | 436                      | 493            |
| Federal funds sold and other                               | 102                       | 86            | 183                      | 112            |
| <b>Total interest income</b>                               | <b>34,796</b>             | <b>42,566</b> | <b>105,032</b>           | <b>131,369</b> |
| Interest expense   |                           |               |                          |                |
| Deposits   | 11,480                    | 14,345        | 35,644                   | 43,657         |
| Federal funds purchased and repurchase agreements          | 6                         | 262           | 22                       | 2,054          |
| FHLB advances and notes payable                            | 2,416                     | 2,525         | 7,328                    | 8,268          |
| Subordinated debentures                                    | 556                       | 1,050         | 2,091                    | 3,490          |
| <b>Total interest expense</b>                              | <b>14,458</b>             | <b>18,182</b> | <b>45,085</b>            | <b>57,469</b>  |
| <b>Net interest income</b>                                 | <b>20,338</b>             | <b>24,384</b> | <b>59,947</b>            | <b>73,900</b>  |
| <b>Provision for loan losses</b>                           | <b>18,475</b>             | <b>8,620</b>  | <b>43,844</b>            | <b>20,527</b>  |
| <b>Net interest income after provision for loan losses</b> | <b>1,863</b>              | <b>15,764</b> | <b>16,103</b>            | <b>53,373</b>  |
| Non-interest income  |                           |               |                          |                |
| Service charges on deposit accounts                        | 6,446                     | 6,070         | 17,597                   | 17,525         |
| Other charges and fees                                     | 505                       | 502           | 1,459                    | 1,511          |
| Trust and investment services income                       | 595                       | 564           | 1,472                    | 1,398          |
| Mortgage banking income                                    | 127                       | 139           | 292                      | 689            |
| Security impairment loss recognized                        | (503)                     |               | (732)                    |                |
| Net gain on sale of securities                             | 933                       | 72            | 933                      | 72             |
| Other income   | 1,086                     | 663           | 2,423                    | 2,233          |
| <b>Total non-interest income</b>                           | <b>9,189</b>              | <b>8,010</b>  | <b>23,444</b>            | <b>23,428</b>  |

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|   |            |            |              |            |
|---|------------|------------|--------------|------------|
| Non-interest expense                                |            |            |              |            |
| Employee compensation                               | 7,315      | 8,961      | 23,071       | 25,620     |
| Employee benefits                                   | 526        | 1,197      | 3,050        | 3,643      |
| Occupancy expense                                   | 1,762      | 1,746      | 5,261        | 5,110      |
| Equipment expense                                   | 761        | 719        | 2,398        | 2,566      |
| Computer hardware/software expense                  | 735        | 715        | 2,023        | 2,066      |
| Professional services                               | 457        | 470        | 1,432        | 1,428      |
| Advertising   | 678        | 710        | 1,421        | 2,398      |
| Loss on sale of OREO and repossessed assets         | 3,578      | 1,942      | 7,005        | 3,022      |
| FDIC Insurance                                      | 819        | 418        | 4,069        | 1,181      |
| Core deposit and other intangibles amortization     | 648        | 649        | 2,104        | 1,958      |
| Goodwill impairment                                 |            |            | 143,389      |            |
| Other expenses                                      | 5,086      | 4,417      | 13,887       | 12,653     |
| Total non-interest expenses                         | 22,365     | 21,944     | 209,110      | 61,645     |
| Income (loss) before income taxes                   | (11,313)   | 1,830      | (169,563)    | 15,156     |
| Provision for income taxes (benefit)                | (4,815)    | 596        | (17,695)     | 5,282      |
| Net income (loss)                                   | \$ (6,498) | \$ 1,234   | \$ (151,868) | \$ 9,874   |
| Preferred stock dividends and accretion of discount | 1,250      |            | 3,732        |            |
| Net income (loss) available to common shareholders  | \$ (7,748) | \$ 1,234   | \$ (155,600) | \$ 9,874   |
| <b>Per share of common stock:</b>                   |            |            |              |            |
| Basic earnings (loss)                               | \$ (0.59)  | \$ 0.10    | \$ (11.91)   | \$ 0.76    |
| Diluted earnings (loss)                             | (0.59)     | 0.10       | (11.91)      | 0.76       |
| Dividends   | 0.00       | 0.13       | 0.13         | 0.39       |
| <b>Weighted average shares outstanding:</b>         |            |            |              |            |
| Basic   | 13,070,216 | 12,931,774 | 13,067,798   | 12,931,538 |
| Diluted <sup>1</sup>                                | 13,070,216 | 12,947,618 | 13,067,798   | 12,936,084 |

<sup>1</sup> Diluted weighted average shares outstanding for



the three and  
nine months  
ended  
September 30,  
2009 excludes  
101,636 and  
95,526 shares,  
respectively,  
because they are  
anti-dilutive.

See notes to condensed consolidated financial statements.

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**GREEN BANKSHARES, INC.**  
**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY**  
**For the Nine Months Ended September 30, 2009**

*(Unaudited)*

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

|   | Preferred<br>Stock | Common<br>Shares  | Common<br>Stock<br>Amount | Warrants<br>For<br>Common<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings<br>(Deficit) | Accumulated<br>Other<br>Comprehensive<br>Income(Loss) | Total<br>Shareholders<br>Equity |
|---|--------------------|-------------------|---------------------------|------------------------------------|----------------------------------|-----------------------------------|---|---------------------------------|
| <b>Balance,<br/>December 31, 2008</b>                         | <b>\$ 65,346</b>   | <b>13,112,687</b> | <b>\$ 26,225</b>          | <b>\$ 6,934</b>                    | <b>\$ 187,742</b>                | <b>\$ 95,647</b>                  | <b>\$ (663)</b>                                       | <b>\$ 381,231</b>               |
| Preferred stock transactions:                                 |                    |                   |                           |                                    |                                  |                                   |   |                                 |
| Accretion of preferred stock discount                         | 1,042              |                   |                           |                                    |                                  | (1,042)                           |   |                                 |
| Preferred stock dividends                                     |                    |                   |                           |                                    |                                  | (2,690)                           |   | (2,690)                         |
| Common stock transactions:                                    |                    |                   |                           |                                    |                                  |                                   |   |                                 |
| Issuance of restricted common shares                          |                    | 58,787            | 118                       |                                    | (118)                            |                                   |   |                                 |
| Compensation expense:   |                    |                   |                           |                                    |                                  |                                   |   |                                 |
| Stock options   |                    |                   |                           |                                    | 292                              |                                   |   | 292                             |
| Restricted stock  |                    |                   |                           |                                    | 230                              |                                   |   | 230                             |
| Dividends paid (\$ .13 per share)                             |                    |                   |                           |                                    |                                  | (1,713)                           |   | (1,713)                         |
| Comprehensive (loss):   |                    |                   |                           |                                    |                                  |                                   |   |                                 |
| Net (loss)  |                    |                   |                           |                                    |                                  | (151,868)                         |   | (151,868)                       |
| Change in unrealized gains, net of reclassification and taxes |                    |                   |                           |                                    |                                  |                                   | 1,906   | 1,906                           |
| Total comprehensive (loss)                                    |                    |                   |                           |                                    |                                  |                                   |   | (149,962)                       |
| <b>Balance,<br/>September 30,<br/>2009</b>                    | <b>\$ 66,388</b>   | <b>13,171,474</b> | <b>\$ 26,343</b>          | <b>\$ 6,934</b>                    | <b>\$ 188,146</b>                | <b>\$ (61,666)</b>                | <b>\$ 1,243</b>                                       | <b>\$ 227,388</b>               |

See notes to condensed consolidated financial statements.

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**GREEN BANKSHARES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Nine Months Ended September 30, 2009 and 2008**  
**(Amounts in thousands, except share and per share data)**

|   | <b>September<br/>30,<br/>2009</b> | <b>September 30,<br/>2008</b> |
|---|-----------------------------------|-------------------------------|
|   | <b>(Unaudited)</b>                |                               |
| <b>Cash flows from operating activities</b>   |                                   |                               |
| Net income (loss)   | \$ (151,868)                      | \$ 9,874                      |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities |                                   |                               |
| Provision for loan losses   | 43,844                            | 20,527                        |
| Impairment of goodwill  | 143,389                           |                               |
| Depreciation and amortization   | 5,386                             | 5,264                         |
| Security amortization and accretion, net  | 41                                | (726)                         |
| Writedown of investments and other securities for impairment                            | 1,028                             |                               |
| Gain on sale of securities  | (933)                             | (74)                          |
| FHLB stock dividends  |                                   | (464)                         |
| Net gain on sale of mortgage loans  | (188)                             | (487)                         |
| Originations of mortgage loans held for sale  | (34,514)                          | (43,894)                      |
| Proceeds from sales of mortgage loans   | 34,080                            | 44,887                        |
| Increase in cash surrender value of life insurance                                      | (845)                             | (804)                         |
| Gain from settlement of life insurance  | (305)                             |                               |
| Net (gains) losses from sales of fixed assets   | (128)                             | 388                           |
| Stock-based compensation expense  | 521                               | 583                           |
| Net loss (gain) on other real estate and repossessed assets                             | 7,005                             | 1,837                         |
| Deferred tax expense (benefit)  | 1,037                             | (746)                         |
| Net changes:  |                                   |                               |
| Other assets  | (11,664)                          | 5,031                         |
| Accrued interest payable and other liabilities  | (4,808)                           | (11,142)                      |
| Net cash provided by operating activities   | 31,078                            | 30,054                        |
| <b>Cash flows from investing activities</b>   |                                   |                               |
| Net change in interest-bearing deposits with banks                                      | (1,000)                           |                               |
| Purchase of securities available for sale   | (72,094)                          | (136,985)                     |
| Proceeds from sale of securities available for sale                                     | 25,822                            | 3,398                         |
| Proceeds from maturities of securities available for sale                               | 98,193                            | 74,467                        |
| Proceeds from maturities of securities held to maturity                                 | 20                                | 545                           |
| Purchase of FHLB stock  |                                   | (417)                         |
| Net change in loans   | 53,956                            | (13,841)                      |
| Proceeds from settlement of life insurance  | 691                               |                               |
| Proceeds from sale of other real estate   | 9,848                             | 19,238                        |
| Improvements to other real estate   | (187)                             | (1,073)                       |
| Proceeds from sale of fixed assets  | 796                               | 50                            |
| Premises and equipment expenditures   | (3,143)                           | (4,615)                       |

