

OMEGA HEALTHCARE INVESTORS INC

Form 424B5

June 25, 2010

## CALCULATION OF REGISTRATION FEE

| Title of Securities to be Registered | Maximum Offering Price | Amount of Registration Fee (1) |
|--------------------------------------|------------------------|--------------------------------|
| Common Stock, \$0.10 par value       | \$140,000,000          | \$9,982                        |

(1) Calculated in accordance with Rule 457(r) of the Securities Act of 1933, as amended, and previously paid in connection with unsold securities registered by the registrant on Registration Statement on Form S-3, File No. 333-117655, filed July 26, 2004.

PROSPECTUS SUPPLEMENT  
(to Prospectus dated April 10, 2008)

Filed Pursuant to Rule 424(b)(5)  
Registration No. 333-150183

\$140,000,000

OMEGA HEALTHCARE INVESTORS, INC.  
Common Stock

We have entered into separate equity distribution agreements with each of Credit Agricole Securities (USA) Inc., Deutsche Bank Securities Inc., Jefferies & Company, Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, RBS Securities Inc., Stifel, Nicolaus & Company, Incorporated, and UBS Securities LLC, which we refer to individually as a “sales agent” and collectively as the “sales agents,” relating to shares of our common stock, par value \$0.10 per share, offered by this prospectus supplement and the accompanying prospectus. In accordance with the terms of each equity distribution agreement, we may offer and sell shares of our common stock having an aggregate gross sales price of up to \$140,000,000 from time to time through or to the sales agents. Sales of the shares, if any, will be made by means of ordinary brokers’ transactions on the New York Stock Exchange, or NYSE, or otherwise at market prices prevailing at the time of sale or negotiated transactions, or as otherwise agreed with the applicable sales agent. We will pay each sales agent compensation for sales of the shares equal to 2% of the gross sales price per share of shares sold through such sales agent under the applicable equity distribution agreement.

Under the terms of the equity distribution agreements, we also may sell shares to each of Credit Agricole Securities (USA) Inc., Deutsche Bank Securities Inc., Jefferies & Company, Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, RBS Securities Inc., Stifel, Nicolaus & Company, Incorporated, and UBS Securities LLC, as principal for its own respective account, at a price agreed upon at the time of sale. If we sell shares to Credit Agricole Securities (USA) Inc., Deutsche Bank Securities Inc., Jefferies & Company, Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, RBS Securities Inc., Stifel, Nicolaus & Company, Incorporated, and UBS Securities LLC, as principal, we will enter into a separate terms agreement with Credit Agricole Securities (USA) Inc., Deutsche Bank Securities Inc., Jefferies & Company, Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, RBS Securities Inc., Stifel, Nicolaus & Company, Incorporated, and UBS Securities LLC, as applicable, setting forth the terms of such transaction, and we will describe the agreement in a separate prospectus supplement or pricing supplement.

No sales agent is required to sell any specific number or dollar amount of shares, but, subject to the terms and conditions of the equity distribution agreements and unless otherwise agreed by the sales agents and us, each sales agent will use its commercially reasonable efforts to sell the shares offered by this prospectus supplement and the accompanying prospectus as our agent. The offering of common stock pursuant to each equity distribution agreement will terminate upon the earlier of (i) the sale of all shares of common stock subject to the equity distribution agreements, or (ii) with respect to a particular equity distribution agreement, the termination of that equity distribution agreement by us or the applicable sales agent.

Our common stock is listed on the NYSE under the symbol "OHI." On June 24, 2010, the last reported sale price of our common stock on the NYSE was \$19.37 per share.

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Investing in our common stock involves a high degree of risk. Before buying any shares of our common stock, you should read the discussion of material risks of investing in our common stock in “Risk factors” beginning on page S-5 of this prospectus supplement and on page 4 of the attached prospectus, in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, which is incorporated herein by reference, and any risk factors set forth in our other filings with the Securities and Exchange Commission pursuant to Sections 13(a), 13(c), or 15(d) of the Securities Exchange Act of 1934, as amended, as they may be amended, updated or modified periodically in our reports filed with the Securities and Exchange Commission.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus are truthful or complete. Any representation to the contrary is a criminal offense.

BofA Merrill Lynch

Credit Agricole CIB

Deutsche Bank Securities

Jefferies & Company

RBS

Stifel Nicolaus

UBS Investment Bank

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The date of this prospectus supplement is June 25, 2010.

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You should rely only on the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus and any “free writing prospectus” we authorize to be delivered to you. We have not, and the sales agents have not, authorized anyone to provide additional information or information different from that contained or incorporated by reference in this prospectus supplement, the accompanying prospectus and any such “free writing prospectus.” If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell, or a solicitation of an offer to purchase, the securities offered by this prospectus supplement and the accompanying prospectus in any jurisdiction where it is unlawful to make such offer or solicitation. Neither the delivery of this prospectus supplement nor the sale of shares of common stock means that information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus and any such “free writing prospectus” is correct after their respective dates. These documents do not constitute an offer to sell or solicitation of any offer to buy these shares of common stock in any circumstances under which the offer or solicitation is unlawful.

This document is in two parts. The first part is the prospectus supplement, which describes the terms of this offering and adds to and updates information contained in the accompanying prospectus. The second part, the prospectus, provides more general information, some of which may not apply to this offering. Generally, when we refer to this prospectus, we are referring to both parts of this document combined. To the extent there is a conflict between the information contained in this prospectus supplement, on the one hand, and the information contained in the accompanying prospectus, on the other hand, you should rely on the information contained in this prospectus supplement.

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In this prospectus supplement, unless otherwise expressly stated or the context otherwise requires, the terms “Omega,” “we,” “company,” “us,” and “our” refer to Omega Healthcare Investors, Inc. and its subsidiaries.

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## Prospectus supplement summary

This summary highlights information contained elsewhere in this prospectus supplement and the accompanying prospectus or incorporated by reference in this prospectus supplement and the accompanying prospectus. This summary does not contain all of the information that you should consider before making an investment decision. You should read carefully this entire prospectus supplement and the accompanying prospectus, including the matters discussed in “Risk factors” in this prospectus supplement, the accompanying prospectus, our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, as they may be amended, updated or modified periodically in our reports filed with the Securities and Exchange Commission, or SEC, and the financial data and related notes and the reports incorporated by reference in this prospectus supplement and the accompanying prospectus, before making an investment decision.

## COMPANY OVERVIEW

We were incorporated in the State of Maryland on March 31, 1992. We are a self-administered real estate investment trust, or REIT, investing in income-producing healthcare facilities, principally long-term care facilities located in the United States. We provide lease or mortgage financing to qualified operators of skilled nursing facilities, which we refer to as SNFs, and, to a lesser extent, assisted living facilities, independent living facilities, and rehabilitation and acute care facilities.

Our portfolio of investments at March 31, 2010, consisted of 295 healthcare facilities, located in 32 states and operated by 35 third-party operators. Our gross investment in these facilities totaled approximately \$1.8 billion at March 31, 2010, with approximately 99% of our real estate investments related to long-term healthcare facilities. This portfolio is made up of (i) 269 SNFs, (ii) seven assisted living facilities, (iii) five specialty facilities, (iv) fixed rate mortgages on 10 SNFs, (v) two SNFs that are owned and operated and (vi) two SNFs that are currently held for sale. At March 31, 2010, we also held other investments of approximately \$46.8 million, consisting primarily of secured loans to third-party operators of our facilities.

Our filings with the SEC including our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports are accessible free of charge on our website at <http://www.omegahealthcare.com>. Information on our website does not constitute part of this prospectus supplement.

## RECENT DEVELOPMENTS

On June 9, 2010, we completed the acquisition of certain subsidiaries of CapitalSource Inc. owning 63 long-term care facilities for approximately \$293 million in cash. The 63 facilities represent 6,607 available beds located in 19 states and are part of 30 in-place triple net leases among 18 operators.

We have also agreed to acquire 40 additional facilities from CapitalSource Inc., subject to customary closing conditions. We expect the closing to occur on or around June 29, 2010, and there can be no assurance as to when or whether such transaction will be consummated.

