

GREEN BANKSHARES, INC.

Form 10-Q

August 10, 2012

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

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2012

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Transition period from            to

Commission File Number 0-14289

**GREEN BANKSHARES, INC.**

(Exact name of registrant as specified in its charter)

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Tennessee  
(State or other jurisdiction of  
incorporation or organization)

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

100 North Main Street, Greeneville, Tennessee 37743-4992

(Address of principal executive offices) (Zip Code)

(423) 639-5111

(Registrant's telephone number, including area code)

Not Applicable

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

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

Common Stock, \$0.01 Par Value  
Class

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

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**GREEN BANKSHARES, INC.**

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For the Quarter Ended June 30, 2012

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

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

*See accompanying notes to consolidated financial statements*

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

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

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

*See accompanying notes to consolidated financial statements*

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

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

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

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



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

**Supplemental disclosures cash and noncash**

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

*See accompanying notes to consolidated financial statements*

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

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

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

**Capital Bank Financial Corp. Investment**

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

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

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

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



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

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

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

**Earnings (Loss) Per Common Share**

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

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

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

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

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

Successor Company	Predecessor Company Three Months Ended June 30, 2011	Successor Company	Predecessor Company Six Months Ended June 30,
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	<b>Three Months Ended June 30, 2012</b>		<b>Six Months Ended June 30, 2012</b>	<b>2011</b>
Anti-dilutive stock options	313	344	313	345
Anti-dilutive restricted stock awards		93		86
Anti-dilutive warrants		635		635

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**Green Bankshares, Inc.**

**Notes to Consolidated Financial Statements**

**(Dollars and shares in thousands except per share data)**

***Income Taxes***

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

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

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

**Recent Accounting Pronouncements**

In December 2011, the Financial Accounting Standards Board (the FASB) issued ASU No. 2011-12, *Comprehensive Income* (Topic 220): *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items out of Accumulated Other Comprehensive Income* in Accounting Standards Update No. 2011-05. ASU 2011-12 amended one of the requirements of Update 2011-05. Under the amendments in Update 2011-05, entities are required to present reclassification adjustments and the effect of those reclassification adjustments on the face of the financial statements where net income is presented, by component of net income, and on the face of the financial statements where other comprehensive income is presented, by component of other comprehensive income. In addition, the amendments in Update 2011-05 require that reclassification adjustments be presented in interim financial periods. The amendments in this Update are effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of ASU 2011-12 did not have an impact on the Company's consolidated financial condition or results of operations but did alter disclosures.

Also in December 2011, the FASB issued ASU No. 2011-12, *Comprehensive Income* (Topic 220): *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items out of Accumulated Other Comprehensive Income* in Accounting Standards Update No. 2011-05. ASU 2011-12 amended one of the requirements of Update 2011-05. Under the amendments in Update 2011-05, entities are required to present reclassification adjustments and the effect of those reclassification adjustments on the face of the financial statements where net income is presented, by component of net income, and on the face of the financial statements where other comprehensive income is presented, by component of other comprehensive income. In addition, the amendments in Update 2011-05 require that reclassification adjustments be presented in interim financial periods. The amendments in this Update are effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of ASU 2011-12 did not have an impact on the Company's consolidated financial condition or results of operations but did alter disclosures.

In September 2011, the Financial Accounting Standards Board (the FASB) issued ASU No. 2011-08, *Intangibles - Goodwill and Other* (Topic 350): *Testing Goodwill for Impairment* (ASU 2011-08). ASU 2011-08 amended guidance on the annual goodwill impairment test performed by the Company. Under the amended guidance, the Company will have the option to first assess qualitative factors to determine whether it is necessary to perform a two-step impairment test. If the Company believes, as a result of the qualitative assessment, that it is more likely than not that the fair value of a reporting unit is less than the carrying value, the quantitative impairment test is required. If the Company believes the fair value of a reporting unit is greater than the carrying value, no further testing is required. A company can choose to perform the qualitative assessment on some or none of its reporting entities. The amended guidance includes examples of events and circumstances that might indicate that a reporting unit's fair value is less than its carrying amount. These include macro-economic conditions such as deterioration in the entity's operating environment, entity-specific events such as declining financial performance, and other events such as an expectation that a reporting unit will be sold. The amended guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after

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December 15, 2011. The adoption of ASU 2011-08 did not have an impact on the Company's consolidated financial condition or results of operations.