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|  |                   |                   |
|--|-------------------|-------------------|
| Net cash provided (used) by investing activities             | 112,902           | (59,233)          |
| <b>Cash flows from financing activities</b>                  |                   |                   |
| Net change in core deposits                                  | 333,154           | 215,383           |
| Net change in brokered deposits                              | (302,540)         | 74,022            |
| Net change in repurchase agreements                          | (10,007)          | (129,183)         |
| Proceeds from FHLB advances and notes payable                |                   | 20,916            |
| Repayments of FHLB advances and notes payable                | (12,771)          | (109,701)         |
| Preferred stock dividends paid                               | (2,330)           |                   |
| Common stock dividends paid                                  | (1,713)           | (5,070)           |
| Proceeds from issuance of common stock                       |                   | 14                |
| Net cash provided by financing activities                    | 3,793             | 66,381            |
| <b>Net change in cash and cash equivalents</b>               | <b>147,773</b>    | <b>37,202</b>     |
| Cash and cash equivalents, beginning of period               | 198,358           | 65,717            |
| <b>Cash and cash equivalents, end of period</b>              | <b>\$ 346,131</b> | <b>\$ 102,919</b> |
| <b>Supplemental disclosures cash and noncash</b>             |                   |                   |
| Interest paid  | \$ 48,509         | \$ 60,293         |
| Income taxes paid  | 1,675             | 5,674             |
| Loans converted to other real estate                         | 70,088            | 29,676            |
| Unrealized gain on available for sale securities, net of tax | 1,906             | 111               |

See notes to condensed consolidated financial statements.

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**GREEN BANKSHARES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2009**

**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 and nine months ended September 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. 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, 2008. Certain amounts from prior period financial statements have been reclassified to conform to the current year's presentation.

**NOTE 2 SECURITIES**

Securities are summarized as follows:

|                                     | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
|-------------------------------------|-------------------|------------------------------|-------------------------------|---------------|
| Available for Sale                  |                   |                              |                               |               |
| September 30, 2009                  |                   |                              |                               |               |
| U.S. government agencies            | \$ 49,705         | \$ 330                       | \$ (309)                      | \$ 49,726     |
| States and political subdivisions   | 31,698            | 1,056                        | (354)                         | 32,400        |
| Collateralized mortgage obligations | 53,974            | 1,916                        | (808)                         | 55,082        |
| Mortgage-backed securities          | 15,369            | 263                          | (1)                           | 15,631        |
| Trust preferred securities          | 2,145             |                              | (47)                          | 2,098         |
|                                     | \$ 152,891        | \$ 3,565                     | \$ (1,519)                    | \$ 154,937    |
| December 31, 2008                   |                   |                              |                               |               |
| U.S. government agencies            | \$ 98,143         | \$ 685                       | \$ (22)                       | \$ 98,806     |
| States and political subdivisions   | 32,641            | 139                          | (976)                         | 31,804        |
| Collateralized mortgage obligations | 68,738            | 945                          | (1,310)                       | 68,373        |
| Mortgage-backed securities          | 2,177             |                              | (91)                          | 2,086         |
| Trust preferred securities          | 2,954             |                              | (461)                         | 2,493         |
|                                     | \$ 204,653        | \$ 1,769                     | \$ (2,860)                    | \$ 203,562    |

Held to Maturity

September 30, 2009

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|                                   |    |     |    |    |      |      |        |
|-----------------------------------|----|-----|----|----|------|------|--------|
| States and political subdivisions | \$ | 384 | \$ | 11 | \$   | \$   | 395    |
| Other securities                  |    | 252 |    |    | (3)  |      | 249    |
|                                   | \$ | 636 | \$ | 11 | \$   | (3)  | \$ 644 |
| December 31, 2008                 |    |     |    |    |      |      |        |
| States and political subdivisions | \$ | 404 | \$ | 7  | \$   | \$   | 411    |
| Other securities                  |    | 253 |    |    | (63) |      | 190    |
|                                   | \$ | 657 | \$ | 7  | \$   | (63) | \$ 601 |

(Continued)

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**GREEN BANKSHARES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2009**

**Unaudited**

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

**NOTE 2 SECURITIES** (Continued)

Contractual maturities of securities at September 30, 2009 are shown below. Securities not due at a single maturity date, collateralized mortgage obligations and mortgage-backed securities are shown separately.

|  | Available for<br>Sale<br>Fair<br>Value | Held to Maturity<br>Carrying<br>Amount | Fair<br>Value |
|--|--|--|---------------|
| Due in one year or less                | \$                                     |  | \$            |
| Due after one year through five years  | 3,149                                  | 636                                    | 644           |
| Due after five years through ten years | 36,289                                 |  |               |
| Due after ten years                    | 44,786                                 |  |               |
| Collateralized mortgage obligations    | 55,082                                 |  |               |
| Mortgage-backed securities             | 15,631                                 |  |               |
| <br>                                   |  |  |               |
| Total maturities                       | \$ 154,937                             | \$ 636                                 | \$ 644        |

Gross gains of \$933 were recognized for the three and nine month periods ended September 30, 2009, respectively, compared to gross gains of \$72 for the three and nine months ended September 30, 2008, respectively, from proceeds of \$25,822 and \$3,398, respectively, on the sale of securities. There were no losses during these periods presented.

Securities with a carrying value of \$128,583 and \$181,683 at September 30, 2009 and December 31, 2008, respectively, were pledged for public deposits and securities sold under agreements to repurchase and to the Federal Reserve Bank. The balance of pledged securities in excess of the pledging requirements was \$16,283 and \$23,647 at September 30, 2009 and December 31, 2008, respectively.

Securities with unrealized losses at September 30, 2009 and December 31, 2008 not recognized in income are as follows:

|                                     | Less than 12 months |                    | 12 months or more |                    | Total         |                    |
|-------------------------------------|---------------------|--------------------|-------------------|--------------------|---------------|--------------------|
|                                     | Fair<br>Value       | Unrealized<br>Loss | Fair<br>Value     | Unrealized<br>Loss | Fair<br>Value | Unrealized<br>Loss |
| September 30, 2009                  |                     |                    |                   |                    |               |                    |
| U. S. government agencies           | \$ 22,920           | \$ (309)           | \$                | \$                 | \$ 22,920     | \$ (309)           |
| States and political subdivisions   | 304                 |                    | 3,112             | (354)              | 3,416         | (354)              |
| Collateralized mortgage obligations |                     |                    | 3,275             | (809)              | 3,275         | (809)              |
| Mortgage-backed securities          |                     |                    | 11                | (1)                | 11            | (1)                |
| Trust preferred securities          | 1,164               | (1)                | 138               | (45)               | 1,302         | (46)               |
| Other securities                    |                     |                    | 249               | (3)                | 249           | (3)                |
| <br>                                |                     |                    |                   |                    |               |                    |
| Total temporarily impaired          | \$ 24,388           | \$ (310)           | \$ 6,885          | \$ (1,212)         | \$ 31,173     | \$ (1,522)         |



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|                                     |           |            |          |          |           |            |
|-------------------------------------|-----------|------------|----------|----------|-----------|------------|
| December 31, 2008                   |           |            |          |          |           |            |
| U. S. government agencies           | \$ 977    | \$ (22)    | \$       | \$       | \$ 977    | \$ (22)    |
| States and political subdivisions   | 18,445    | (838)      | 643      | (139)    | 19,088    | (977)      |
| Collateralized mortgage obligations | 8,721     | (1,310)    |          |          | 8,721     | (1,310)    |
| Mortgage-backed securities          | 640       | (24)       | 1,446    | (67)     | 2,086     | (91)       |
| Trust preferred securities          | 1,210     | (14)       | 1,284    | (446)    | 2,494     | (460)      |
| Other securities                    |           |            | 190      | (63)     | 190       | (63)       |
| Total temporarily impaired          | \$ 29,993 | \$ (2,208) | \$ 3,563 | \$ (715) | \$ 33,556 | \$ (2,923) |

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**NOTE 2 SECURITIES (Continued)**

The Company reviews its investment portfolio on a quarterly basis judging each investment for other-than-temporary impairment ( OTTI ). We have determined that it is more likely than not the Company will hold all temporarily impaired investments until recovery occurs. The OTTI analysis focuses on the duration and amount a security is below book value and assesses a calculation for both a credit loss and a non credit loss for each measured security considering the security s type, performance, underlying collateral, and any current or potential debt rating changes. The OTTI calculation for credit loss is run through the income statement while the non credit loss is reflected in other comprehensive income.

The Company holds a single issue trust preferred security issued by a privately held bank holding company. Based upon available but limited information we have estimated that the likelihood of collecting the security s principal and interest payments is approximately 50%. In addition, the bank holding company deferred their interest payments beginning in the second quarter of 2009, and we have placed the security on non-accrual. Subsequent to September 30, 2009, the Federal Reserve Bank of St. Louis made public an agreement that had been entered into by the bank holding company and the FRB.

The Company valued the security by projecting estimated cash flows given the assumption of collecting approximately 50% of the security s principal & interest and then discounting the amount back to the present value using a discount rate of 3.50% plus three month LIBOR. As of September 30, 2009, our best estimate for the three month LIBOR over the next twenty-one years (the remaining life of the security) is 3.55%. The entire calculation was based on the OTTI credit loss portion. Due to the illiquid trust preferred market for private issuers a calculation was not estimated for the non credit portion for the security. We will continue to review possibilities for calculating the OTTI non credit portion of the security. The security is currently booked at a fair value of \$796 at September 30, 2009 and during the three and nine months ended September 30, 2009 the Company has recognized a write-down of \$503 and \$732, respectively, through non-interest income representing other-than-temporary impairment on the security.

The Company holds a private label class A21 collateralized mortgage obligation that was analyzed with multiple stress scenarios using conservative assumptions for underlying collateral defaults, loss severity, and prepayments. The average principal at risk given the stress scenarios was calculated at 7.5%, and then analyzed using the present value of the future cash flows using the fixed rate of the security of 5.5% as the discount rate. The calculation yielded a present value greater than the book value of the security thus resulting in the Company judging that there was no OTTI with respect to this security.