On June 10, 2010, we amended and restated our charter to revise various provisions regarding REIT ownership limits to protect our status as a qualified REIT, and to otherwise modernize our charter based on recent developments in REIT law and industry practice. The amendments are described in our definitive proxy statement for the Annual Meeting of Stockholders held on June 9, 2010. The amended and restated charter was approved by our stockholders at the Annual Meeting of Stockholders held on June 9, 2010.

On April 13, 2010, we entered into a new \$320 million revolving senior secured credit facility, with Banc of America Securities LLC as Joint Lead Arranger and Sole Book Manager; Deutsche Bank Trust Company Americas as Joint Lead Arranger and Co-Syndication Agent; UBS Securities LLC as Co-Syndication Agent; Bank of America, N.A. as Administrative Agent; and General Electric Capital Corporation, Credit Agricole Corporate and Investment Bank, Jefferies Group, Inc., RBS Citizens, N.A., and Stifel Bank & Trust as Managing Agents.

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## CORPORATE INFORMATION

Our principal executive offices are located at 200 International Circle, Suite 3500, Hunt Valley, Maryland 21030, and our telephone number is (410) 427-1700. Additional information regarding our company is set forth in documents on file with the SEC and incorporated by reference in this prospectus supplement. See “Incorporation of certain information by reference” and “Where you can find more information.”

## THE OFFERING

|                                |   |
|--------------------------------|---|
| Issuer                         | Omega Healthcare Investors, Inc.  |
| New York Stock Exchange symbol | OHI   |
| Common stock we are offering   | Shares having an aggregate gross sales price of up to \$140,000,000.  |
| Manner of offering             | Commercially reasonable efforts, “at-the-market” offering that may be made from time to time through Credit Agricole Securities (USA) Inc., Deutsche Bank Securities Inc., Jefferies & Company, Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, RBS Securities Inc., Stifel, Nicolaus & Company, Incorporated, and UBS Securities LLC, as sales agents. See “Plan of distribution.”   |
| Use of proceeds                | We intend to use the net proceeds from the sale of the shares that we may offer under this prospectus supplement and the accompanying prospectus, after deducting commissions and estimated offering expenses, for working capital and general corporate purposes. Pending the application of such proceeds, we intend to invest the proceeds in short-term, interest bearing, investment-grade marketable securities or money market obligations. See “Use of proceeds.” |
| Risk factors                   | You should carefully consider the information set forth in the sections of this prospectus supplement, the accompanying prospectus and our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 entitled “Risk factors” as well as other information included in or incorporated by reference in this prospectus supplement and the accompanying prospectus before deciding whether to invest in our common stock.                                      |



Cautionary language regarding forward-looking statements

This prospectus supplement, the accompanying prospectus and the documents incorporated by reference in this prospectus supplement and the accompanying prospectus include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. All statements other than statements of historical facts included in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference in this prospectus supplement and the accompanying prospectus may constitute forward-looking statements. These statements relate to our expectations, beliefs, intentions, plans, objectives, goals, strategies, future events, performance and underlying assumptions and other statements other than statements of historical facts. In some cases, you can identify forward-looking statements by the use of forward-looking terminology including, but not limited to, terms such as “may,” “will,” “anticipates,” “expects,” “believes,” “intends,” “should” or comparable terms or the negative thereof. statements are based on information available on the date of this filing and only speak as to the date hereof and no obligation to update such forward-looking statements should be assumed. Our actual results may differ materially from those reflected in the forward-looking statements contained herein as a result of a variety of factors, including, among other things:

- Ø those items discussed under “Risk factors” in this prospectus supplement, the accompanying prospectus, in Item 1A to our annual report on Form 10-K for the year ended December 31, 2009 and as supplemented from time-to-time in Part II, Item 1A to our quarterly reports on Form 10-Q;
- Ø uncertainties relating to the business operations of the operators of our assets, including those relating to reimbursement by third party payors, regulatory matters and occupancy levels;
- Ø the ability of any operators in bankruptcy to reject unexpired lease obligations, modify the terms of our mortgages and impede our ability to collect unpaid rent or interest during the process of a bankruptcy proceeding and retain security deposits for the debtors’ obligations;
- Ø our ability to sell closed or foreclosed assets on a timely basis and on terms that allow us to realize the carrying value of these assets;
- Ø our ability to manage, re-lease or sell any owned and operated facilities;
- Ø the availability and cost of capital;
- Ø competition in the financing of healthcare facilities;
- Ø regulatory and other changes in the healthcare sector;
- Ø the effect of economic and market conditions generally and, particularly, in the healthcare industry;
- Ø changes in the financial position of our operators;
- Ø changes in interest rates;
- Ø the amount and yield of any additional investments;
- Ø changes in tax laws and regulations affecting real estate investment trusts;

- Ø our ability to maintain our status as a real estate investment trust; and
- Ø changes in our credit ratings and the ratings of our debt and preferred securities.

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Cautionary language regarding forward-looking statements

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Any subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements set forth or referred to above, as well as the risk factors incorporated by reference in this prospectus supplement and the accompanying prospectus. Except as required by law, we disclaim any obligation to update such statements or to publicly announce the result of any revisions to any of the forward-looking statements incorporated by reference in this prospectus supplement and the accompanying prospectus to reflect future events or developments.

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## Risk factors

An investment in our common stock is subject to risk. Our business, financial condition and results of operations could be materially adversely affected by any of these risks. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment. Before you decide to invest in our common stock, you should carefully consider the risks described below and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, and in our subsequent reports on Form 10-Q, as such risks may be amended, updated or modified periodically in our reports filed with the SEC, as well as the other information included in and incorporated by reference in this prospectus supplement and the accompanying prospectus.

The market value of our common stock could be substantially affected by various factors.

Market volatility may adversely affect the market price of our common stock. As with other publically traded securities, the share price of our common stock depends on many factors, which may change from time to time, including:

- the market for similar securities issued by REITs;
- changes in estimates by analysts;
- our ability to meet analysts' estimates;
- prevailing interest rates;
- our credit rating;
- general economic and market conditions; and
- our financial condition, performance and prospects.

Our issuance of additional capital stock, warrants or debt securities, whether or not convertible, may reduce the market price for our outstanding securities, including our common stock, and dilute the ownership interests of existing stockholders.

We cannot predict the effect, if any, that future sales of our capital stock, warrants or debt securities, including pursuant to the equity distribution agreements, or the availability of our securities for future sale, will have on the market price of our securities, including our common stock. Sales of substantial amounts of our common stock or preferred shares, warrants or debt securities convertible into or exercisable or exchangeable for common stock in the public market, or the perception that such sales might occur, could negatively impact the market price of our common stock and the terms upon which we may obtain additional equity financing in the future. The issuance of any additional shares of our common stock or securities convertible into or exchangeable for common stock or that represent the right to receive common stock, or the exercise of such securities, could be substantially dilutive to holders of our common stock, including purchasers of common stock in this offering.

In addition, we may issue additional capital stock in the future to raise capital or as a result of the following:

- the issuance and exercise of options to purchase our common stock or other equity awards under remuneration plans (we may also issue equity to our employees in lieu of cash bonuses or to our directors in lieu of director's fees);
- the issuance of shares pursuant to our dividend reinvestment and direct stock purchase plan;
- the issuance of debt securities exchangeable for our common stock;
- the exercise of warrants we may issue in the future;
- lenders sometimes ask for warrants or other rights to acquire shares in connection with providing financing, and we cannot assure you that our lenders will not request such rights; and

the sales of securities convertible into our common stock could dilute the interests of existing common stockholders.

There are no assurances of our ability to pay dividends in the future.

Our ability to pay dividends may be adversely affected if any of the risks described herein were to occur. Our payment of dividends is subject to compliance with restrictions contained in our credit agreements, the indentures governing our senior notes and our preferred stock. All dividends will be paid at the discretion of our Board of Directors and will depend upon our earnings, our financial condition, maintenance of our REIT status and such other factors as our Board of Directors may deem relevant from time to time. There are no assurances of our ability to pay dividends in the future. In addition, our dividends in the past have included, and may in the future include, a return of capital.

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Holders of our outstanding preferred stock have liquidation and other rights that are senior to the rights of the holders of our common stock.