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

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income ( ASU 2011-05 ). ASU 2011-05 amends current guidance by (i) eliminating the option to present components of other comprehensive income (OCI) as part of the statement of changes in shareholders' equity, (ii) requiring the presentation of each component of net income and each component of OCI either in a single continuous statement or in two separate but consecutive statements, and (iii) requiring the presentation of reclassification adjustments on the face of the statement. The amendments of ASU 2011-05 do not change the option to present components of OCI either before or after related income tax effects, the items that must be reported in OCI, when an item of OCI should be reclassified to net income, or the computation of earnings per share (which continues to be based on net income). ASU 2011-05 is effective for interim and annual periods beginning on or after December 15, 2011 for public companies, with early adoption permitted and retrospective application required. The adoption of ASU 2011-05 did not have an impact on the Company's consolidated financial condition or results of operations but did alter disclosures.

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS ( ASU 2011-04 ). The amended guidance of ASU 2011-04 (i) clarifies how a principal market is determined, (ii) establishes the valuation premise for the highest and best use of nonfinancial assets, (iii) addresses the fair value measurement of instruments with offsetting market or counterparty credit risks, (iv) extends the prohibition on blockage factors to all three levels of the fair value hierarchy, and (v) requires additional disclosures including transfers between Level 1 and Level 2 of the fair value hierarchy, quantitative and qualitative information and a description of an entity's valuation process for Level 3 fair value measurements, and fair value hierarchy disclosures for financial instruments not measured at fair value. ASU 2011-04 is effective for interim and annual periods beginning on or after December 15, 2011, with early adoption prohibited. The adoption of ASU 2011-04 did not have a material impact on the Company's consolidated financial condition or results of operations.

In April 2011, the FASB issued ASU 2011-02, Receivables. The new guidance amended existing guidance for assisting a creditor in determining whether a restructuring is a troubled debt restructuring. The amendments clarify the guidance for a creditor's evaluation of whether it has granted a concession and whether a debtor is experiencing financial difficulties. This guidance is effective for interim and annual reporting periods beginning after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. The adoption of ASU 2011-02 did not have a material impact on the Company's consolidated financial condition or results of operations.

In January 2011, the FASB issued ASU 2011-01, *Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20*, to amend ASC Topic 310, *Receivables*. The amendments in this update temporarily delay the effective date of the disclosures about troubled debt restructurings in ASU 2010-20 for public entities. The delay is intended to allow the FASB time to complete its deliberations on what constitutes a troubled debt restructuring. The effective date of the new disclosures about troubled debt restructurings for public entities and the guidance for determining what constitutes a troubled debt restructuring will then be coordinated.

**Note 2 Equity Method Investment in Capital Bank, NA**

On September 7, 2011, GreenBank, which was formerly a wholly-owned subsidiary of the Company, merged with and into Capital Bank, NA, a national banking association and subsidiary of TIB Financial Corp. (the "TIB Financial"), a corporation organized under the laws of the State of Florida, Capital Bank Corporation, a corporation organized under the laws of the state of North Carolina ("Capital Bank Corp.") and CBF, with Capital Bank, NA as the surviving entity. Pursuant to the merger agreement dated September 7, 2011, between Capital Bank, NA and the Bank, the Company exchanged its 100% ownership interest in GreenBank for an approximately 34% ownership interest in the surviving combined entity, Capital Bank, NA.

CBF is the owner of approximately 90% of the Company's common stock, approximately 83% of Capital Bank Corp.'s common stock and approximately 94% of TIB Financial's common stock. TIB Bank, the former wholly-owned banking subsidiary of TIB Financial, merged with and into Capital Bank, NA (formerly known as NAFH National Bank) on April 29, 2011. Capital Bank, the former wholly-owned banking subsidiary of Capital Bank Corp. merged with and into Capital Bank, NA (formerly known as NAFH National Bank) on June 30, 2011.

The Company's approximately 34% ownership interest in Capital Bank, NA is recorded as an equity-method investment in that entity. As of June 30, 2012 the Company's investment in Capital Bank, NA totaled \$324,281 which reflected the Company's pro rata ownership of Capital



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Bank, NA's total shareholders' equity. In periods subsequent to the Merger Date, the Company will adjust this equity investment balance based on its equity in Capital Bank, NA's net income and comprehensive income.