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**NOTE 2 SECURITIES (Continued)**

The following table presents more detail on selective Company security holdings as of September 30, 2009. These details are listed separately due to the inherent level of risk for OTTI on these securities.

| Description                                | Cusip#    | Current<br>Credit<br>Rating | September 30, 2009 |               |                    | Present<br>Value<br>Discounted<br>Cash Flow |
|--|-----------|-----------------------------|--------------------|---------------|--------------------|---|
|  |           |                             | Book<br>Value      | Fair<br>Value | Unrealized<br>Loss |   |
| <b>Collateralized mortgage obligations</b> |           |                             |                    |               |                    |   |
| Wells Fargo 2007 - 4 A21                   | 94985RAW2 | B3                          | \$ 2,999           | \$ 2,266      | \$ (733)           | \$ 3,137                                    |
| Wells Fargo 2005 - 5 2A1                   | 94982MAE6 | Ba1                         | 1,085              | 1,010         | (75)               | 1,186                                       |
|  |           |                             | \$ 4,084           | \$ 3,276      | \$ (808)           | \$ 4,323                                    |
| <b>Trust preferred securities</b>          |           |                             |                    |               |                    |   |
| PreTSL IV                                  | 74040TAD5 | Ca                          | 183                | 138           | (45)               | 186   |
| MM Community Fund II LTD                   | 55309TAD0 | Baa2                        | 1,166              | 1,164         | (2)                | N/A   |
| West Tennessee Bancshares, Inc.            | 956192AA6 | N/A                         | 796                | 796           |                    | N/A   |
|  |           |                             | \$ 2,145           | \$ 2,098      | \$ (47)            | \$ 186                                      |

**NOTE 3 LOANS**

Loans at September 30, 2009 and December 31, 2008 were as follows:

|                               | September 30,<br>2009 | December 31,<br>2008 |
|-------------------------------|-----------------------|----------------------|
| Commercial real estate        | \$ 1,331,367          | \$ 1,430,425         |
| Residential real estate       | 404,778               | 397,922              |
| Commercial                    | 291,432               | 315,099              |
| Consumer                      | 84,614                | 89,733               |
| Other                         | 2,466                 | 4,656                |
| Unearned income               | (15,390)              | (14,245)             |
| Loans, net of unearned income | \$ 2,099,267          | \$ 2,223,390         |
| Allowance for loan losses     | \$ (50,196)           | \$ (48,811)          |

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**NOTE 3 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 nine months ended September 30, 2009 and twelve months ended December 31, 2008 were as follows:

|   | <b>September<br/>30,<br/>2009</b> | <b>December 31,<br/>2008</b>     |
|---|-----------------------------------|----------------------------------|
| Balance at beginning of year            | \$ 48,811                         | \$ 34,111                        |
| Add (deduct):                           |                                   |                                  |
| Provision for loan losses               | 43,844                            | 52,810                           |
| Loans charged off                       | (47,591)                          | (41,269)                         |
| Recoveries of loans charged off         | 5,132                             | 3,159                            |
| Ending balance                          | \$ 50,196                         | \$ 48,811                        |
|   | <b>September<br/>30,<br/>2009</b> | <b>December<br/>31,<br/>2008</b> |
| Impaired loans were as follows:         |                                   |                                  |
| Loans with no allowance allocated       | \$ 79,544                         | \$ 29,602                        |
| Loans with allowance allocated          | 22,718                            | 17,613                           |
| Amount of allowance allocated           | 5,557                             | 2,651                            |
| Nonperforming loans were as follows:    |                                   |                                  |
| Loans past due 90 days still on accrual | \$ 1,531                          | \$ 509                           |
| Nonaccrual loans                        | 67,147                            | 30,926                           |
| Total                                   | \$ 68,678                         | \$ 31,435                        |

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

Basic earnings or loss per share ( EPS ) of common stock is computed by dividing net income (loss) available to common shareholders 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 (loss) available to common shareholders by the weighted average number of common shares and potential common shares outstanding during the period. Stock options, warrants and restricted common shares are regarded as potential common shares. Potential common shares are computed using the treasury stock method. For the three and nine months ended September 30, 2009, 1,058,573 options and warrants are excluded from the effect of dilutive securities because they are anti-dilutive; 371,205 options are similarly excluded from the effect of dilutive securities for the three and nine months ended September 30, 2008. The following is a reconciliation of the numerators and denominators used in the basic and diluted earnings per share computations for the three and nine months ended September 30, 2009 and 2008:

|   | <b>Three Months Ended<br/>September 30,<br/>2009</b> |            | <b>2008</b> |            |
|---|--|------------|-------------|------------|
| <b>Basic Earnings (Loss) Per Share</b>  |  |            |             |            |
| Net income (loss)   | \$   | (6,498)    | \$          | 1,234      |
| Less: preferred stock dividends and accretion of discount on warrants   |  | 1,250      |             |            |
| Net income (loss) available to common shareholders  | \$   | (7,748)    | \$          | 1,234      |
| Weighted average common shares outstanding  |  | 13,070,216 |             | 12,931,774 |
| Basic earnings (loss) per share   | \$   | (0.59)     | \$          | 0.10       |
| <b>Diluted Earnings (Loss) Per Share</b>  |  |            |             |            |
| Net income (loss)   | \$   | (6,498)    | \$          | 1,234      |
| Less: preferred stock dividends and accretion of discount on warrants   |  | 1,250      |             |            |
| Net income (loss) available to common shareholders  | \$   | (7,748)    | \$          | 1,234      |
| Weighted average common shares outstanding  |  | 13,070,216 |             | 12,931,774 |
| Add: Dilutive effects of assumed conversions of restricted stock and exercises of stock options and warrants <sup>1</sup> |  |            |             | 15,844     |
| Weighted average common and dilutive potential common shares outstanding  |  | 13,070,216 |             | 12,947,618 |

|  |    |        |    |      |
|--|----|--------|----|------|
| Diluted earnings (loss) per share <sup>1</sup> | \$ | (0.59) | \$ | 0.10 |
|--|----|--------|----|------|

<sup>1</sup> Diluted earnings (loss) per share for the three months ended September 30, 2009 is calculated by using the weighted average common shares outstanding, instead of the diluted weighted average shares outstanding because all of the contingently issuable shares are anti-dilutive.

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**NOTE 4 EARNINGS PER SHARE OF COMMON STOCK (Continued)**

|   | <b>Nine Months Ended</b> |             |
|---|--------------------------|-------------|
|   | <b>September 30,</b>     |             |
|   | <b>2009</b>              | <b>2008</b> |
| <b>Basic Earnings (Loss) Per Share</b>  |                          |             |
| Net income (loss)   | \$ (151,868)             | \$ 9,874    |
| Less: preferred stock dividends and accretion of discount on warrants   | 3,732                    |             |
| Net income (loss) available to common shareholders  | \$ (155,600)             | \$ 9,874    |
| Weighted average common shares outstanding  | 13,067,798               | 12,931,538  |
| Basic earnings (loss) per share   | \$ (11.91)               | \$ 0.76     |
| <b>Diluted Earnings (Loss) Per Share</b>  |                          |             |
| Net income (loss)   | \$ (151,868)             | \$ 9,874    |
| Less: preferred stock dividends and accretion of discount on warrants   | 3,732                    |             |
| Net income (loss) available to common shareholders  | \$ (155,600)             | \$ 9,874    |
| Weighted average common shares outstanding  | 13,067,798               | 12,931,538  |
| Add: Dilutive effects of assumed conversions of restricted stock and exercises of stock options and warrants <sup>1</sup> |                          | 4,546       |
| Weighted average common and dilutive potential common shares outstanding  | 13,067,798               | 12,936,084  |
| Diluted earnings (loss) per share <sup>1</sup>  | \$ (11.91)               | \$ 0.76     |

<sup>1</sup> Diluted earnings (loss) per share for the nine months ended September 30,



2009 is calculated by using the weighted average common shares outstanding, instead of the diluted weighted average shares outstanding because all of the contingently issuable shares are anti-dilutive.

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**NOTE 5 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 non-interest 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 September 30, 2009</b> | <b>Bank</b>       | <b>Other<br/>Segments</b> | <b>Holding<br/>Company</b> | <b>Eliminations</b> | <b>Totals</b>     |
|--|-------------------|---------------------------|----------------------------|---------------------|-------------------|
| Net interest income (expense)                | \$ 18,729         | \$ 2,165                  | \$ (556)                   | \$                  | \$ 20,338         |
| Provision for loan losses                    | 17,770            | 705                       |                            |                     | 18,475            |
| Noninterest income                           | 8,894             | 540                       | 16                         | (261)               | 9,189             |
| Noninterest expense                          | 20,969            | 1,183                     | 474                        | (261)               | 22,365            |
| Income tax expense (benefit)                 | (4,804)           | 319                       | (330)                      |                     | (4,815)           |
| <b>Segment profit (loss)</b>                 | <b>\$ (6,312)</b> | <b>\$ 498</b>             | <b>\$ (684)</b>            | <b>\$</b>           | <b>\$ (6,498)</b> |

|   |              |           |          |    |              |
|---|--------------|-----------|----------|----|--------------|
| <b>Segment assets at September 30, 2009</b> | \$ 2,742,039 | \$ 42,453 | \$ 9,725 | \$ | \$ 2,794,217 |
|---|--------------|-----------|----------|----|--------------|

| <b>Three months ended September 30, 2008</b> | <b>Bank</b>     | <b>Other<br/>Segments</b> | <b>Holding<br/>Company</b> | <b>Eliminations</b> | <b>Totals</b>   |
|--|-----------------|---------------------------|----------------------------|---------------------|-----------------|
| Net interest income (expense)                | \$ 23,499       | \$ 1,935                  | \$ (1,050)                 | \$                  | \$ 24,384       |
| Provision for loan losses                    | 7,636           | 984                       |                            |                     | 8,620           |
| Noninterest income                           | 7,711           | 485                       | 32                         | (218)               | 8,010           |
| Noninterest expense                          | 20,347          | 1,289                     | 526                        | (218)               | 21,944          |
| Income tax expense (benefit)                 | 1,002           | 57                        | (463)                      |                     | 596             |
| <b>Segment profit (loss)</b>                 | <b>\$ 2,225</b> | <b>\$ 90</b>              | <b>\$ (1,081)</b>          | <b>\$</b>           | <b>\$ 1,234</b> |

|  |              |           |          |    |              |
|--|--------------|-----------|----------|----|--------------|
| <b>Segment assets at June 30, 2008</b> | \$ 2,963,181 | \$ 39,106 | \$ 9,754 | \$ | \$ 3,012,041 |
|--|--------------|-----------|----------|----|--------------|

| <b>Nine months ended September 30, 2009</b> | <b>Bank</b> | <b>Other<br/>Segments</b> | <b>Holding<br/>Company</b> | <b>Eliminations</b> | <b>Totals</b> |
|---|-------------|---------------------------|----------------------------|---------------------|---------------|
| Net interest income (expense)               | \$ 55,621   | \$ 6,416                  | \$ (2,090)                 | \$                  | \$ 59,947     |