Our Board of Directors has the authority to designate and issue preferred stock that may have dividend, liquidation and other rights that are senior to those of our common stock. As of June 23, 2010, 4,339,500 shares of our 8.375% Series D cumulative redeemable preferred stock, or our Series D Preferred Stock, were issued and outstanding. The aggregate liquidation preference with respect to the outstanding Series D Preferred Stock is approximately \$108.5 million, and annual dividends on our outstanding Series D Preferred Stock were approximately \$9.1 million as of June 23, 2010. Holders of our Series D Preferred Stock are generally entitled to cumulative dividends before any dividends may be declared or set aside on our common stock. Upon our voluntary or involuntary liquidation, dissolution or winding up, before any payment is made to holders of our common stock, holders of our Series D Preferred Stock are entitled to receive a liquidation preference of \$25 per share, plus any accrued and unpaid distributions. This preference will reduce the remaining amount of our assets, if any, available to distribute to holders of our common stock. In addition, holders of our Series D Preferred Stock have the right to elect two additional directors to our Board of Directors if six quarterly preferred dividends are in arrears. If this were to occur, the holders of our Series D Preferred Stock would have significant control over our affairs, and their interests may differ from those of our other stockholders.

Legislative or regulatory action could adversely affect purchasers of our common stock.

In recent years, numerous legislative, judicial and administrative changes have been made in the provisions of the federal income tax laws applicable to investments similar to an investment in our common stock. Changes are likely to continue to occur in the future, and we cannot assure you that any of these changes will not adversely affect our stockholder's stock. Any of these changes could have an adverse effect on an investment in our common stock or on market value or resale potential of our common stock. Stockholders are urged to consult with their own tax advisor with respect to the impact that recent legislation may have on their investment and the status of legislative, regulatory or administrative developments and proposals and their potential effect on their investment in our common stock.

Use of proceeds

We intend to use the net proceeds from the sale of the shares that we may offer under this prospectus supplement and the accompanying prospectus, after deducting commissions and estimated offering expenses, for working capital and general corporate purposes.

Pending the application of such proceeds, we intend to invest the proceeds in short-term, interest bearing, investment-grade marketable securities or money market obligations.

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#### Additional federal income tax considerations

The rules dealing with Federal income taxation are constantly under review by persons involved in the legislative process and by the Internal Revenue Service and the U.S. Treasury Department. Since April 10, 2008, the date of the Prospectus, the Housing and Economic Recovery Tax Act of 2008, or the 2008 Act, and the Hiring Incentives to Restore Employment Act of 2009, or the 2009 Act, were enacted into law, both of which contain provisions that potentially impact the taxation of REITs and/or their shareholders. The 2008 Act's sections that affect the REIT provisions of the Internal Revenue Code of 1986, as amended, or the Code, are generally effective for taxable years beginning after the 2008 Act's date of enactment, and for us will generally mean that the new provisions apply from and after January 1, 2009, except as otherwise indicated below.

Among others, the 2008 Act made the following changes to, or clarifications of, the REIT provisions of the Code that could be relevant for us:

- Ø Taxable REIT Subsidiaries. The limit on the value of taxable REIT subsidiaries' securities held by a REIT has been increased from 20% to 25% of the total value of such REIT's assets. See "Certain Federal Income Tax Considerations – Taxation of Omega – Asset Tests" in the accompanying prospectus.
- Ø Rents Received from a Taxable REIT Subsidiary. The rules allowing certain rental income received by a REIT from its taxable REIT subsidiary to be treated as qualified rents for purposes of the 75% and 95% gross income tests has been extended to include rental income received by a REIT with respect to a lease to its taxable REIT subsidiary of an interest in real property that is a qualified health care property if such property is operated on behalf of such subsidiary by a person who is an eligible independent contractor.
- Ø Foreign Currency as Cash. Foreign currency that is the functional currency of a REIT or a qualified business unit of a REIT and is held for use in the normal course of business of such REIT or qualified business unit will be treated as cash for purposes of the 75% asset test. The foreign currency must not be derived from dealing, or engaging in substantial and regular trading in securities. See "Certain Federal Income Tax Considerations – Taxation of Omega – Asset Tests" in the accompanying prospectus.
- Ø Foreign Currency Gain. Under the 2008 Act, real estate foreign exchange gain is not treated as gross income for purposes of the 75% and 95% gross income tests. Real estate foreign exchange gain includes gain derived from certain qualified business units of the REIT and foreign currency gain attributable to (i) qualifying income under the 75% gross income test, (ii) the acquisition or ownership of obligations secured by mortgages on real property or interests in real property, or (iii) being an obligor on an obligation secured by mortgages on real property or on interests in real property. In addition, passive foreign exchange gain is not treated as gross income for purposes of the 95% gross income test. Passive foreign exchange gain includes real estate foreign exchange gain and foreign currency gain attributable to (i) qualifying income under the 95% gross income test, (ii) the acquisition or ownership of obligations, or (iii) being the obligor on obligations and that, in the case of (ii) and (iii), does not fall within the scope of the real estate foreign exchange definition.
- Ø Expanded Prohibited Transactions Safe Harbor. The safe harbor from the prohibited transactions tax for certain sales of real estate assets is expanded by reducing the required minimum holding period from four years to two years. In addition, the exception from the prohibited transactions rules for sales of property during a taxable year that, in the aggregate, are not in excess of 10% of aggregate adjusted basis was expanded to provide for an alternative test excluding sales of property that, in the aggregate, are not in excess of either 10% of aggregate adjusted basis or 10% of fair market value. See "Certain Federal Income Tax Considerations – Taxation of Omega – Prohibited Transactions" in the accompanying prospectus.



- Ø Hedging Income. Income from a hedging transaction entered into after July 30, 2008, that complies with identification procedures set out in Treasury regulations and hedges indebtedness incurred or to be incurred by us to acquire or carry real estate assets will not constitute gross income for purposes of both the 75% and 95% gross income tests. See “Certain Federal Income Tax Considerations – Taxation of Omega –Income Tests” in the accompanying prospectus.
- Ø Reclassification Authority. The Secretary of the Treasury is given broad authority to determine whether particular items of gain or income recognized after July 30, 2008, qualify or not under the 75% and 95% gross income tests, or are to be excluded from the measure of gross income for such purposes.

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The 2009 Act will require, after December 31, 2012, withholding at a rate of 30% on dividends in respect of, and gross proceeds from the sale of, our stock held by or through certain foreign financial institutions (including investment funds), unless such institution enters into an agreement with the Secretary of the Treasury to report, on an annual basis, information with respect to shares in the institution held by certain U.S. persons and by certain non-U.S. entities that are wholly or partially owned by U.S. persons. Similarly, after December 31, 2012, dividends in respect of, and gross proceeds from the sale of, our stock held by an investor that is a non-financial non-U.S. entity will be subject to withholding at a rate of 30%, unless such entity either (i) certifies to us that such entity does not have any “substantial United States owners” or (ii) provides certain information regarding the entity’s “substantial United States owners,” which we will in turn provide to the Secretary of the Treasury.

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## Plan of distribution

We have entered into separate equity distribution agreements with each of Credit Agricole Securities (USA) Inc., Deutsche Bank Securities Inc., Jefferies & Company, Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, RBS Securities Inc., Stifel, Nicolaus & Company, Incorporated, and UBS Securities LLC, which we refer to individually as a “sales agent” and collectively as the “sales agents,” relating to shares of our common stock, par value \$0.10 per share, offered by this prospectus supplement and the accompanying prospectus. Pursuant to the terms of each equity distribution agreement, we may offer and sell shares of our common stock having an aggregate gross sales price of up to \$140,000,000 from time to time through or to the sales agents. Sales of the shares, if any, will be made by means of ordinary brokers’ transactions on the NYSE or otherwise at market prices prevailing at the time of sale or negotiated transactions or as otherwise agreed with the applicable sales agent. Our sales agents will not engage in any transactions that stabilize the price of our common stock. No more than one of the sales agents will sell shares on the same day. The actual number of shares issued pursuant to the equity distribution agreements may be limited as a result of our available authorized, unissued and unreserved shares of our common stock.