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

In connection with the Bank Merger, assets and liabilities of the Bank were de-consolidated from the Company's balance sheet resulting in a significant decrease in the total assets and total liabilities of the Company in the third quarter of 2011. Accordingly, as of June 30, 2012, no investments, loans or deposits are reported on the Company's Consolidated Balance Sheet. Subsequent to the Merger Date, the Company's significant assets and liabilities are comprised of cash, its equity method investment in Capital Bank, NA, deferred income tax liabilities and trust preferred securities. The Company's operating results subsequent to the Merger Date include the Company's proportionate share of equity method income from Capital Bank, NA and interest expense resulting from the outstanding trust preferred securities issued by the Company. Unless otherwise specified, this report describes Green Bankshares, Inc. and its subsidiaries including GreenBank through the Merger Date, and subsequent to that date, includes only Green Bankshares, Inc. and its equity method investment in Capital Bank, NA.

The mergers of the Bank, Capital Bank and TIB Bank into Capital Bank, NA were restructuring transactions between commonly-controlled entities. The difference between the amount of the Company's initial equity method investment in Capital Bank, NA, subsequent to the Bank Merger, and the Company's investment in the Bank, immediately preceding the Bank Merger, was accounted for as a change in additional paid in capital. Additionally, at the time of the Bank Merger, due to the de-consolidation of the Bank, the balance of accumulated other comprehensive income was reclassified as additional paid in capital. As the Company began to account for its investment in the combined entity under the equity method subsequent to September 7, 2011, the Company's proportional share of earnings of \$3,801 and \$7,796 was recorded in Equity in income from investment in Capital Bank, NA, in the Company's Consolidated Statements of Income for the three and six months ended June 30, 2012, respectively.

At June 30, 2012, the Company's net investment of \$324,281 in Capital Bank, NA, was recorded in the Consolidated Balance Sheet as Equity method investment in Capital Bank, NA.

As discussed in the Company's annual report on Form 10-K for the year ended December 31, 2011, the initial estimated fair values of assets and liabilities acquired were based upon information that was available at the time to make preliminary estimates of fair value. The Company expected to obtain additional information during the measurement period which could result in changes to the estimated fair value amounts. The Company is still within the measurement period and has not yet finalized its estimates of fair value. However, as required by the acquisition method of accounting, the Company has retrospectively adjusted certain preliminary estimates to reflect refinements of estimates of fair values and new information obtained about facts and circumstances that existed as of the acquisition date. As a result of the Bank Merger, such changes are principally reflected in the accompanying financial statements as changes in the Company's equity method investment in Capital Bank, NA. The most significant refinements include: (1) increases in the collectability of certain legacy bank fully charged-off loan balances and fees; (2) an increase in the estimated fair value of the core deposit intangible assets; (3) an increase in deferred tax assets related to the other fair value estimate changes offset by a reduction of expected realization of items considered to be built in losses; and (4) an increase in Goodwill caused by the net effect of these adjustments. Accordingly, the financial statements herein reflect a decrease of \$50 in the Company's investment in Capital Bank, NA, a decrease of \$232 in accrued interest payable and other liabilities, an increase of \$86 in the deferred tax liability and a decrease of \$96 in additional paid in capital.

The following table presents summarized financial information for the Company's equity method investee; Capital Bank, NA. Prior to September 7, 2011 there was no equity method investment:

	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012
Interest income	\$ 72,893	\$ 147,025
Interest expense	8,000	16,725
Net interest income	64,893	130,300
Provision for loan losses	6,608	11,984
Non-interest income	12,298	26,912

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Non-interest expense	52,799	108,017
Net income	11,326	23,234

### **Note 3 Capital Requirements**

As discussed in Note 1, due to the deconsolidation of the Bank during the third quarter of 2011, no capital ratios for the Bank as of June 30, 2012 and December 31, 2011 are reported in the Company's notes to consolidated financial statements.

The Company (on a consolidated basis) is subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements results in certain discretionary and required actions by regulators that, if undertaken, could have a direct material effect on the Company's financial position and results of operations. The regulations require the Company to meet specific capital adequacy guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

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

To be considered well capitalized and adequately capitalized (as defined) under the regulatory framework for prompt corrective action, the Bank must maintain minimum Tier 1 leverage, Tier 1 risk-based, and total risk-based ratios. At June 30, 2012 the Company maintained capital ratios exceeding the requirement to be considered adequately capitalized. These minimum amounts and ratios along with the actual amounts and ratios for the Company as of June 30, 2012 and December 31, 2011 are presented in the following tables.