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|                              |                     |                 |                   |           |                     |
|------------------------------|---------------------|-----------------|-------------------|-----------|---------------------|
| Provision for loan losses    | 41,756              | 2,088           |                   |           | 43,844              |
| Noninterest income           | 22,466              | 1,529           | 165               | (716)     | 23,444              |
| Noninterest expense          | 204,625             | 3,654           | 1,547             | (716)     | 209,110             |
| Income tax expense (benefit) | (17,314)            | 864             | (1,245)           |           | (17,695)            |
| <b>Segment profit (loss)</b> | <b>\$ (150,980)</b> | <b>\$ 1,339</b> | <b>\$ (2,227)</b> | <b>\$</b> | <b>\$ (151,868)</b> |

| <b>Nine months ended September 30, 2008</b> | <b>Bank</b>      | <b>Other Segments</b> | <b>Holding Company</b> | <b>Eliminations</b> | <b>Totals</b>   |
|---|------------------|-----------------------|------------------------|---------------------|-----------------|
| Net interest income (expense)               | \$ 71,647        | \$ 5,743              | \$ (3,490)             | \$                  | \$ 73,900       |
| Provision for loan losses                   | 18,552           | 1,975                 |                        |                     | 20,527          |
| Noninterest income                          | 22,315           | 1,549                 | 209                    | (645)               | 23,428          |
| Noninterest expense                         | 56,906           | 3,838                 | 1,546                  | (645)               | 61,645          |
| Income tax expense (benefit)                | 6,448            | 579                   | (1,745)                |                     | 5,282           |
| <b>Segment profit (loss)</b>                | <b>\$ 12,056</b> | <b>\$ 900</b>         | <b>\$ (3,082)</b>      | <b>\$</b>           | <b>\$ 9,874</b> |

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**NOTE 5 SEGMENT INFORMATION (Continued)**Asset Quality Ratios

| As of and for the period ended September 30, 2009                                | Bank      | Other    | Total     |
|--|-----------|----------|-----------|
| Nonperforming loans as percentage of total loans, net of unearned income         | 3.24%     | 2.70%    | 3.27%     |
| Nonperforming assets as a percentage of total assets                             | 4.43%     | 2.89%    | 4.48%     |
| Allowance for loan losses as a percentage of total loans, net of unearned income | 2.24%     | 8.12%    | 2.39%     |
| Allowance for loan losses as a percentage of nonperforming loans                 | 69.13%    | 301.11%  | 73.09%    |
| YTD net charge-offs to average total loans, net of unearned income               | 1.86%     | 4.25%    | 1.93%     |
|  |           |          |           |
| As of and for the period ended September 30, 2008                                | Bank      | Other    | Total     |
| Nonperforming loans as percentage of total loans, net of unearned income         | 1.74%     | 1.57%    | 1.75%     |
| Nonperforming assets as a percentage of total assets                             | 1.73%     | 1.69%    | 1.76%     |
| Allowance for loan losses as a percentage of total loans, net of unearned income | 1.37%     | 8.01%    | 1.50%     |
| Allowance for loan losses as a percentage of nonperforming loans                 | 78.93%    | 510.88%  | 85.56%    |
| YTD net charge-offs to average total loans, net of unearned income               | 0.77%     | 4.64%    | 0.84%     |
|  |           |          |           |
| As of and for the year ended December 31, 2008                                   | Bank      | Other    | Total     |
| Nonperforming loans as percentage of total loans, net of unearned income         | 1.38%     | 2.48%    | 1.41%     |
| Nonperforming assets as a percentage of total assets                             | 2.58%     | 2.57%    | 2.61%     |
| Allowance for loan losses as a percentage of total loans, net of unearned income | 2.06%     | 8.27%    | 2.20%     |
| Allowance for loan losses as a percentage of nonperforming loans                 | 149.59%   | 333.81%  | 155.28%   |
| Net charge-offs to average total loans, net of unearned income                   | 1.53%     | 6.42%    | 1.63%     |
|  |           |          |           |
| Net charge-offs  | Bank      | Other    | Total     |
| For the nine month period ended September 30, 2009                               | \$ 40,662 | \$ 1,797 | \$ 42,459 |
| For the nine month period ended September 30, 2008                               | \$ 17,950 | \$ 1,832 | \$ 19,782 |
| For the year ended December 31, 2008   | \$ 35,564 | \$ 2,546 | \$ 38,110 |

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**NOTE 6 FAIR VALUE DISCLOSURES**

Fair value is defined 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. Accounting principles generally accepted in the United States of America ( GAAP ), 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 and these securities are classified as Level 1 or Level 2. 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 and are classified as Level 3.

**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 held for sale subjected to nonrecurring fair value adjustments as Level 2.

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**NOTE 6 FAIR VALUE DISCLOSURES (Continued)**

**Impaired 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 GAAP. 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 September 30, 2009, substantially all of the total impaired loans were evaluated based on either the fair value of the collateral or its liquidation value. In accordance with GAAP, 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.

**Other Real Estate**

Other real estate, consisting of properties obtained through foreclosure or in satisfaction of loans, is reported at the lower of cost or fair value, determined on the basis of current appraisals, comparable sales, and other estimates of value obtained principally from independent sources, adjusted for estimated selling costs. At the time of foreclosure, any excess of the loan balance over the fair value of the real estate held as collateral is treated as a charge against the allowance for loan losses. Gains or losses on sale and any subsequent adjustments to the value are recorded as a component of foreclosed real estate expense. Other real estate is included in Level 3 of the valuation hierarchy.

**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.

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**GREEN BANKSHARES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2009**

**Unaudited**

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

**NOTE 6 FAIR VALUE DISCLOSURES (Continued)**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<br>Carrying<br>Amount in<br>Statement of<br>Financial<br>Position | Assets/Liabilities<br>Measured at<br>Fair Value |
|-------------------------------------|------------------------------|-----------|---------|---|---|
|                                     | Level 1                      | Level 2   | Level 3 |   |   |
| <b>September 30, 2009</b>           |                              |           |         |   |   |
| Securities available for sale       |                              |           |         |   |   |
| U.S. government agencies            | \$                           | \$ 49,726 | \$      | \$ 49,726   | \$ 49,726                                       |
| States and political subdivisions   |                              | 32,400    |         | 32,400  | 32,400  |
| Collateralized mortgage obligations |                              | 55,082    |         | 55,082  | 55,082  |
| Mortgage-backed securities          |                              | 15,631    |         | 15,631  | 15,631  |
| Trust preferred securities          |                              | 1,302     | 796     | 2,098   | 2,098   |
| <b>December 31, 2008</b>            |                              |           |         |   |   |
| Securities available for sale       |                              |           |         |   |   |
| U.S. government agencies            | \$                           | \$ 98,806 | \$      | \$ 98,806   | \$ 98,806                                       |
| States and political subdivisions   |                              | 31,804    |         | 31,804  | 31,804  |
| Collateralized mortgage obligations |                              | 68,373    |         | 68,373  | 68,373  |
| Mortgage-backed securities          |                              | 2,086     |         | 2,086   | 2,086   |
| Trust preferred securities          |                              | 2,493     |         | 2,493   | 2,493   |

Level 3 Valuations

Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. Level 3 financial instruments also include those for which the determination of fair value requires significant management judgment or estimation.

Currently the Company has one trust preferred security that is considered Level 3, for more information on this security please refer to Note 2 Securities.

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**GREEN BANKSHARES, INC.**  
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**September 30, 2009**

**Unaudited**

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

**NOTE 6 FAIR VALUE DISCLOSURES (Continued)**

The following table shows a reconciliation of the beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs.

|   | <b>Three Months<br/>Ended<br/>September 30,<br/>2009</b> | <b>Nine Months<br/>Ended<br/>September 30,<br/>2009</b> |
|---|--|---|
| Beginning balance                           | \$ 1,299   | \$  |
| Total gains or (loss) (realized/unrealized) |  |   |
| Included in earnings                        | (503)  | (732)   |
| Included in other comprehensive income      |  |   |
| Paydowns and maturities                     |  |   |
| Transfers into Level 3                      |  | 1,528   |
| Ending balance September 30, 2009           | \$ 796   | \$ 796  |

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 GAAP. 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.

| <b>Description</b>                | <b>Fair Value Measurement Using</b> |                |                | <b>Total<br/>Carrying<br/>Amount in<br/>Statement of<br/>Financial<br/>Position</b> | <b>Assets/Liabilities<br/>Measured at<br/>Fair Value</b> |
|-----------------------------------|-------------------------------------|----------------|----------------|---|--|
|                                   | <b>Level 1</b>                      | <b>Level 2</b> | <b>Level 3</b> |   |  |
| <b>September 30, 2009</b>         |                                     |                |                |   |  |
| Other real estate                 | \$                                  | \$             | \$ 23,646      | \$ 23,646   | \$ 23,646  |
| Impaired loans                    |                                     |                | 17,647         | 17,647  | 17,647   |
| <b>Total assets at fair value</b> | \$                                  | \$             | \$ 41,293      | \$ 41,293   | \$ 41,293  |
| <b>December 31, 2008</b>          |                                     |                |                |   |  |
| Impaired loans                    |                                     |                | 43,364         | 43,364  | 43,364   |
| <b>Total assets at fair value</b> | \$                                  | \$             | \$ 43,364      | \$ 43,364   | \$ 43,364  |