Each sales agent will offer shares of our common stock on a daily basis or as otherwise agreed upon by us and the applicable sales agent. We will designate the minimum price per share at which the shares may be sold and the maximum amount of shares of common stock to be sold through each sales agent. Subject to the terms and conditions of the applicable equity distribution agreement, each sales agent has agreed to use its commercially reasonable efforts to sell, on our behalf, all of the designated shares of common stock. We or the applicable sales agent may suspend the offering of shares of common stock being made through such sales agent under the applicable equity distribution agreement upon proper notice to the other party. We may instruct any sales agent not to sell shares of common stock if the sales cannot be effected at or above the price designated by us.

We will pay each sales agent compensation for sales of the shares equal to 2% of the gross sales price per share of shares sold through such sales agent under the applicable equity distribution agreement. The remaining sales proceeds, after deducting any expenses payable by us and any transaction fees imposed by any governmental or self-regulatory organization in connection with the sales, will equal our net proceeds from the sale of the shares that we may offer under this prospectus supplement and the accompanying prospectus. We have agreed to reimburse our sales agents for certain of their expenses in certain circumstances.

Settlement for sales of our common stock will occur, unless we and the applicable sales agent agree otherwise, on the third business day following the date on which any sales were made in return for payment of the net proceeds to us. There is no arrangement for funds to be received in an escrow, trust or similar arrangement.

We will deliver to the NYSE copies of this prospectus supplement and the accompanying prospectus pursuant to the rules of the NYSE. Unless otherwise required, we will report at least quarterly the number of shares of common stock sold through the sales agents under the equity distribution agreements, the net proceeds to us and the compensation paid by us to the sales agents in connection with such sales of shares of common stock.

Under the terms of the equity distribution agreements, we also may sell shares to each of Credit Agricole Securities (USA) Inc., Deutsche Bank Securities Inc., Jefferies & Company, Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, RBS Securities Inc., Stifel, Nicolaus & Company, Incorporated, and UBS Securities LLC, as principal for its own respective account, at a price agreed upon at the time of sale. If we sell shares to Credit Agricole Securities (USA) Inc., Deutsche Bank Securities Inc., Jefferies & Company, Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, RBS Securities Inc., Stifel, Nicolaus & Company, Incorporated, and UBS Securities LLC, as principal, we will enter into a separate terms agreement with Credit Agricole Securities (USA) Inc., Deutsche Bank Securities Inc., Jefferies & Company, Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, RBS Securities Inc., Stifel, Nicolaus & Company, Incorporated, and UBS Securities LLC, as applicable, setting forth the terms of such

transaction, and we will describe the agreement in a separate prospectus supplement or pricing supplement.<valign="bottom" bgcolor="#CCEEFF" style="background:#CCEEFF;padding:0in 0in 0in 0in;width:1.66%;">

Comptroller & Corporate Secretary, Delmar Haynes Pontiac GMC (automobile dealership)

Charles H. Whitfield, Jr.

47

2000

2006

President and Chief Executive Officer, Laughlin Memorial Hospital (hospital management)

**BOARD NOMINEES FOR TERM TO EXPIRE IN 2007**

Robert K. Leonard

38

2005

2006

President, LMR Plastics (manufacturing)

**DIRECTORS CONTINUING IN OFFICE**

Phil M. Bachman

68

1968

2007

President, Bachman-Bernard Motors  
(automobile dealership), Secretary of the Company and the Bank

Terry Leonard

68

1975

2007

Chairman/Owner, Leonard & Associates (manufacturing)

Ronald E. Mayberry

52

2003

2007

Regional President, Sumner, Rutherford and Lawrence Counties; previously, President and CEO of Independent Bankshares, Inc. headquartered in Gallatin, Tennessee, which was acquired by the Company in November 2003

Kenneth R. Vaught

41

2002

2007

President and Chief Operating Officer of the Company and the Bank; previously, Senior Vice-President and Regional Executive for the Bank's Blount and Knox County, Tennessee offices.

Bruce Campbell

54

2000

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2008

Director, President and Chief Executive Officer, Forward Air Corporation, from October, 2003 to date; previously, Director, President and Chief Operating Officer, Forward Air Corporation(transportation)

Jerald K. Jaynes

68

1992

2008

Retired; former President & CEO, Unaka Co., Inc. (manufacturing)

R. Stan Puckett

50

1989

2008

Chairman of the Board and Chief Executive Officer of the Company and the Bank

John Tolsma

32

2004

2008

President, Erroyo (educational multimedia)

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(a) Indicates year that director first served as a director of either the Company or the Bank.



### Meetings and Committees of the Board of Directors

The Company conducts its business through meetings of the Board of Directors, which met 18 times during 2005. There are no separate standing committees of the Board of Directors of the Company. The business of the Bank is conducted through its Board of Directors, which met 16 times in 2005, 12 of which were regular meetings and four were specially called meetings. Each member of the Board of Directors of the Company and of the Bank attended at least 75% or more of the aggregate of (a) the total number of meetings of the boards of directors and (b) the total number of meetings held by all committees on which they served, with the exception of Mr. Campbell, who attended 60% of the aggregate of such meetings.

The Nominating Committee of the Bank, consisting of Messrs. Terry Leonard, Bachman and Campbell, with Mr. Leonard serving as Chairman, also acts as the nominating committee for the Company in selecting management's nominees for election as directors. Nominations may also be made by shareholders, provided such nominations are made in writing and submitted to the Secretary or the President of the Company in accordance with the Company's Amended and Restated Charter as described below. The Nominating Committee has a written charter which sets out the duties and responsibilities of the committee, a copy of which is available on the Investor Relations section of the Company's website at [www.mybankconnection.com](http://www.mybankconnection.com). Each of the directors who serve on the Nominating Committee is independent as that term is defined under Rule 4200(a)(15) of the listing standards of the NASD. During 2005, the Nominating Committee met one time.

Under the terms of the Company's Amended and Restated Charter, shareholders of record of the Company both at the time of giving of notice and at the time of the annual meeting, may nominate persons for election to the Company's Board of Directors. For such nominations to be properly brought before an annual meeting, the shareholder must have given timely notice thereof in writing to the secretary of the Company. To be timely, a shareholder's notice shall be delivered to the secretary at the Company's principal executive office no less than 40 days nor more than 60 days prior to the scheduled date of such meeting; except that if notice of public disclosure of the meeting is given fewer than 50 days prior to the meeting, such shareholder's notice must be delivered to the secretary of the Company not later than the close of business on the 10<sup>th</sup> day following the day such notice was first mailed to the Company shareholders. In addition, each notice submitted by a Company shareholder shall set forth as to such nominee all information relating to that person that is required to be disclosed in solicitations of proxies for election of directors, or as otherwise required, in each case pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended (the Exchange Act), including that nominee's written consent to be named in the proxy statement as a nominee and to serving as a director if elected. Also, the shareholder giving such notice and the beneficial owner, if any, on whose behalf the nomination is submitted, shall include the name and address of such shareholder as they appear on the Company's books and of such beneficial owner, and the number of shares of each class of the Company's stock which are owned beneficially and of record by such shareholder and such beneficial owner.

In the event that the number of directors to be elected to the Board of Directors at an annual meeting is increased and there is no public announcement by the Company naming all of the nominees for director or specifying the size of the increased Board of Directors at least 70 days prior to the first anniversary of the prior year's annual meeting, a shareholder's notice required by the Company's Amended and Restated Charter shall also be considered timely with respect to nominees for any such new positions, if it shall be delivered to the Secretary of the Company at the Company's principal executive offices not later than the close of business on the 10<sup>th</sup> day following the day on which public announcement of such increase is first made by the Company.

The Company's Nominating Committee is responsible for (i) annually reviewing with the Board of Directors the appropriate skills and characteristics required of members of the Board of Directors, which, at a minimum, include professional integrity, sound judgment, and sufficient time to devote to Board activities; (ii) annually reviewing and determining any specific qualities or skills that one or more directors must possess; (iii) identifying individuals qualified to become directors consistent with the criteria approved by the Board of Directors; (iv) evaluating and considering director candidates proposed by management, any director or any shareholder; and (v) recommending for selection by the Board of Directors director nominees for the next annual meeting of shareholders. The Board of Directors will then review and approve director nominees for the annual meeting of shareholders.