	Well Capitalized Requirement		Adequately Capitalized Requirement		Actual	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>June 30, 2012 (Successor Company)</b>						
Tier 1 Capital (to Average Assets) Green Bankshares, Inc.	N/A	N/A	\$ 13,039	4.0%	\$ 313,726	96.2%
Tier 1 Capital (to Risk Weighted Assets) Green Bankshares, Inc.	N/A	N/A	\$ 13,048	4.0%	\$ 313,726	96.2%
Total Capital (to Risk Weighted Assets) Green Bankshares, Inc.	N/A	N/A	\$ 26,096	8.0%	\$ 313,726	96.2%

	Well Capitalized Requirement		Adequately Capitalized Requirement		Actual	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>December 31, 2011 (Successor Company)</b>						
Tier 1 Capital (to Average Assets) Green Bankshares, Inc.	N/A	N/A	\$ 12,186	4.0%	\$ 306,786	100.7%
Tier 1 Capital (to Risk Weighted Assets) Green Bankshares, Inc.	N/A	N/A	\$ 12,674	4.0%	\$ 306,786	96.8%
Total Capital (to Risk Weighted Assets) Green Bankshares, Inc.	N/A	N/A	\$ 25,348	8.0%	\$ 306,786	96.8%

Management believes, as of June 30, 2012, that the Company meets all capital requirements to which it is subject. Tier 1 Capital for the Company includes the trust preferred securities that were issued in July 2001, September 2003, June 2005, December 2005 and May 2007 to the extent allowable.

During the third quarter of 2011, the FDIC and the Tennessee Department of Financial Institutions ( TDFI ) issued a consent order against the Bank aimed at strengthening the Bank s operations and its financial condition. The order s provisions included requirements similar to those that the Bank had already informally committed to comply with, including requirements to maintain the Bank s capital ratios above those levels required to be considered well-capitalized under federal banking regulations. As a result of the subsequent Bank Merger, the consent order is no longer in effect.

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**Green Bankshares, Inc.**

**Notes to Consolidated Financial Statements**

**(Dollars and shares in thousands except per share data)**

*Subsidiary Dividend Limitations*

In August 2010, Capital Bank, NA entered into an Operating Agreement (the "OCC Operating Agreement") with the Office of the Comptroller of the Currency (the "OCC"). Currently, the OCC Operating Agreement with Capital Bank, NA prohibits the Bank from paying a dividend for three years following July 16, 2010, the date Capital Bank, NA acquired the assets and certain deposits of three failed banks from the Federal Deposit Insurance Corporation. Once the three-year period has elapsed, the agreement imposes other restrictions on Capital Bank, NA's ability to pay dividends including requiring prior approval from the OCC before any distribution is made.

Dividends that may be paid by a national bank without express approval of the OCC are limited to that bank's retained net profits for the preceding two years plus retained net profits up to the date of any dividend declaration in the current calendar year. Based on the retained net profits of the Bank, declaration of dividends by the Bank to the Company during 2012, if not subject to other restrictions, would have been limited to approximately \$21,421.

**Note 4 Fair Value Measurements**

ASC 820-10 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 (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other 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; and

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

*Valuation of securities available for sale*

The fair values of securities available for sale are determined by (1) obtaining quoted prices on nationally recognized securities exchanges when available (Level 1 inputs), (2) matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs) and (3) for collateralized debt obligations, custom discounted cash flow modeling (Level 3 inputs).

*Valuation of Impaired Loans and Other Real Estate Owned*

The fair value of collateral dependent impaired loans with specific allocations of the allowance for loan losses and other real estate owned is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. The Company generally uses independent external appraisers in this process who routinely make adjustments to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value. The Company's policy is to update appraisals, at a minimum, annually for all classified assets, which include collateral dependent loans and OREO. We consider appraisals dated within the past 12 months to be current and do not typically make adjustments to such appraisals. In the Company's process for reviewing third-party prepared appraisals, any differences of opinion on values, assumptions or adjustments to comparable sales data are typically reconciled directly with the independent appraiser prior to acceptance of the final appraisal. As discussed in Note 2 Equity Method Investment in Capital Bank, NA, due to the deconsolidation of the Bank during the third quarter of 2011, the Company had no loans or OREO measured at fair value on a recurring or non-recurring basis as of June 30, 2012 and December 31, 2011.