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**GREEN BANKSHARES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2009**

**Unaudited**

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

**NOTE 6 FAIR VALUE DISCLOSURES (Continued)**

The carrying value and estimated fair value of the Company's financial instruments are as follows at September 30, 2009 and December 31, 2008.

|   | September 30,<br>2009 |               | December 31,<br>2008 |               |
|---|-----------------------|---------------|----------------------|---------------|
|   | Carrying<br>Value     | Fair<br>Value | Carrying<br>Value    | Fair<br>Value |
| Financial assets:                                 |                       |               |                      |               |
| Cash and cash equivalents                         | \$ 346,131            | \$ 346,131    | \$ 198,358           | \$ 198,358    |
| Securities available for sale                     | 154,937               | 154,937       | 203,562              | 203,562       |
| Securities held to maturity                       | 636                   | 644           | 657                  | 601           |
| Loans held for sale                               | 1,064                 | 1,074         | 442                  | 445           |
| Loans, net  | 2,050,273             | 2,007,113     | 2,174,579            | 2,135,732     |
| FHLB and other stock                              | 12,734                | 12,734        | 13,030               | 13,030        |
| Cash surrender value of life insurance            | 29,997                | 29,997        | 29,539               | 29,539        |
| Accrued interest receivable                       | 9,063                 | 9,063         | 10,808               | 10,808        |
| Financial liabilities:                            |                       |               |                      |               |
| Deposit accounts                                  | \$ 2,223,873          | \$ 2,236,047  | \$ 2,184,147         | \$ 2,195,459  |
| Federal funds purchased and repurchase agreements | 25,294                | 25,294        | 35,302               | 35,302        |
| FHLB Advances and notes payable                   | 216,578               | 222,652       | 229,349              | 232,731       |
| Subordinated debentures                           | 88,662                | 70,453        | 88,662               | 74,570        |
| Accrued interest payable                          | 3,404                 | 3,404         | 6,828                | 6,828         |

The following methods and assumptions were used to estimate the fair values for financial instruments that are not disclosed previously in this note. The carrying amount is considered to estimate fair value for cash and short-term instruments, demand deposits, liabilities for repurchase agreements, variable rate loans or deposits that reprice frequently and fully, and accrued interest receivable and payable. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, the fair value is estimated by discounted cash flow analysis using current market rates for the estimated life and credit risk. Liabilities for FHLB advances and notes payable are estimated using rates of debt with similar terms and remaining maturities. The fair value of off-balance sheet items is based on the current fees or costs that would be charged to enter into or terminate such arrangements, which is not material. The fair value of commitments to sell loans is based on the difference between the interest rates at which the loans have been committed to sell and the quoted secondary market price for similar loans, which is not material.

**NOTE 7 SUBSEQUENT EVENTS**

Management evaluated subsequent events through November 09, 2009, the date the financial statements were available to be issued. Material events or transactions occurring after September 30, 2009 but prior to November 09, 2009 that provided additional evidence about conditions that existed at September 30, 2009 have been recognized in the financial statements for the period ended September 30, 2009. Events or transactions that provided evidence about conditions that did not exist at September 30, 2009 but arose before the financial statements were available to be issued have not been recognized in the financial statements for the period ended September 30, 2009.

(Continued)



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

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, 2008 (the "2008 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, projections, 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 Part II, Item 1A Risk Factors and (1) deterioration in the financial condition of borrowers resulting in significant increases in loan losses and provisions for those losses; (2) continuation of the historically low short-term interest rate environment; (3) changes in loan underwriting, credit review or loss reserve policies associated with economic conditions, examination conclusions, or regulatory developments; (4) increased competition with other financial institutions in the markets that the Bank serves; (5) greater than anticipated deterioration or lack of sustained growth in the national or local economies; (6) rapid fluctuations or unanticipated changes in interest rates; (7) the impact of governmental restrictions on entities participating in the Capital Purchase Program of the United States Department of the Treasury; (8) changes in state and federal legislation, regulations or policies applicable to banks or other financial service providers, including regulatory or legislative developments arising out of current unsettled conditions in the economy and (9) the loss of key personnel, as well as other factors discussed throughout this document, including, without limitation the factors described under Critical Accounting Policies and Estimates on page 23 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 below under Part II, Item 1A Risk Factors. 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.**

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 September 30, 2009 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 64 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.

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On December 23, 2008, we entered into a Securities Purchase Agreement – Standard Terms with the U.S. Department of Treasury ( the Treasury ), pursuant to which we agreed to issue and sell, and the Treasury agreed to purchase, (i) 72,278 shares of our Fixed Rate Cumulative Perpetual Preferred Stock, Series A, having a liquidation preference of \$1,000 per share, and (ii) a ten year warrant to purchase up to 635,504 shares of our common stock, \$2.00 par value, at an initial exercise price of \$17.06 per share. The warrant was immediately exercisable upon its issuance and will expire on December 23, 2018.

**Growth and Business Strategy**

The Company expects that over the short term, given the current economic environment, there will be little to no growth until this recessionary environment stabilizes and the economy begins to improve.

The Company s long-term strategic plan outlines 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 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 Saturday and Sunday banking. The Bank also offers free online banking along with its High Performance Checking Program which since its inception has generated a significant number of core transaction accounts.

In addition to the Company s business model, which is summarized in the paragraphs above and the Company s Annual Report on Form 10-K, the Company is continuously investigating and analyzing other lines and areas of business. 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 net loss for the nine month period ended September 30, 2009, before dividend and related costs associated with the issuance of Preferred Stock to the Treasury, was negatively impacted by a non-cash pre-tax goodwill impairment charge of \$143.4 million resulting in a net loss of \$151.8 million. The net loss applicable to common shareholders totaled \$155.6 million for the nine months ended September 30, 2009. The non-cash goodwill impairment charge had no impact on the Company s regulatory capital ratios or its tangible common equity to tangible assets ratio. Tangible common equity is total stockholders equity minus preferred stock and intangible assets and is a non-GAAP financial measure. Tangible assets are total assets minus intangible assets. The Company s net loss for the three months ended September 30, 2009 totaled \$6,498,000 and was principally the result of continued higher credit costs incurred during the period. The net loss available to common shareholders for the third quarter of 2009 was \$7,748,000 reflecting the dividends and related costs associated with the issuance of Preferred Stock to the U.S. Treasury.

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At year-end the Company obtained an independent evaluation of goodwill based upon a discounted present value analysis of cash flows. The results obtained at that time, compared with the market price of the stock at year-end, indicated that there was no goodwill impairment. During the latter part of the first quarter of 2009, the Company's stock price began to decline and by the end of the quarter the stock price was trading relatively close to tangible book value. In the Company's 2009 first quarter Form 10-Q, the Company indicated that it would monitor this situation closely and if this condition were deemed to be other than a temporary aberration in the market, it would re-evaluate goodwill for impairment. During the second quarter of 2009, the Company's stock price declined from a high of \$9.73 per share to a low of \$4.14 per share, closing on June 30, 2009 at \$4.48 per share. From the end of June 2009 we consistently observed the price of the Company's stock trading in the mid \$3.00 per share range. Short sale activity in the Company's stock continued to escalate and totaled 2,510,519 shares by June 30, 2009 or 19.1% of outstanding shares. During the latter part of the second quarter, the Company performed an interim impairment valuation analysis on its intangible assets and placed more emphasis on the trading value of the Company's stock due to the steep market price decline and the duration of time its stock was trading below both book value and tangible book value. As previously mentioned in our annual report on Form 10-K, our annual evaluation performed at year-end 2008 placed more emphasis on a discounted cash flow model. As a result of the continued and prolonged decline in the second quarter of the Company's stock price, compared with the tangible common book value of \$11.88 per share at June 30, 2009, the non-cash goodwill impairment charge was deemed appropriate. During the final days of June, the Company's stock was removed from the Russell 3000 Index based upon the Russell's market capitalization criteria and on June 25, 2009, 2,286,900 shares of the Company's stock was traded during market hours as institutional investors rebalanced their positions creating significant downward pressure on the price of the Company's stock price. This event, in conjunction with the adverse trend noted during the quarter in updated real estate valuations, created a triggering event for the revaluation of goodwill impairment at June 30, 2009. The Company undertook a Step 2 analysis of goodwill in accordance with GAAP, based upon the then current market value of the Company's stock price, relative to tangible book value, and determined that the Goodwill Impairment charge was appropriate. The previously described events were not existing at either December 31, 2008 or March 31, 2009.

The table below is provided to better facilitate an understanding of the earnings fundamentals of the Company exclusive of the goodwill impairment charge and presents certain non-GAAP financial measures:

**GREEN BANKSHARES, INC.**  
**Reconciliation of Non-GAAP Measures**  
*(Dollars in thousands)*

|  | <b>Three Months Ended</b> |                           | <b>Nine Months Ended</b>  |                           |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
|  | <b>Sept. 30,<br/>2009</b> | <b>Sept. 30,<br/>2008</b> | <b>Sept. 30,<br/>2009</b> | <b>Sept. 30,<br/>2008</b> |
| Total non-interest expense                         | \$ 22,365                 | \$ 21,944                 | \$ 209,110                | \$ 61,645                 |
| Goodwill impairment charge                         |                           |                           | (143,389)                 |                           |
| Operating expenses                                 | \$ 22,365                 | \$ 21,944                 | \$ 65,721                 | \$ 61,645                 |
| Net income (loss) available to common shareholders | \$ (7,748)                | \$ 1,234                  | \$ (155,600)              | \$ 9,874                  |
| Goodwill impairment charge, net of tax             |                           |                           | 137,414                   |                           |
| Net operating income (loss)                        | \$ (7,748)                | \$ 1,234                  | \$ (18,186)               | \$ 9,874                  |
| <b>Per Diluted Share:</b>                          |                           |                           |                           |                           |
|  | \$ (0.59)                 | \$ 0.10                   | \$ (11.91)                | \$ 0.76                   |

|  |    |        |    |       |                   |
|--|----|--------|----|-------|-------------------|
| Net income (loss) available to common shareholders |    |        |    |       |                   |
| Goodwill impairment charge, net of tax             |    |        |    | 10.51 |                   |
| Net operating income (loss)                        | \$ | (0.59) | \$ | 0.10  | \$ (1.40) \$ 0.76 |

The Company believes that the exclusion of goodwill impairment in expressing net operating income (loss), operating expenses and earnings (loss) per share data provides a more meaningful base for period to period comparisons which will assist the reader in analyzing the operating results of the Company and predicting operating performance. The Company utilizes these non-GAAP financial measures to compare the operating performance with comparable periods in prior years and with internally prepared projections.