Each potential director nominee is evaluated on the same basis regardless of whether he or she is recommended by management, by a director or by a shareholder. The Board of Directors has not adopted a policy with respect to minimum qualifications for directors. Rather, the Nominating Committee annually reviews and determines the specific qualifications and skills that one or more directors must possess. Each of the nominees for director to be elected at the Annual Meeting was nominated and recommended by the Nominating Committee and approved by the Board of Directors.

The Company has not received director nominee recommendations from any shareholders for the terms commencing in 2006 and expiring in 2009 or, in the case of Mr. Robert Leonard, 2007. The Board of Directors will consider nominees recommended by shareholders, provided that such recommendations comply with the notice, timing and other requirements provided for in the Company's Amended and Restated Charter.

The Audit Committee of the Bank also serves as the audit committee for the Company and is a separately-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. The Audit Committee of the Bank consists of Messrs. Jaynes, Robert Leonard, Terry Leonard, Tolsma and Whitfield, Jr. Each of the directors who serve on the Audit Committee is independent of the Company, as the term independent is defined under Rule 4200(a)(15) of the listing standards of the NASD and the standards promulgated under the Sarbanes-Oxley Act of 2002. In addition, the Company's Board of Directors has determined that Mr. Jaynes qualifies as an audit committee financial expert as such term is defined by the SEC's rules and regulations, and is independent, as defined by the NASD's listing standards and the SEC's rules and regulations. For 2006, the Chairman of the Audit Committee will be Mr. Jaynes. This committee meets at least quarterly to (1) monitor the accounting and financial reporting practices of the Company, and (2) determine whether the Company has adequate administrative, operating and internal accounting control over financial reporting. This committee met six times during 2005 in its capacity as the Audit Committee for the Company. A copy of the Audit Committee Report is set forth below. The Audit Committee has a written charter which sets out the duties and responsibilities of the Audit Committee, a copy of which is available on the Investor Relations section of the Company's website at [www.mybankconnection.com](http://www.mybankconnection.com).

The Bank's Compensation Committee also serves as the compensation committee for the Company. The Compensation Committee consists of Phil Bachman, Martha Bachman, Terry Leonard, W.T. Daniels, Charles Brooks and Bruce Campbell, with Mr. Terry Leonard serving as Chairman. Each member of the Compensation Committee is independent within the meaning of the NASD's listing standards. The Compensation Committee meets periodically to evaluate the compensation and fringe benefits of the directors, officers and employees of the Bank and the Company and recommend compensation changes to the respective Boards of Directors. The Compensation Committee met four times during 2005. The Compensation Committee has a written charter which sets out the duties and responsibilities of the Compensation Committee, a copy of which is available on the Investor Relations section of the Company's website at [www.mybankconnection.com](http://www.mybankconnection.com).

### **Directors Compensation**

Directors of the Company meet as a Board on a monthly basis, or more often as needed, to address matters relating to the operation and direction of the Company. The Company does not compensate members of its Board of Directors for any meetings of the Board, except for certain special meetings held on dates other than a regularly scheduled meeting of the Bank's Board of Directors. During 2005, the Board of Directors of the Company met 18 times, of which one of the meetings was a special meeting as to which the directors were each paid \$600 for their attendance.

Directors of the Company are also directors of the Bank. The Bank compensates members of its Board of Directors for all regular and special meetings. Directors of the Bank received \$600 for each regular monthly and specially-called Board meeting attended in 2005, plus payment of such fee for up to two absences during a year. The Bank's Board of Directors met 16 times in 2005. Each Bank director also received an annual retainer fee of \$10,000, paid in equal quarterly amounts. Members of the Executive Committee of the Bank's Board of Directors also received \$450 for each twice-monthly meeting of the Executive Committee attended, and Messrs. Bachman and Daniels, the two permanent members of the Committee, received an annual retainer of \$1,500. Members of the Bank's Audit Committee received \$450 for each quarterly and specially called meeting during 2005. In addition, the Chairman of the Audit Committee received an annual retainer of \$3,000. Compensation for all other committee meetings was \$300 per meeting during 2005.

During 2005, the Bank maintained a deferred compensation plan (the Original Plan ) pursuant to which all directors could elect to defer receipt of a portion of their fees by entering into deferred fee agreements with the Bank. In addition to the fee deferral, the agreements also provided for payment of benefits under certain events of disability, early retirement, termination of employment or death. The Bank is the beneficiary of life insurance acquired with respect to directors participating in the Original Plan. Interest is credited on the account balances of the participating directors monthly by the Bank at an annual rate of 10% compounded monthly until a separation from service, and, thereafter, at an annual rate of 7.5% compounded monthly. On March 11, 2005, each participating nonemployee director executed a new deferred fee agreement pursuant to which he or she may defer director fees under the Original Plan. Those directors that are also employees will continue to be able to participate in the Original Plan and defer compensation, rather than director fees, under the terms of the Original Plan pursuant to deferred compensation agreements executed by each of them on March 11, 2005. During 2005, the following directors participated in the Original Plan and each had the following account balances at December 31, 2005 and had been credited with interest in the following amounts during 2005:

| Name                      | Account Balance | Interest Credited |
|---------------------------|-----------------|-------------------|
| R. Stan Puckett           | \$ 254,973      | \$ 23,586(1)      |
| Kenneth R. Vaught         | 47,007          | 3,787(1)          |
| Ronald E. Mayberry        | 12,411          | 425(1)            |
| Phil M. Bachman           | 678,718         | 63,100            |
| Charles S. Brooks         | 81,573          | 7,602             |
| W.T. Daniels              | 170,241         | 16,070            |
| Jerald K. Jaynes          | 227,021         | 21,332            |
| Terry Leonard             | 254,298         | 23,772            |
| John Tolsma               | 12,926          | 934               |
| Charles H. Whitfield, Jr. | 42,301          | 3,651             |

(1) Includes amounts credited on director fee deferrals prior to 2005 and deferrals of base salary thereafter for each of Mr. Puckett and Mr. Vaught and amounts credited on deferrals of base salary for Mr. Mayberry beginning in 2005.

Payment of the benefits under the Original Plan will be made following normal or early retirement, upon termination of service, following the participant's becoming disabled or upon the participant's death. Payments will be made in either monthly installments for a ten-year period or in one lump sum, depending upon the circumstances of the separation of service. In the event that a participant dies while still in service prior to his or her normal retirement age, the Bank will pay to the participant's beneficiary a benefit based on the participant's projected account balance at normal retirement age.

On September 20, 2004, the Company approved a separate deferred compensation plan for nonemployee directors (the Nonemployee Plan ) which, effective July 1, 2004, enabled nonemployee directors to defer additional board and committee meeting fees, beyond those being deferred under the Original Plan, into certain investment vehicles, including a deemed investment in the Company's common stock. There are currently nine nonemployee directors eligible for participation in the Deferred Compensation Plan. Mr. Bachman is currently the sole participant in the Nonemployee Plan and has deferred \$9,700 of his director's fees into the Nonemployee Plan and earned \$92 on his deferrals during 2005. On December 13, 2004, the Company amended and restated the Nonemployee Plan for the principal purpose of ensuring that it complies with The American Jobs Creation Act of 2004. On December 16, 2005, the Company approved additional changes to its Nonemployee Plan effective January 1, 2005, which further facilitate compliance with Section 409A of the Internal Revenue Code of 1986, as amended.