**Table of Contents****Green Bankshares, Inc.****Notes to Consolidated Financial Statements****(Dollars and shares in thousands except per share data)***Assets and Liabilities Measured on a Recurring Basis*

As discussed in Note 2 Equity Method Investment in Capital Bank, NA, due to the deconsolidation of the Bank during the third quarter of 2011, the Company had no loans or OREO measured at fair value on a recurring or non recurring basis as of June 30, 2012 and December 31, 2011.

The table below presents a reconciliation and income statement classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and six months ended June 30, 2011 and held at June 30, 2011, respectively.

	<b>Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Collateralized Debt Obligations 2011</b>	
<b>Predecessor Company</b>		
Beginning balance, April 1,	\$	638
Included in earnings other than temporary impairment		
Included in other comprehensive income		
Transfer in to Level 3		
<b>Ending balance June 30,</b>	<b>\$</b>	<b>638</b>

	<b>Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Collateralized Debt Obligations 2011</b>	
<b>Predecessor Company</b>		
Beginning balance, January 1,	\$	638
Included in earnings other than temporary impairment		
Included in other comprehensive income		
Transfer in to Level 3		
<b>Ending balance June 30,</b>	<b>\$</b>	<b>638</b>

*Financial Assets and Liabilities*

Fair values of cash and cash equivalents are equal to the carrying value. Fair value of subordinated debt is estimated based on management's assumptions with respect to future economic conditions, the amount and timing of future cash flows and estimated discount rates.

The carrying amounts and estimated fair values of financial instruments, at June 30, 2012 and December 31, 2011 are as follows:

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Successor Company	Fair Value Measurements				
	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
June 30, 2012					
<b>Financial assets:</b>					
Cash and cash equivalents	\$ 653	\$ 653	\$ 653	\$	\$
<b>Financial liabilities:</b>					
Subordinated debentures	45,798	46,781			46,781
December 31, 2011					
<b>Financial assets:</b>					
Cash and cash equivalents	\$ 2,091	\$ 2,091	\$ 2,091	\$	\$
<b>Financial liabilities:</b>					
Subordinated debentures	45,180	47,547			47,547



**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**Forward-looking Statements**

Certain of the matters discussed under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Form 10-Q may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and as such may involve known and unknown risk, uncertainties and other factors which may cause the actual results, performance or achievements of Green Bankshares, Inc. (the "Company") to be materially different from future results described in such forward-looking statements. Actual results may differ materially from the results anticipated in these forward-looking statements due to a variety of factors, including, without limitation: market and economic conditions, the management of our growth, the risks associated with Capital Bank, NA's loan portfolio and real estate holdings, local economic conditions affecting retail and commercial real estate, ability to integrate our new management and directors without encountering potential difficulties, the Company's geographic concentration in the southeastern region of the United States, the potential for the interests of the other shareholders of Capital Bank, NA to differ from those of the Company, restrictions imposed by Capital Bank, NA's loss sharing agreements with the FDIC, the assumptions and judgments required by loss share accounting and the acquisition method of accounting, competition within the industry, dependence on key personnel, government legislation and regulation, the risks associated with identification, completion and integration of any future acquisitions, risks related to Capital Bank, NA's technology and information systems, risks associated with the controlling interest of CBF in the Company, and risks associated with the limited liquidity of the Company's common stock. Additional factors that could cause actual results to differ materially are discussed in the Company's Annual Report on Form 10-K. All forward-looking statements attributable to the Company are expressly qualified in their entirety by these cautionary statements. The Company disclaims any intent or obligation to update these forward-looking statements, whether as a result of new information, future events or otherwise.

The following discussion addresses the factors that have affected the financial condition and results of operations of the Company as reflected in the unaudited consolidated statement of condition as of June 30, 2012, and statements of operations for the three and six months ended June 30, 2012. Except as otherwise noted, dollar and share amounts in this Management's Discussion and Analysis of Financial Condition and Results of Operations are not in thousands.

**CBF Investment**

On September 7, 2011, (the "Transaction Date") the Company completed the issuance and sale to CBF of 119.9 million shares of Common Stock to CBF for aggregate consideration of \$217.0 million less \$750 thousand of CBF's expenses which were reimbursed by the Company.

The consideration consisted of approximately \$147.6 million in cash and approximately \$68.7 million in the form of a contribution to the Company of all 72,278 outstanding shares of Series A Preferred Stock previously issued to the United States Department of the Treasury under the TARP Capital Purchase Program and the related warrant to purchase shares of the Company's Common Stock, which CBF purchased directly from the Treasury. The Series A Preferred Stock and the related warrant were retired on September 7, 2011 and are no longer outstanding. In connection with the CBF Investment, each Company shareholder as of September 6, 2011 received one contingent value right per share ("CVR") that entitles the holder to receive up to \$0.75 in cash per CVR at the end of a five-year period based on the credit performance of GreenBank's then existing loan portfolio as of May 5, 2011.