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For the third quarter of 2009, the net loss available to common shareholders was \$7,748 compared with a net loss of \$151,400 in the second quarter of 2009 and net income of \$1,234 in the third quarter of 2008. The third quarter 2009 net loss available to common shareholders of \$7,748 was primarily the result of a higher loan loss provision driven by net loan charge-offs. During the third quarter of 2009, the Company reported a modest decline in non-performing asset levels as well as loan delinquencies. At September 30, 2009 the Company's non-performing assets totaled \$125,091 compared with \$129,177 at the end of the second quarter of 2009 and \$52,956 at September 30, 2008. Net loan charge-offs during the current quarter were \$18,436 compared with \$23,281 for the second quarter of 2009 and \$9,115 for the third quarter of 2008. At the end of the current quarter, the Company's loan loss reserve coverage to total loans was 2.39% compared with 2.30% at June 30, 2009 and 1.50% at September 30, 2008.

The Company reported a net loss available to common shareholders of \$7,748 for the third quarter of 2009 compared with net income of \$1,234 for the same period a year ago. The decline from 2008 was primarily the result of a lower level of net interest income, a higher loan loss provision and a modest increase in non-interest expenses.

On a year-to-date basis, the Company reported a net loss available to common shareholders of \$155,600 through the third quarter of 2009 compared with net income of \$9,874 in the same period last year. The principal reasons for the year-to-date decline was the non-cash goodwill impairment charge taken in the second quarter of 2009, a higher loan loss provision, reduced net interest income resulting from carrying a higher level of non-performing assets and higher operating expenses driven by greater FDIC insurance expense and OREO related costs.

At September 30, 2009, the Company had total consolidated assets of \$2,794,217, total consolidated deposits of \$2,214,761, total consolidated loans, net of unearned income, of \$2,099,267 and total consolidated shareholders' equity of \$227,388.

**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 \$50,196, or 2.39% of total loans, net of unearned income, was an adequate estimate of losses inherent in the loan portfolio as of September 30, 2009. This estimate resulted in a provision for loan losses in the income statement of \$18,475 and \$43,844, respectively, for the three and nine months ended September 30, 2009. 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.

Goodwill and intangible assets that have indefinite useful lives are generally evaluated for impairment annually, in December of each year. Goodwill and intangible assets may be more regularly monitored for impairment as part of the Company's review of its assets if events and circumstances occur between annual tests that would suggest that the fair value of a reporting unit might have declined below its carrying value. As discussed above, goodwill was evaluated

for impairment due to the steep and prolonged decline of the Company's stock price relative to its tangible net book value during the second quarter of 2009 and a goodwill impairment charge was taken.

**Table of Contents****Changes in Results of Operations**

**Net Income (Loss).** Net income (loss) available to common shareholders for the three months ended September 30, 2009 was (\$7,748), as compared to \$1,234 for the same period in 2008. This decrease of \$8,982 resulted primarily from the increased provision for loan losses of \$9,855 compared to third quarter of 2008. Third quarter 2009 net interest income totaled \$20,338 compared with \$24,384 during the year ago period and declined as a result of a narrowing in the net interest margin from 3.72% in the third quarter of last year to 3.33% in the 2009 third quarter plus the negative impact on net interest income of carrying a higher level of non-interest earning assets. Non-interest income increased by \$1,179 from the third quarter of last year and totaled \$9,189 for the 2009 third quarter. The increase was principally the result of \$933 of securities gains realized, \$305 of insurance proceeds received, \$163 from a gain on the sale of undeveloped land adjacent to a branch and a \$376 increase in service charges on deposit accounts. These increases were partially offset by a security impairment charge of \$503. Total non-interest expenses amounted to \$22,365 during the quarter compared with \$21,944 during the same period last year. The principal expense items driving this increase, compared to the same period a year ago, were higher real estate foreclosure losses of \$1,636; an increase in FDIC deposit insurance costs of \$401 and other expenses of \$669. These increases were offset by a decrease in employee compensation and benefits of \$2,317 as a result of a lower number of full time equivalent employees, the elimination of the Company's 401(k) contribution and the suspension of employee cash incentives necessary to control cost during this economic environment.

**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 September 30, 2009, net interest income was \$20,338, as compared to \$24,384 for the same period in 2008, representing a decrease of 16%. This decrease of \$4,046 in net interest income resulted primarily from the contraction of the net interest margin plus the income impact of carrying a higher level of non-interest earning assets.

The Company's average balance for interest-earning assets decreased 7% from \$2,625,820 for the three months ended September 30, 2008 to \$2,442,977 for the three months ended September 30, 2009. The primary reason for the decline in interest-earning assets was the movement of loans to non-performing assets as the recession continued.

The Company's average balance for interest-bearing liabilities decreased 5% from \$2,450,824 for the three months ended September 30, 2008 to \$2,326,147 for the three months ended September 30, 2009 as the Company reduced its reliance on short-term borrowings and brokered deposits while focusing on building core deposit levels throughout its branch network.

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The Company's yield on loans (the largest component of interest-earning assets) decreased by 42 basis points from the third quarter of 2008 to the third quarter of 2009 principally due to a decline in market rates, offset in part by the establishment of interest rate floors on loans originated since 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 175 basis points during this period of time as detailed below.

| FOMC Meeting Date  | Beginning Rate | Increase/Decrease | Ending Rate   |
|--------------------|----------------|-------------------|---------------|
| 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%         |
| April 30, 2008     | 2.25%          | (0.25%)           | 2.00%         |
| June 25, 2008      | 2.00%          | 0.00%             | 2.00%         |
| August 6, 2008     | 2.00%          | 0.00%             | 2.00%         |
| September 16, 2008 | 2.00%          | 0.00%             | 2.00%         |
| September 29, 2008 | 2.00%          | 0.00%             | 2.00%         |
| October 7, 2008    | 2.00%          | (0.50%)           | 1.50%         |
| October 29, 2008   | 1.50%          | (0.50%)           | 1.00%         |
| December 16, 2008  | 1.00%          | (0.75%) - (1.00%) | 0.00% - 0.25% |
| January 28, 2009   | 0.00% - 0.25%  | 0.00%             | 0.00% - 0.25% |
| March 17, 2009     | 0.00% - 0.25%  | 0.00%             | 0.00% - 0.25% |
| April 30, 2009     | 0.00% - 0.25%  | 0.00%             | 0.00% - 0.25% |
| June 25, 2009      | 0.00% - 0.25%  | 0.00%             | 0.00% - 0.25% |
| August 12, 2009    | 0.00% - 0.25%  | 0.00%             | 0.00% - 0.25% |
| September 23, 2009 | 0.00% - 0.25%  | 0.00%             | 0.00% - 0.25% |

The Company's cost of interest-bearing liabilities decreased by 48 basis points from the third quarter ended September 30, 2008 to the third quarter ended September 30, 2009. 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 62% 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<br/>September 30,</b> |           |                 |                    |           |                 |
|---|---|-----------|-----------------|--------------------|-----------|-----------------|
|   | <b>2009</b>                                 |           | <b>2008</b>     |                    |           |                 |
|   | Average<br>Balance                          | Interest  | Average<br>Rate | Average<br>Balance | Interest  | Average<br>Rate |
| <b>Interest-earning assets:</b>                                       |   |           |                 |                    |           |                 |
| Loans <sup>(1) (2)</sup>  | \$ 2,075,096                                | \$ 32,577 | 6.23%           | \$ 2,302,465       | \$ 38,510 | 6.65%           |
| Investment securities <sup>(2)</sup>                                  | 184,433                                     | 2,305     | 4.96%           | 306,616            | 4,154     | 5.39%           |
| Other short-term investments  | 183,448                                     | 102       | 0.22%           | 16,739             | 87        | 2.07%           |
| Total interest-earning assets   | \$ 2,442,977                                | \$ 34,984 | 5.68%           | \$ 2,625,820       | \$ 42,751 | 6.48%           |
| Non-interest earning assets   | 303,665                                     |           |                 | 373,449            |           |                 |
| Total assets  | \$ 2,746,642                                |           |                 | \$ 2,999,269       |           |                 |
| <b>Interest-bearing liabilities:</b>                                  |   |           |                 |                    |           |                 |
| Deposits:   |   |           |                 |                    |           |                 |
| Interest checking, savings and money market                           | \$ 870,091                                  | \$ 3,163  | 1.44%           | \$ 617,156         | \$ 2,146  | 1.38%           |
| Time deposits   | 1,121,349                                   | 8,317     | 2.94%           | 1,440,693          | 12,199    | 3.37%           |
| Total interest-bearing deposits                                       | \$ 1,991,440                                | \$ 11,480 | 2.29%           | \$ 2,057,849       | \$ 14,345 | 2.77%           |
| Securities sold under repurchase agreements and short-term borrowings | 25,454                                      | 6         | 0.09%           | 74,385             | 262       | 1.40%           |
| Notes payable   | 220,591                                     | 2,416     | 4.35%           | 229,928            | 2,525     | 4.37%           |
| Subordinated debentures   | 88,662                                      | 556       | 2.49%           | 88,662             | 1,050     | 4.71%           |
| Total interest-bearing liabilities                                    | \$ 2,326,147                                | \$ 14,458 | 2.47%           | \$ 2,450,824       | \$ 18,182 | 2.95%           |
| <b>Non-interest bearing liabilities:</b>                              |   |           |                 |                    |           |                 |
| Demand deposits   | 160,653                                     |           |                 | 193,566            |           |                 |
| Other liabilities   | 22,872                                      |           |                 | 24,698             |           |                 |
| Total non-interest bearing liabilities                                | 183,525                                     |           |                 | 218,264            |           |                 |
| Total liabilities   | 2,509,672                                   |           |                 | 2,669,088          |           |                 |

|  |              |              |
|--|--------------|--------------|
| Shareholders' equity                       | 236,970      | 330,181      |
| Total liabilities and shareholders' equity | \$ 2,746,642 | \$ 2,999,269 |
| Net interest income                        | \$ 20,526    | \$ 24,569    |
| Interest rate spread                       | 3.22%        | 3.53%        |
| Net yield on interest-earning assets       | 3.33%        | 3.72%        |

<sup>1</sup> Average loan balances excluded nonaccrual loans for the periods presented.