## Executive Compensation and Other Benefits

**Summary Compensation Table.** The following table sets forth cash and noncash compensation for each of the last three fiscal years awarded to or earned by the Chief Executive Officer and each of the other most highly compensated executive officers of the Company, or the Bank, earning in excess of \$100,000 in annual salary and bonuses (the named executive officers ).

| Name and Principal  | Year | Annual Compensation |               | Other Annual Compensation(b) | Long-Term Compensation Awards |  | Payouts | All Other Compensation (c) |
|---|------|---------------------|---------------|------------------------------|-------------------------------|--|---------|----------------------------|
|   |      | Salary              | Bonus(a)      |                              | Restricted Stock Award(s)     | Securities Underlying Options/SARs(#)(a) |         |                            |
| R. Stan Puckett, Chairman of the Board and Chief Executive Officer of the Company and The Bank                                    | 2005 | \$ 250,000          | \$ 195,040(d) |                              |                               | 9,000(e)                                 | \$      | 133,349(f)                 |
|   | 2004 | 228,000             | 90,000        |                              |                               | 9,000(e)                                 |         | 121,502(f)                 |
|   | 2003 | 219,500             | 79,750        |                              |                               | 9,000(g)                                 |         | 44,868(f)                  |
| Kenneth R. Vaught, Director, President and Chief Operating Officer of the Company and the Bank                                    | 2005 | \$ 185,000          | \$ 132,800(h) |                              |                               | 10,000(f)                                | \$      | 88,680(i)                  |
|   | 2004 | 166,416             | 121,150(h)    |                              |                               | 10,000(f)                                |         | 28,093(i)                  |
|   | 2003 | 160,000             | 63,750        |                              |                               | 10,000(f)                                |         | 26,322(i)                  |
| Steve L. Droke, Senior Vice President and Chief Credit Officer of the Bank  | 2005 | \$ 142,000          | \$ 40,000     |                              |                               | 3,302(f)                                 | \$      | 8,438                      |
|   | 2004 | 133,060             | 35,200        |                              |                               | 2,760(f)                                 |         | 7,983                      |
|   | 2003 | 126,804             | 33,250        |                              |                               | 2,947(f)                                 |         | 7,608                      |
| William F. Richmond, Former Senior Vice President, Chief Financial Officer and Assistant Secretary of the Company and the Bank(j) | 2005 | \$ 141,270          | \$ 36,000     |                              |                               | 3,279(f)                                 | \$      | 8,926                      |
|   | 2004 | 125,558             | 35,200        |                              |                               | 2,605(f)                                 |         | 7,533                      |
|   | 2003 | 115,600             | 33,250        |                              |                               | 2,750(f)                                 |         | 6,936                      |
| Ronald E. Mayberry, Regional President, Sumner, Rutherford and Lawrence Counties  | 2005 | \$ 165,000          | \$ 9,900      |                              |                               | 2,500(f)                                 | \$      | 30,225(k)                  |
|   | 2004 | 165,000             | 16,170        |                              |                               | 2,500(f)                                 |         | 25,500                     |
|   | 2003 | 17,451              |               |                              |                               |  |         | 2,147                      |

- (a) Bonus amounts and option awards reflect amounts earned during the stated fiscal year, even if paid or awarded in the subsequent fiscal year. All amounts have been restated to reflect this presentation.
- (b) Executive officers of the Company receive indirect compensation in the form of certain perquisites and other personal benefits. The amount of such benefits received by the named executive officers in 2005, 2004 and 2003 did not exceed 10% of the respective executive's annual salary and bonus.
- (c) Reflects contributions by the Company to its retirement plans for the benefit of each named officer and payments of directors' fees to Messrs. Puckett, Vaught and Mayberry. Directors' fees paid to Messrs. Puckett, Vaught and Mayberry are as follows: \$19,000 for 2005, \$15,600 for 2004 and \$15,600 for 2003 for Mr. Puckett; \$19,000 for 2005, \$15,600 for 2004 and \$15,600 for 2003 for Mr. Vaught; and \$19,000 for 2005, \$15,600 for 2004 and \$1,100 for 2003 for Mr. Mayberry. Contributions to retirement plans made by the Company on behalf of Messrs. Puckett, Vaught, Droke, Richmond and Mayberry for the years 2005, 2004 and 2003 are as follows: \$12,600, \$12,300 and \$12,000 in 2005, 2004 and 2003, respectively, for Mr. Puckett; \$11,100, \$9,984 and \$9,600 in 2005, 2004 and 2003, respectively, for Mr. Vaught; \$8,438, \$7,983 and \$7,608 in 2005, 2004 and 2003, respectively, for Mr. Droke; \$8,926, \$7,533 and \$6,936 in 2005, 2004 and 2003, respectively, for Mr. Richmond; and \$9,900, \$9,900 and \$1,047 in 2005, 2004 and 2003, respectively, for Mr. Mayberry.
- (d) Includes \$50,040 earned in 2004 and paid in 2005.

(e) Granted pursuant to the Company's 2004 Long-Term Incentive Plan as to which options are granted with an exercise price equal to fair market value of the Common Stock at date of grant and are exercisable for ten years from date of grant.

(f) Also includes \$23,586, \$20,345 and \$17,268 in 2005, 2004 and 2003, respectively, of interest payments credited by the Bank on the account balances of Mr. Puckett deferred pursuant to the Original Plan, which beginning in 2005 reflects the deferral of a portion of his base salary rather than a portion of directors fees and, \$78,163 and \$73,257 in 2005 and 2004, respectively, which represents the vested portion of the amount accrued by the Company in 2005 and 2004 for payment to Mr. Puckett under the terms of his non-competition agreement described below under the heading Employment, Non-Competition and Change-in-Control Agreements .

(g) Mr. Puckett was granted options to purchase 9,000 shares of Common Stock with an exercise price equal to 150% of the Common Stock's book value at the time of grant and with a term of 10 years. Options with an exercise price equal to 150% of book value are no longer awarded to Mr. Puckett but he is eligible to receive awards granted pursuant to the Company's 2004 Long-Term Incentive Plan.

(h) Includes \$17,800 and \$51,150 earned in 2004 and 2003 and paid in 2005 and 2004.

(i) Also includes \$3,787, \$2,509 and \$1,122 in 2005, 2004 and 2003, respectively, of interest payments credited by the Bank on the account balances of Mr. Vaught deferred pursuant to the Original Plan which beginning in 2005 reflects the deferral of a portion of his base salary rather than a portion of director fees and, in 2005, \$54,793 which represents the vested portion of the amount accrued by the Company in 2005 for payment to Mr. Vaught under the terms of his non-competition agreement described below under the heading Employment, Non-Competition and Change-in-Control Agreements .

(j) Mr. Richmond retired from the Company as Chief Financial Officer and Assistant Secretary effective 12:01 a.m. January 1, 2006. Mr. James E. Adams assumed the Chief Financial Officer and Assistant Secretary duties upon Mr. Richmond's retirement.

(k) Also includes \$425 in 2005 of interest payments credited by the Bank on the account balances of Mr. Mayberry deferred pursuant to the Original Plan which in 2005 reflects the deferral of a portion of his base salary.

**Option Grants in Fiscal Year 2005.** The following table contains information concerning the grant of stock options to Messrs. Puckett, Vaught, Droke, Richmond and Mayberry under the 2004 Long-Term Incentive Plan. The Company did not grant any stock appreciation rights in 2005.

| Name                | Number of Securities Underlying Options Granted(a) | Percent of Total Options Granted to Employees in Fiscal Year | Exercise Price (\$ per share) | Expiration Date | Grant Date Present Value |
|---------------------|--|--|-------------------------------|-----------------|--------------------------|
| R. Stan Puckett     | 9,000(c)   | 9.97%  | \$ 28.90                      | 2/21/16         | \$ 81,000(b)             |
| Kenneth R. Vaught   | 10,000(c)  | 11.08%   | 28.90                         | 2/21/16         | 90,000(b)                |
| Steve L. Droke      | 3,302(c)   | 3.66%  | 28.90                         | 2/21/16         | 29,718(b)                |
| William F. Richmond | 3,279(c)   | 3.63%  | 28.90                         | 2/21/16         | 29,511(b)                |

|                    |          |       |       |         |           |
|--------------------|----------|-------|-------|---------|-----------|
| Ronald E. Mayberry | 2,500(c) | 2.77% | 28.90 | 2/21/16 | 22,500(b) |
|--------------------|----------|-------|-------|---------|-----------|

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(a) Option awards reflect awards earned during the stated fiscal year, even if awarded in the subsequent fiscal year.

(b) Represents the present value of the option at the date of grant as determined using the Black-Scholes option pricing model. In calculating the present value of the option grant, the following assumptions were utilized: (i) the current market price of the underlying Common Stock at the date of grant was \$28.90, (ii) the continuously compounded risk-free rate of return expressed on an annual basis was 4.57%; (iii) the risk of the underlying Common Stock, measured by the standard deviation of the continuously compounded annual rate of return of the Common Stock, was 28.16%; and (iv) the dividend yield on the underlying Common Stock was 2.27%. These assumptions are used for illustrative purposes only. No assurance can be given that actual experience will correspond to the assumptions utilized.

(c) Options are granted at fair market value and vest 20% annually over five years.