As a result of the CBF Investment, CBF owns approximately 90% of the issued and outstanding voting power of the Company. Upon the completion of the Investment, R. Eugene Taylor (Chairman), Christopher G. Marshall, Peter N. Foss, William A. Hodges and R. Bruce Singletary were named to board of directors of the Company (the "Company Board"). Ms. Martha M. Bachman and Dr. Samuel E. Lynch, existing members of the Company Board, remained as such following the closing of the Investment. All other members of the Company Board resigned effective September 7, 2011.

Because of the controlling proportion of voting securities in the Company acquired by CBF, the CBF Investment is considered an acquisition for accounting purposes and the push down method of the acquisition method of accounting was applied. The accounting guidance for acquisition accounting requires that the assets acquired and liabilities assumed be recorded at their respective fair values as of the acquisition date. Any purchase price in excess of the net assets acquired is recorded as goodwill.

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The most significant fair value adjustments resulting from the application of the acquisition method of accounting were made to loans. Accounting guidance requires that all loans held by the Company on the Transaction Date be recorded at their fair value. The fair value of these acquired loans takes into account both the differences in loan interest rates and market rates and any deterioration in their credit quality. Because concerns about the probability of receiving the full amount of the contractual payments from the borrowers was considered in estimating the fair value of the loans, stating the loans at their fair value results in no allowance for loan loss being provided for these loans as of the Transaction Date. As of September 7, 2011, certain loans had evidence of credit deterioration since origination, and it was probable that not all contractually required principal and interest payments would be collected. Such loans identified at the time of the acquisition were accounted for using the measurement provision for purchased credit-impaired ( PCI ) loans, according to the FASB Accounting Standards Codification ( ASC ) 310-30. The special accounting for PCI loans not only requires that they are recorded at fair value at the date of acquisition and that any related allowance for loan and lease losses is not permitted to be carried forward past the Transaction Date, but it also governs how interest income will be recognized on these loans and how any further deterioration in credit quality after the Transaction Date will be recognized and reported.

As a result of the adjustments required by the acquisition method of accounting, the Company's balance sheet and results of operations from periods prior to the Transaction Date are labeled as Predecessor Company amounts and are not comparable to balances and results of operations from periods subsequent to the Transaction Date, which are labeled as Successor Company. The lack of comparability arises from the assets and liabilities having new accounting bases as a result of recording them at their fair values as of the Transaction Date rather than at their historical cost basis. As a result of the change in accounting bases, items of income and expense such as the rate of interest income and expense as well as depreciation and rental expense will change. In general, these changes in income and expense relate to the amortization of premiums or accretion of discounts to arrive at contractual amounts due. To call attention to this lack of comparability, the Company has placed a black line between the Successor Company and Predecessor Company columns in the Consolidated Financial Statements and in the tables in the notes to the statements and in Management's Discussion and Analysis of Financial Condition and Results of Operations.

**GreenBank Merger with Capital Bank, NA**

On September 7, 2011, GreenBank, which was formerly a wholly-owned subsidiary of the Company, merged with and into Capital Bank, NA, a national banking association and subsidiary of TIB Financial Corp. (the TIB Financial ), a corporation organized under the laws of the State of Florida, Capital Bank Corporation, a corporation organized under the laws of the state of North Carolina ( Capital Bank Corp. ) and CBF, with Capital Bank, NA as the surviving entity. CBF is the owner of approximately 90% of the Company's common stock, approximately 83% of Capital Bank Corp's common stock and approximately 94% of TIB Financial's common stock. TIB Bank, the former wholly-owned banking subsidiary of TIB Financial, merged with and into Capital Bank, NA (formerly known as NAFH National Bank) on April 29, 2011. Capital Bank, the former wholly-owned banking subsidiary of Capital Bank Corp. merged with and into Capital Bank, NA (formerly known as NAFH National Bank) on June 30, 2011.