<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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|   | <b>Nine Months Ended<br/>September 30,</b> |            |                 |                    |            |                 |
|---|--|------------|-----------------|--------------------|------------|-----------------|
|   | <b>2009</b>                                |            | <b>2008</b>     |                    |            |                 |
|   | Average<br>Balance                         | Interest   | Average<br>Rate | Average<br>Balance | Interest   | Average<br>Rate |
| <b>Interest-earning assets:</b>   |  |            |                 |                    |            |                 |
| Loans <sup>(1) (2)</sup>  | \$ 2,125,547                               | \$ 97,771  | 6.15%           | \$ 2,322,510       | \$ 120,698 | 7.09%           |
| Investment securities <sup>(2)</sup>  | 198,741                                    | 7,628      | 5.13%           | 266,453            | 11,132     | 5.70%           |
| Other short-term investments  | 105,011                                    | 183        | 0.23%           | 7,254              | 111        | 2.09%           |
| Total interest-earning assets   | \$ 2,429,299                               | \$ 105,582 | 5.81%           | \$ 2,596,217       | \$ 131,941 | 6.95%           |
| Non-interest earning assets   | 369,023                                    |            |                 | 362,035            |            |                 |
| Total assets  | \$ 2,798,322                               |            |                 | \$ 2,958,252       |            |                 |
| <b>Interest-bearing liabilities:</b>  |  |            |                 |                    |            |                 |
| Deposits:   |  |            |                 |                    |            |                 |
| Interest checking, savings and<br>money market                              | \$ 742,643                                 | \$ 7,557   | 1.36%           | \$ 663,195         | \$ 7,726   | 1.63%           |
| Time deposits   | 1,190,412                                  | 28,087     | 3.15%           | 1,270,940          | 35,931     | 4.03%           |
| Total interest-bearing deposits   | \$ 1,933,055                               | \$ 35,644  | 2.47%           | \$ 1,934,135       | \$ 43,657  | 3.15%           |
| Securities sold under<br>repurchase agreements and<br>short-term borrowings | 28,872                                     | 22         | 0.10%           | 128,057            | 2,054      | 2.32%           |
| Notes payable   | 226,314                                    | 7,328      | 4.33%           | 262,405            | 8,268      | 4.14%           |
| Subordinated debentures   | 88,662                                     | 2,091      | 3.15%           | 88,662             | 3,490      | 5.53%           |
| Total interest-bearing<br>liabilities                                       | \$ 2,276,903                               | \$ 45,085  | 2.65%           | \$ 2,413,259       | \$ 57,469  | 3.30%           |
| <b>Non-interest bearing<br/>liabilities:</b>                                |  |            |                 |                    |            |                 |
| Demand deposits   | 163,713                                    |            |                 | 188,737            |            |                 |
| Other liabilities   | 22,359                                     |            |                 | 25,480             |            |                 |
| Total non-interest bearing<br>liabilities                                   | 186,072                                    |            |                 | 214,217            |            |                 |
| Total liabilities   | 2,462,975                                  |            |                 | 2,627,476          |            |                 |
| Shareholders' equity  | 335,347                                    |            |                 | 330,776            |            |                 |
|   | \$ 2,798,322                               |            |                 | \$ 2,958,252       |            |                 |



Total liabilities and  
shareholders' equity

|   |           |           |
|---|-----------|-----------|
| Net interest income                     | \$ 60,497 | \$ 74,472 |
| Interest rate spread                    | 3.16%     | 3.61%     |
| Net yield on interest-earning<br>assets | 3.33%     | 3.83%     |

<sup>1</sup> Average loan  
balances  
excluded  
nonaccrual  
loans for the  
periods  
presented.

<sup>2</sup> 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 and nine months ended September 30, 2009, loan charge-offs were \$19,224 and \$47,591, respectively and recoveries of charged-off loans were \$788 and \$5,132. The Company's provision for loan losses increased to \$18,475 for the three months ended September 30, 2009, as compared to \$8,620 for the same period in 2008. Compared with the second quarter of 2009, the provision for loan losses declined by \$5,909 as the Company experienced lower loan defaults during the third quarter with net loan charge-offs declining from \$23,281 in the second quarter to \$18,436 during the third quarter. The Company's allowance for loan losses increased by \$1,385 to \$50,196 at September 30, 2009 from \$48,811 at December 31, 2008 and the reserve to outstanding loans ratio increased 19 basis points to 2.39% from 2.20% at December 31, 2008 and also increased 89 basis points from the ratio of 1.50% at September 30, 2008. Credit quality ratios have generally declined since September 30, 2007, principally as a result of the prolonged deterioration of the residential real estate construction and development market, beginning in 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 risk and control management. The ratio of allowance for loan losses to nonperforming loans was 73.09%, 155.28% and 85.56% at September 30, 2009, December 31, 2008 and September 30, 2008, respectively, and the ratio of nonperforming assets to total assets was 4.48%, 2.61% and 1.76% at September 30, 2009, December 31, 2008 and September 30, 2008, respectively. The ratio of nonperforming loans to total loans, net of unearned interest, was 3.27%, 1.41% and 1.75% at September 30, 2009, December 31, 2008 and September 30, 2008, respectively. Within the Bank, the Company's largest subsidiary, the ratio of nonperforming assets to total assets was 4.43%, 2.58% and 1.73% at September 30, 2009, December 31, 2008 and September 30, 2008, respectively.

Based on management's calculation, an allowance of \$50,196, or 2.39% of total loans, net of unearned income, was an adequate estimate of losses inherent in the loan portfolio as of September 30, 2009. This estimate resulted in a provision for loan losses in the income statement of \$18,475 and \$43,844, respectively, for the three and nine months ended September 30, 2009. 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 Company's year-to-date net charge-offs as a percentage of average loans increased from 0.84% (annualized 1.12%) for the three months ended September 30, 2008 to 1.93% (annualized 2.57%) for the three months ended September 30, 2009. Net charge-offs as a percentage of average loans were 1.63% for the year ended December 31, 2008.

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 suggest an economic slowdown in the Company's markets has and will continue to occur throughout 2009. 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 September 30, 2009. However, the provision for loan losses could further increase for the entire year of 2009 if the general economic conditions continue to weaken or the residential real estate markets in Nashville, Knoxville or the Company's other markets or the financial conditions of borrowers deteriorate beyond management's current expectations.

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

Total non-interest income for the three and nine months ended September 30, 2009 was \$9,189 and \$23,444 as compared to \$8,010 and \$23,428, respectively, for the same period in 2008. Service charges, commissions and fees remain the largest component of total non-interest income and increased slightly from \$6,070 and \$17,525 for the three and nine months ended September 30, 2008 to \$6,446 and \$17,597, respectively, for the same periods in 2009. The Company continues to see solid growth in net new checking account customers due to its High Performance Checking Program, as evidenced by the 13,329 net new accounts opened during the first nine months of 2009; however, the service charges and NSF fees associated with this product have increased modestly. The Company believes that as the economy begins to recover, non-interest income will continue to increase given the expansion of its customer base. Non-interest income included securities gains of \$933 for the three and nine months ended

September 30, 2009 and \$72 for the same periods in 2008. Security impairment losses of \$503 and \$732 decreased non-interest income for the three and nine months ended September 30, 2009, respectively. In addition other non-interest income increased by \$423 to \$1,086 for the three months ended September 30, 2009, as compared to \$663 in the same period in 2008. The increase was primarily due to a gain from insurance proceeds. Other non-interest income of \$2,423 for the nine month period ended September 30, 2009 increased slightly over the comparable period in 2008.

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**Non-interest Expense.** Control of non-interest expense is a critical aspect in enhancing income. Non-interest expense includes personnel, occupancy, and other expenses such as goodwill impairment charges, write-downs on OREO, data processing, printing and supplies, legal and professional fees, postage, Federal Deposit Insurance Corporation ( FDIC ) assessment, etc. Total non-interest expense was \$22,365 and \$209,110, respectively, for the three and nine months ended September 30, 2009 compared to \$21,944 and \$61,645 for the same periods in 2008. The \$421 increase in total non-interest expense for the three months ended September 30, 2009 compared to the same period of 2008 was principally the result of higher OREO related costs partially offset by the reduction in employee benefit costs. The increase in non-interest expenses of \$147,465 for the nine month period ended September 30, 2009 primarily reflects the one-time charge for goodwill impairment of \$143,389, higher FDIC deposit insurance costs of \$2,888 and an increase of \$3,983 in OREO related costs.

Personnel costs are the primary element of the Company's recurring non-interest expenses. For the three and nine months ended September 30, 2009, employee compensation and benefits represented \$7,841, or 35%, and \$26,121, or 40% of total non-interest expense, excluding the one-time charge for goodwill impairment of \$143,389. This was a decrease of \$2,317, or 23% and \$3,142, or 11%, respectively, from the \$10,158 and \$29,263 for the three and nine months ended September 30, 2008. These decreases are the result of fewer full time equivalent employees and a reduction in employee benefit costs. Including Bank branches and non-bank office locations the Company had 75 locations at September 30, 2009 and December 31, 2008, as compared to 76 at September 30, 2008, and the number of full-time equivalent employees declined from 789 at September 30, 2008 to 721 at September 30, 2009.