**Aggregated Option Exercises in 2005 and Year-End Option Values.** The following table sets forth information concerning the value of options held by the named executive officers at the end of the fiscal year.

| Name                | Shares Acquired on Exercise (#) | Value Realized (\$) | Number of Securities Underlying Unexercised Options at Fiscal Year-End Exercisable/Unexercisable (Number of Shares)(b) | Value of Unexercised In-The-Money Options at Fiscal Year-End (a)(b) Exercisable/Unexercisable |
|---------------------|---------------------------------|---------------------|--|---|
| R. Stan Puckett     |                                 |                     | 81,000/9,000   | \$963,900/  |
| Kenneth R. Vaught   |                                 |                     | 10,805/24,306  | \$31,263/\$75,394   |
| Steve L. Droke      |                                 |                     | 16,742/9,046   | \$77,211/\$24,931   |
| William F. Richmond | 500                             | \$ 6,360            | 14,944/8,629   | \$73,021/\$22,897   |
| Ronald E. Mayberry  |                                 |                     | 14,987/4,500   | \$216,862/\$940   |

(a) Represents the difference between the closing price of underlying Common Stock, as reported on the Nasdaq National Market as of December 30, 2005 (\$27.36), the last trading day of the 2005 fiscal year, and the respective weighted average exercise prices of the outstanding options. Options are in-the-money if the fair market value of the underlying securities exceeds the exercise price of the option and out-of-the-money if the exercise price of the option exceeds the current fair market value of the underlying securities.

(b) Option values reflect options earned during the stated fiscal year, even if awarded in the subsequent fiscal year.

**Retirement Plans.** The Company maintains a contributory profit sharing plan ( PSP ) covering certain employees with more than one year of service. The Company contributes a discretionary and immediately vested 3% of compensation, excluding bonuses and overtime, to the PSP. In addition, the Company's Board of Directors has the authority to contribute an additional discretionary 3% of compensation, excluding bonuses, commissions and overtime, which vests after two years of employment. The PSP allowed employees to contribute the maximum allowed by current ERISA regulations.

Contributions in the amount of \$12,600, \$11,100, \$8,438, \$8,926 and \$9,900, which are reflected in the table above, were made for the accounts of Messrs. Puckett, Vaught, Droke, Richmond and Mayberry, respectively, under the PSP in 2005. Messrs. Puckett, Vaught, Droke, Richmond and Mayberry are fully vested under the PSP.

**Employment, Non-Competition and Change-in-Control Agreements.** The Company entered into an employment agreement with Mr. Puckett effective January 23, 1996, without any specified term, to serve as President and Chief Executive Officer of the Company. In June 2002, Mr. Vaught assumed the title of President while Mr. Puckett retained the position of Chief Executive Officer. The Board of Directors and Mr. Puckett mutually agreed to this change, which will not affect Mr. Puckett's employment contract.

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Mr. Puckett's agreement, which was amended on January 23, 2004 and December 20, 2005, is terminable by either party at any time and provides for a base salary plus directors' fees, life insurance, participation in benefit plans, other fringe benefits. If Mr. Puckett's employment is not continued by mutual agreement following a merger or acquisition involving the Company, Mr. Puckett shall be entitled to a payment equal to two years' compensation (defined to include his base salary plus fringe benefits). The payment that would be made to Mr. Puckett under his employment agreement, assuming his termination of employment under the foregoing circumstances at December 31, 2005, would have been approximately \$525,200.

Mr. Puckett has also entered into a non-competition agreement with the Company pursuant to which he has agreed not to, among other things, during the term of his employment or following termination of his employment until his sixtieth (60<sup>th</sup>) birthday, engage in the business of banking in any county of any state in which the Company has an office or branch at the time of his termination. In consideration for this agreement, the Company has agreed to pay Mr. Puckett a deferred compensation benefit for a period of seven years following the termination of his employment, or upon his sixtieth (60<sup>th</sup>) birthday if Mr. Puckett is still employed with the Company on such date. If Mr. Puckett dies before age 54 while still employed by the Company, the benefit will be paid to his beneficiary as if he had retired on his fifty-fourth (54<sup>th</sup>) birthday. Mr. Puckett's non-competition agreement also provides for the payment of benefits for seven years following a change in control of the Company or Mr. Puckett becoming disabled. The Company accrued \$78,740 for the payment of the benefit under this agreement in 2005.

The Company entered into an employment agreement with Mr. Vaught effective January 1, 2003, with a three-year term automatically renewable upon the expiration of the initial term and each renewal term on a calendar year-to-year basis, as President and Chief Operating Officer of the Company.

Mr. Vaught's agreement, which is terminable by either party at any time, provides for a base salary plus directors' fees, life insurance, participation in benefit plans and other fringe benefits. If Mr. Vaught's employment agreement is terminated by the Company without cause, then the Company shall pay to him, in addition to his accrued base salary through the termination date, an additional one-time amount equal to 12 months of his then base salary plus an amount equal to his average annual bonus for the two years prior to the termination. In addition, if Mr. Vaught's employment is terminated by the Company other than for cause within 18 months following, or six months prior to, a change in control, or within such periods Mr. Vaught voluntarily resigns following a demotion in position, a reduction in title and/or a significant reduction in duties, Mr. Vaught shall be entitled to a payment equal to three years' compensation (defined to include his base salary plus the total amount of any annual incentives paid to him in the twelve-month period immediately preceding the merger or acquisition) plus any taxes payable by Mr. Vaught as a result of these payments. As a consideration for these payments, Mr. Vaught is required to work with the new organization for a period of six months at his then base salary. If he does not work with the new organization for this six-month period, he will not receive these payments. The payment that would be made to Mr. Vaught, assuming his termination of employment under the foregoing circumstances at December 31, 2005, would have been approximately \$953,400.

Mr. Vaught has also entered into a non-competition agreement with the Company pursuant to which he agreed that, in exchange for his receipt of a deferred compensation benefit, that during the term of his employment or following his termination by the Company without cause or his voluntary resignation, until his forty-six (46<sup>th</sup>) birthday, he would not either directly or indirectly engage in the business of banking, or any other business in which the Company directly or indirectly engages during the term of his employment with the Company in any county of any state in which the Company has an office or branch at the time of his termination.

In consideration of his agreement not to compete, the Company agreed to pay to Mr. Vaught, upon his reaching age 50, deferred compensation benefits for a period of 10 years following the termination of his employment or upon his fiftieth (50<sup>th</sup>) birthday if still employed by the Company at that date. If Mr. Vaught dies before age 50 while still employed by the Company, the benefits will be paid to his beneficiary beginning on August 1, 2014. If he dies after his fiftieth (50<sup>th</sup>) birthday while still employed by the Company, the benefit payments will commence within ninety days following his death. The agreement also provides that Mr. Vaught can defer receipt of these payments until age 60 if he is still employed by the Company at age 50. Mr. Vaught's non-competition agreement also provides for the payment of benefits for ten years following a change in control. The Company accrued \$56,035 for the payment of the benefit under this agreement in 2005.

The Company has entered into an employment agreement with Ed Mayberry with a three-year term automatically renewable for a one-year term upon the expiration of the original term. Mr. Mayberry's employment agreement provides for the payment of his base salary, participation in benefit plans and other fringe benefits. The employment agreement also prohibits Mr. Mayberry from competing with the Company in Rutherford, Sumner and their contiguous counties for the three years following November 21, 2003, the date of the Company's acquisition of Independent Bankshares, Inc. If Mr. Mayberry's employment is terminated by the Company without cause, or by Mr. Mayberry for good reason, he is entitled to receive his base salary for the remainder of the then term of his employment agreement and any bonus payment or stock options then owed to him. He is also eligible to continue his participation in the Company's benefit plans, to the extent he was eligible at the time of his termination, for the remainder of the then term of his employment agreement.

Messrs. Droke and Mayberry are participants in the Company's Change in Control Protection Plan under which each of them will receive a payment in the amount of 1.99 times his base amount within the meaning of Section 280G of the Internal Revenue Code if, on or after a change in control, as defined in the Change in Control Plan, he resigns from the Company for good reason or his employment is terminated by the Company without cause, as those terms are defined in the Change in Control Plan. The payments that would be made to Messrs. Droke and Mayberry, assuming their termination of employment under the foregoing circumstances at December 31, 2005, would have been approximately \$305,000 and \$257,700, respectively.