At June 30, 2012, the Company's net investment of \$324.3 million in Capital Bank, NA, was recorded in the Consolidated Balance Sheet as Equity method investment in Capital Bank, NA which represented the Company's pro rata ownership of Capital Bank, NA's total shareholders equity. In periods subsequent to the Merger Date, the Company has and will adjust this equity investment balance based on its equity in Capital Bank, NA's net income and comprehensive income. In connection with the Bank Merger, assets and liabilities of the Bank were de-consolidated from the Company's balance sheet resulting in a significant decrease in the total assets and total liabilities of the Company in the third quarter of 2011. Accordingly, as of June 30, 2012 and December 31, 2011, no investments, loans or deposits are reported on the Company's Consolidated Balance Sheet and subsequent to the Merger Date, interest expense is the result of the outstanding trust preferred securities issued by the Company.

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Capital Bank, NA was formed in connection with the July 16, 2010 purchase and assumption of assets and deposits and other liabilities of three banks – Metro Bank of Dade County (Miami, Florida), Turnberry Bank (Aventura, Florida) and First National Bank of the South (Spartanburg, South Carolina) – from the Federal Deposit Insurance Corporation (the “FDIC”) and is a party to loss sharing agreements with the FDIC covering the large majority of the loans it acquired from the FDIC. As of June 30, 2012, following the mergers of TIB Bank, Capital Bank and GreenBank, as discussed above, Capital Bank, NA had total assets of \$6.3 billion, total deposits of \$5.1 billion and shareholders’ equity of \$966.5 million. As of June 30, 2012, following the mergers of TIB Bank, Capital Bank and GreenBank as discussed above, Capital Bank, NA operated 143 branches in Florida, North Carolina, South Carolina, Tennessee and Virginia.

### **Potential Merger of Green Bankshares, Inc. and Capital Bank Financial, Corp.**

On September 8, 2011, CBF’s Board of Directors approved and adopted a plan of merger which provides for the merger of Green Bankshares, Inc. with and into CBF, with CBF continuing as the surviving entity (the “merger”). In the merger, each share of Green Bankshares, Inc. common stock issued and outstanding immediately prior to the completion of the merger, except for certain shares held by CBF or Green Bankshares, Inc., will be converted into the right to receive .0915 of a share of CBF Class A common stock. No fractional shares of Class A common stock will be issued in connection with the merger, and holders of Green Bankshares, Inc. common stock will be entitled to receive cash in lieu thereof. Since CBF currently owns more than 90% of the common stock of Green Bankshares, Inc., under Delaware and Tennessee law, no vote of our stockholders is required to complete the merger. CBF will determine when and if the merger will ultimately take place.

### **Consent Order**

During the third quarter of 2011, the FDIC and the Tennessee Department of Financial Institutions (“TDFI”) issued a consent order against the Bank aimed at strengthening the Bank’s operations and its financial condition. The order’s provisions included requirements similar to those that the Bank has already informally committed to comply with, including requirements to maintain the Bank’s capital ratios above those levels required to be considered “well-capitalized” under federal banking regulations. The Consent Order terminated on September 7, 2011 when GreenBank was merged with and into Capital Bank, NA.

### **Quarterly Summary**

For the second quarter of 2012, the Company reported net income of \$3.0 million. Basic and diluted income per common share was \$0.02. Net income during the quarter reflects equity income from the Company’s investment in Capital Bank, NA of \$3.8 million, net of tax and interest expense of \$841,000 related to trust preferred securities.

*Operating and financial highlights include the following:*

Net income totaled \$3.0 million, or \$0.02 per share, basic and diluted, in the second quarter of 2012 compared to a net loss of \$(12.4) million or \$(0.94) per share, in the second quarter of 2011.

As a result of the Bank Merger, the Company held a 34% ownership interest in Capital Bank, NA at June 30, 2012.

CBF, the Company’s majority shareholder agreed to acquire 100% of Southern Community Financial Corp. (“Southern Community”), which it expects to close, pending shareholder and regulatory approvals, during the third quarter of 2012. Southern Community has assets of \$1.5 billion and operates 22 branches in North Carolina. Upon closing, we expect that Southern Community’s wholly owned bank subsidiary, Southern Community Bank and Trust, will be merged into Capital Bank, NA.

Green Bankshares, Inc. reported total assets of \$329.4 million as of June 30, 2012.