The increases in FDIC assessments were due to changes in the fee assessment rates during 2009 and a special assessment applied to all insured institutions as of June 30, 2009. With regard to the increase in fee assessment rates, the FDIC finalized a rule in December 2008 that raised the then current assessment rates uniformly by 7 basis points for the first quarter of 2009 assessment. The new rule resulted in annualized assessment rates for Risk Category 1 institutions, like the Company, ranging from 12 to 14 basis points. In February 2009, the FDIC issued final rules to amend the deposit insurance fund restoration plan, change the risk-based assessment system and set assessment rates for Risk Category 1 institutions beginning in the second quarter of 2009. The new initial base assessment rates for Risk Category 1 institutions range from 12 to 16 basis points, on an annualized basis, and from 7 to 24 basis points after the effect of potential base-rate adjustments, in each case depending upon various factors. The increase in deposit insurance expense during the nine months ended September 30, 2009 compared to the same period a year ago was also partly related to the Company's utilization of available credits to offset assessments during the first nine months of 2008. The increases were also partly related to the additional 10 basis point assessment paid on covered transaction accounts exceeding \$250 under the Temporary Liquidity Guaranty Program.

In May 2009, the FDIC issued a final rule which levied a special assessment applicable to all insured depository institutions totaling 5 basis points of each institution's total assets less Tier 1 capital as of June 30, 2009, not to exceed 10 basis points of domestic deposits. The special assessment is part of the FDIC's efforts to rebuild the Deposit Insurance Fund ( DIF ). Deposit insurance expense during the nine months ended September 30, 2009 included a \$1.2 million accrual related to the special assessment. The final rule also allows the FDIC to impose additional special assessments of 5 basis points for the third and fourth quarters of 2009, if the FDIC estimates that the DIF reserve ratio will fall to a level that would adversely affect public confidence in federal deposit insurance or to a level that would be close to or below zero. Any additional special assessment is expected to be capped at 10 basis points of domestic deposits. The Company cannot provide any assurance as to the ultimate amount or timing of any such special assessments, should such special assessments occur, as such special assessments depend upon a variety of factors which are beyond the Company's control.

In September 2009, the FDIC proposed a rule that, in lieu of a further special assessment in 2009, will require all insured depository institutions, with limited exceptions, to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. The FDIC also proposed to adopt a uniform three basis point increase in assessment rates effective on January 1, 2011. If the rule is finalized as proposed, the Company expects to be required to prepay approximately \$12.5 million in risk-based assessments.

**Income Taxes.** The effective income tax rate for the three and nine months ended September 30, 2009 was 42.56% and 10.44%, respectively, compared to 32.56% and 34.85% for the same period in 2008. The effective tax rate for the

nine month period ended September 30, 2009 was lower than the statutory tax rates primarily due to the goodwill impairment charge recognized during the second quarter 2009. The effective tax rate for this period reflects the tax treatment of the \$143,389 goodwill impairment charge, of which \$126,317 was non-deductible for tax purposes.

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At September 30, 2009, the Company had net deferred tax assets of \$10,228. GAAP requires companies to assess whether a valuation allowance should be established against their deferred tax assets based on the consideration of all available evidence using a more likely than not standard. The analysis performed as of September 30, 2009 determined that no valuation allowance was needed at this time. The deferred tax assets will be analyzed quarterly for changes affecting realization, and there can be no guarantee that a valuation allowance will not be necessary in future periods.

**Changes in Financial Condition**

Total assets at September 30, 2009 were \$2,794,217, a decrease of \$150,454, or 5%, from December 31, 2008. The decrease in assets was primarily reflective of the \$143,389 write-off of goodwill and decreases of \$124,123 in loans, net of unearned income and \$48,625 in securities available-for-sale. These decreases were offset by an increase of \$147,773 in cash and cash equivalents. The Company expects that its total assets will decline slightly over the remainder of 2009.

Non-performing assets ( NPA s ), which include non-accrual loans, loans past due 90 days or more and still accruing interest and other real estate owned and repossessed assets ( OREO ), totaled \$125,091 at September 30, 2009 compared with \$129,177 at June 30, 2009 and \$76,806 at December 31, 2008. During the nine month period ended September 30, 2009, the Company experienced an increase in net NPA s of \$48,285 as the economy continued to weaken and it continued its aggressive approach to identify and recognize NPA s.

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 \$68,678 at September 30, 2009, an increase of \$37,243 from December 31, 2008.

OREO totaled \$56,413 at September 30, 2009 compared with \$45,371 at December 31, 2008. During the first quarter of 2009, \$36,368 of OREO balances were returned to non-accrual loan status due to bankruptcy filings and the extended period of time required to achieve possession of the property. At the end of the third quarter of 2009, most of these properties have now been foreclosed and reside in OREO balances. Additionally, the Company received proceeds on the disposition of OREO totaling \$9,848 and it incurred a net loss on the disposition of OREO property of \$7,005 during the first nine months of 2009.

The Company s policy requires new appraisals on adversely rated collateral dependent loans and OREO to be obtained at least annually. On a quarterly basis, the Company receives a written report from an independent nationally recognized organization which provides updated valuation trends, by price point and by zip code, for each of the major markets in which the Company is conducting business. The information obtained is then used in the Company s FAS 114 impairment analysis of collateral dependent loans.

At September 30, 2009, the ratio of the Company s allowance for loan losses to non-performing loans (which include non-accrual loans) was 73.09% compared to 85.56% at September 30, 2008.

The Company maintains an investment portfolio to provide liquidity and earnings. Investments at September 30, 2009 with an amortized cost of \$153,528 had a market value of \$155,582. At year-end 2008, investments with an amortized cost of \$205,310 had a market value of \$204,163.

**Table of Contents****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 20% and 16% of the total liquidity base at September 30, 2009 and December 31, 2008, 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 September 30, 2009. The Company also maintains federal funds lines of credit totaling \$85,000 at four correspondent banks, of which \$85,000 was available at September 30, 2009. The Company believes it has sufficient liquidity to satisfy its current operating needs.

For the nine months ended September 30, 2009, operating activities of the Company provided \$31,078 of cash flows. This was primarily comprised of net income (loss) of (\$151,868), positively adjusted for (i) goodwill impairment of \$143,389, (ii) 43,844 in provision for loan losses, (iii) \$5,386 of depreciation and amortization and (iv) \$7,005 net loss on other real estate and repossessed assets. This was offset in part by an increase of \$11,664 in other assets and a decrease in accrued interest and other liabilities of \$4,808.

Maturities of \$98,193 and sales of \$25,822 in investment securities available for sale were the primary components of the \$112,902 in net cash provided from investing activities for the nine months ended September 30, 2009. During the first nine months of 2009, as the Treasury implemented its program of repurchasing \$1.3 trillion of previously issued Government Agency Securities, certain securities held by the Company were called, at par, resulting in no gain or loss to the Company. In addition, proceeds from the net change in loans of \$53,956 and the proceeds from the sale of other real estate of \$9,848 provided cash flows. These were offset by (i) \$72,094 in purchases of investment securities available for sale, and (ii) \$3,143 in premises and equipment expenditures.

The net increase in total deposits of \$30,614 was the primary source of cash flows provided in financing activities of \$3,793. The net increase in total deposits reflects a decrease in brokered deposits of \$302,540 and an increase in core customer deposits of \$333,154, as the Company, as well as other banks, experienced an inflow of deposit balances due to the economic environment. In addition, the net reduction in repurchase agreements of \$10,007, the repayment of notes payable of \$12,771, dividends paid on preferred stock of \$2,330 and dividends paid on common stock of \$1,713 offset the funds provided by the increase of total deposits.

**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. 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. During the second quarter of 2009, the Company suspended common stock dividends, in an abundance of caution, in order to preserve capital in these uncertain economic times.

Shareholders' equity on September 30, 2009 was \$227,388, a decrease of \$153,843, or 40%, from \$381,231 on December 31, 2008. The decrease in shareholders' equity primarily reflects net income (loss) available to common shareholders for the nine months ended September 30, 2009 of (\$155,600) and the common stock dividend payments during the nine months ended September 30, 2009 totaling \$1,713. These decreases were offset by the cumulative change of \$1,906 in unrealized gains, net of reclassification and taxes, on available for sale securities.

The Company's primary source of liquidity is dividends paid by the Bank. Under Tennessee law, the amount of dividends that may be declared by the Bank in a year without approval of the Tennessee Commissioner of Financial Institutions ( TCFI ) is limited to net income for that year combined with retained net income for the two preceding years. Further, any dividend payments are subject to the continuing ability of the Bank to maintain its compliance with minimum federal regulatory capital requirements and the Company's self-imposed restrictions to retain its characterization under federal regulations as a well-capitalized institution. Because of the Bank's year-to-date loss in 2009, dividends from the Bank to the Company, including funds for payment of dividends on preferred stock and trust



preferred, including the preferred stock issued to the Treasury, will require prior approval of the TCFI.

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Risk-based capital regulations adopted by the Board of Governors of the Federal Reserve Board ( FRB ) and 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 September 30, 2009, 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 September 30, 2009.

|                           | Required<br>Minimum<br>Ratio | Required<br>to be<br>Well<br>Capitalized | Bank   | Company |
|---------------------------|------------------------------|--|--------|---------|
| Tier 1 risk-based capital | 4.00%                        | 6.00%                                    | 13.17% | 13.39%  |
| Total risk-based capital  | 8.00%                        | 10.00%                                   | 14.43% | 14.65%  |
| Leverage Ratio            | 4.00%                        | 5.00%                                    | 10.49% | 10.60%  |

**Off-Balance Sheet Arrangements**

At September 30, 2009, the Company had outstanding unused lines of credit and standby letters of credit totaling \$283,042 and unfunded loan commitments outstanding of \$8,660. 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 September 30, 2009, the Company had accommodations with upstream correspondent banks for unsecured Federal funds lines of \$85,000. 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 September 30, 2009, which by their terms have contractual maturity dates subsequent to September 30, 2009:

|                                       | Less than 1<br>Year | 1-3 Years | 3-5 Years | More than 5<br>Years | Total    |
|---------------------------------------|---------------------|-----------|-----------|----------------------|----------|
| Commitments to make loans<br>fixed    | \$ 4,952            | \$        | \$        | \$                   | \$ 4,952 |
| Commitments to make loans<br>variable | 3,708               |           |           |                      | 3,708    |
| Unused lines of credit                | 143,565             | 18,521    | 10,458    | 80,264               | 252,808  |