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The following table presents summarized financial information for the Company's equity method investee; Capital Bank, NA. Prior to September 7, 2011 there was no equity method investment:

	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012
Interest income	\$ 72,893	\$ 147,025
Interest expense	8,000	16,725
Net interest income	64,893	130,300
Provision for loan losses	6,608	11,984
Non-interest income	12,298	26,912
Non-interest expense	52,799	108,017
Net income	11,326	23,234

**Results of Operations****Net income***Three months ended June 30, 2012:*

The Company reported net income of \$3.0 million for the three months ended June 30, 2012. Basic and diluted income per common share was \$0.02. The Company's consolidated net income includes three months of equity in income from its investment in Capital Bank, NA which amounted to \$3.8 million, net of tax. Net income also included interest expense of \$841,000 for the second quarter related to trust preferred securities and approximately \$144,000 of merger related expense.

*Three months ended June 30, 2011:*

The Company reported a net loss of \$12.4 million for the three months ended June 30, 2011. Basic and diluted net loss per common share was \$(0.94). The provision for loan losses recorded during the quarter was \$14.3 million as credit costs remained elevated.

*Six months ended June 30, 2012:*

The Company reported net income of \$6.3 million for the six months ended June 30, 2012. Basic and diluted income per common share was \$0.05. The Company's consolidated net income includes six months of equity in income from its investment in Capital Bank, NA which amounted to \$7.8 million, net of tax. Net income also included interest expense of \$1.7 million for the period related to trust preferred securities and approximately \$144,000 of merger related expense.

*Six months ended June 30, 2011:*

The Company reported a net loss allocated to common shareholders of \$23.9 million for the six months ended June 30, 2011. Basic and diluted net loss per common share was \$(1.83). The provision for loan losses recorded during the six months ended June 30, 2011 was \$28.2 million as credit costs remained elevated.

**Net Interest Income (loss)***Three months ended June 30, 2012:*

Following the September 7, 2011 Bank Merger, as a result of the deconsolidation of the Bank, the Successor Company has no interest earning assets and its primary asset is the investment in Capital Bank, NA for which income is recorded in non-interest income. Net Interest loss in the second quarter of 2012 was \$841,000 representing interest expense on trust preferred securities, with an average balance of \$45.6 million and cost of 7.41% for the quarter.



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### *Three months ended June 30, 2011:*

The largest source of earnings for the Predecessor Company was net interest income, which is the difference between interest income on earning assets and interest expense on deposits and other interest-bearing liabilities. Net interest income was affected by the interest rate environment and the volume and the composition of interest-earning assets and interest-bearing liabilities. Interest-earning assets included loans, federal funds sold and securities purchased under agreements to resell, interest-bearing deposits in other banks and investment securities. Interest-bearing liabilities included deposits, federal funds purchased, subordinated debentures, advances from the FHLB and other short term borrowings.

Second quarter 2011 net interest income totaled \$19.5 million. The net interest margin was 3.91% in the second quarter of 2011, reflecting an average yield of 5.23% on earning assets versus an average cost of 1.31% on interest-bearing liabilities. Loans, accounting for 74% of earning assets, had a yield of 6.44% while securities and short-term investments produced yields of 3.60% and 0.24%, respectively. Interest checking, savings and money market deposits represented 61% of interest-bearing deposits, and had an average yield of 0.53% while time deposits, represented 39% of interest-bearing deposits, with an average yield of 1.82%.

### *Six months ended June 30, 2012:*

Following the September 7, 2011 Bank Merger, as a result of the deconsolidation of the Bank, the Successor Company has no interest earning assets and its primary asset is the investment in Capital Bank, NA for which income is recorded in non-interest income. Net Interest loss for the six months ended June 30, 2012 was \$1.7 million representing interest expense on trust preferred securities, with an average balance of \$45.5 million and cost of 7.47% for the period.

### *Six months ended June 30, 2011:*

For six months ended June 30, 2011 the net interest income totaled \$38.7 million. The net interest margin was 3.84% for the six months ended June 30, 2011, reflecting an average yield of 5.22% on earning assets versus an average cost of 1.36% on interest-bearing liabilities. Loans, accounting for 74% of earning assets, had a yield of 6.40% while securities and short-term investments produced yields of 3.59% and 0.25%, respectively. Interest checking, savings and money market deposits represented 60% of interest-bearing deposits, and had an average yield of 0.61% while time deposits, represented 40% of interest-bearing deposits, with an average yield of 1.84%.

The following table, for which dollars are in thousands, presents average balances of the Predecessor Company, the taxable-equivalent interest earned, and the rate paid thereon during the three and six months ended June 30, 2011. A comparable analysis is not presented for the three and six months ended June 30, 2012 given that the Successor Company has no interest earning assets.

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Predecessor Company  
**Three Months Ended  
June 30, 2011**  
Average  
Balance