**Executive Officer Information.** The following table sets forth information regarding the executive officers of the Company.

| Name               | Age | Title  |
|--------------------|-----|--|
| R. Stan Puckett    | 50  | Chairman of the Board and Chief Executive Officer                      |
| Kenneth R. Vaught  | 41  | President and Chief Operating Officer                                  |
| Steve L. Droke     | 56  | Senior Vice President and Chief Credit Officer                         |
| James E. Adams     | 61  | Senior Vice President, Chief Financial Officer and Assistant Secretary |
| Ronald E. Mayberry | 52  | Regional President, Sumner, Rutherford and Lawrence Counties           |

**R. Stan Puckett** currently serves as Chief Executive Officer of the Company and the Bank and has held that position since 1990. He also is currently Chairman of the Board of Directors. He has served as Chief Executive Officer of the Bank since February 1989. He is a graduate of Bristol University with a degree in business administration. He served as President of First American National Bank of Johnson City, Tennessee from December 1987 to February 1989 and as its Vice President from June 1986 to December 1987. He was Assistant Vice President of First Union National Bank in Asheville, North Carolina from September 1983 to June 1986 and served as commercial loan officer of Signet Bank in Bristol, Virginia from September 1977 to June 1983.

**Kenneth R. Vaught** currently serves as President and Chief Operating Officer of the Company and the Bank and has held these positions since June 2002. He also was elected to the Board of Directors on that date. Previously, he served as Senior Vice-President and Regional Executive for the Bank's Blount and Knox County, Tennessee offices. Prior to joining the Company, Mr. Vaught began his banking career in 1987 as a Management Trainee with Hamilton Bank (SunTrust affiliate) in Johnson City, Tennessee. He later joined First Tennessee Bank in 1989 as a Commercial Loan Officer. In 1991, he was promoted to Vice President and transferred to First Tennessee Bank, Maryville, Tennessee. He left First Tennessee Bank in 1998 as Senior Vice President and Commercial Banking Manager to join Greene County Bank. He is a graduate of East Tennessee State University with a degree in Finance.

**Steve L. Droke** has served as Senior Vice President and Chief Credit Officer of the Bank since July 1997, with responsibilities for risk management including Credit Policy development and implementation and oversight of Compliance and Loan Operations. Prior to joining the Bank, he was Senior Vice President and Senior Credit Officer with First American Corporation. His 32-year banking career includes a varied background in bank management, risk management, and lending. Mr. Droke is a graduate of East Tennessee State University with a B.S. in Finance, the Graduate School of Retail Bank Management at the University of Virginia, and the Graduate School of Commercial Bank Lending at the University of Oklahoma. He is a member of The Risk Management Association and Tennessee Bankers Association.

**James E. Adams** joined the Company in December 2005 and assumed the role of Senior Vice President, Chief Financial Officer and Assistant Secretary of the Company and the Bank upon Mr. William F. Richmond's retirement on January 1, 2006. Prior to joining the Company, Mr. Adams served as Executive Vice President and Chief Financial Officer of

Rurban Financial Corporation from 2003 to 2005. Prior to that, he was retired after having served as Executive Vice President and Chief Financial Officer of Integra Bank Corporation from 1999 through 2002; and Executive Vice President and Chief Financial Officer of MainStreet Financial Corporation from 1994 to 1999. He has held executive management positions at several multi-billion dollar bank holding companies, which have subsequently been acquired, since 1978. Mr. Adams began his career in 1970 as a Certified Public Accountant upon graduation from Michigan State University. He has co-authored two books used throughout the financial services industry and was appointed to serve a three year term on the Finance and Accounting Commission of the Bank Administration Institute in the mid 80 s.

**Ronald E. Mayberry** joined the Company in November, 2003 as a result of the acquisition of Independent Bankshares Corporation headquartered in Gallatin, Tennessee and currently serves as Regional President of the Company s Sumner, Rutherford and Lawrence Counties, Tennessee operations. Prior to joining the Company, Mr. Mayberry began his career in banking in 1975 with First Tennessee Bank as a management trainee in Gallatin, Tennessee. Since that time he has served in many capacities such as a branch manager and administrator, Executive Vice President of First and Peoples National Bank in Gallatin, as well as President and CEO of First Southern Bank in Murfreesboro, Tennessee. Since 1989 he had served as President and CEO of First Independent Bank and Independent Bankshares Corporation in Gallatin, with additional offices in Hendersonville, Tennessee. As a part of the Independent Bankshares Corporation holding company he chartered Rutherford Bank & Trust in Murfreesboro, Tennessee in 1996, with additional offices in Smyrna, Tennessee. Mr. Mayberry is a graduate of Middle Tennessee State University and The School of Banking of the South at Louisiana State University.

### **Report of the Compensation Committee on Executive Compensation**

A seven-member Compensation Committee of the Board of Directors of the Bank is solely responsible for developing and making recommendations to the Board of Directors concerning compensation paid to the Chief Executive Officer, the President and Chief Operating Officer and, after considering the recommendation of the Chief Executive Officer, all other employees, including the other executive officers. The Compensation Committee is further responsible for administering all aspects of the Company's executive compensation program. Executive compensation is intended to be set at levels that the Compensation Committee believes is consistent with others in the Company's industry, and the Compensation Committee also considers general economic conditions and other external factors. Each member of the Compensation Committee is independent within the meaning of NASD's listing standards and is appointed annually.

Base salaries for executive officers are determined initially by evaluating the responsibilities of the position held, and by reference to the competitive marketplace for management talent, including a comparison of base salaries for comparable positions at comparable companies within the financial services industry. Annual salary adjustments are determined by evaluating the competitive marketplace, the performance of the Company and the performance of the executive officer. Compensation paid during 2005 to executive officers consisted of base salary, bonus, stock options and contributions paid with respect to the Company's retirement plans. In addition, Messrs. Puckett, Vaught and Mayberry received directors fees for their service on the Company's and the Bank's Board of Directors, portions of which were deferred by Messrs. Puckett and Vaught pursuant to the Original Plan. Interest was credited on these deferred accounts at an annual rate of 10%, and such amounts are payable following the employees' retirement, disability, termination of service or death. It is the philosophy of the Compensation Committee that stock options should be awarded to the key employees of the Company to promote long-term interests between such employees and the Company's shareholders and to assist in the retention of such employees, and the Company's executive officers are eligible for awards under the Company's 2004 Long-Term Incentive Plan. Payments to the Company's PSP are made to certain employees on a non-discriminatory basis.

In making its recommendation to the Board of Directors of the Company as to the 2005 base salary for Mr. Puckett, the Compensation Committee considered the Company's overall financial performance in 2004, including return on average assets and return on average equity for 2004 as compared to the previous year and growth in earnings per share in 2004. The Compensation Committee also reviewed various industry compensation surveys for chief executive officers of other banks and bank holding companies with asset sizes comparable to those of the Bank. In addition to his base salary, Mr. Puckett is eligible for an annual cash bonus pursuant to a formula that is based on the Company's performance. The Compensation Committee, in establishing Mr. Puckett's base salary in 2005, also considered the benefits Mr. Puckett is entitled to receive under the terms of his non-competition agreement and in the event of a change in control. The Compensation Committee further considered Mr. Puckett's receipt of director fees and his ability to defer some of his director fees and to receive interest on his deferrals in establishing his compensation for 2005.

Messrs. Puckett and Vaught received a bonus award for 2005 based upon return on average equity and return on average assets of the Bank, as well as overall performance reviews. Messrs. Mayberry, Droke and Richmond received a bonus award for 2005 based upon the discretion of the Chairman and Chief Executive Officer of the Company. The bonuses awarded to Messrs. Puckett, Vaught, Droke, Richmond and Mayberry in 2005 were \$195,040, \$132,800, \$40,000, \$36,000 and \$9,900, respectively, which totaled 78.02%, 71.78%, 28.17%, 25.48% and 6.00%, respectively, of their base salaries for 2005.

The Committee believes that Mr. Puckett's total compensation for 2005 appropriately reflected his contribution to the Company's financial results. The Committee believes that the Company's overall performance was indicative of a well-managed company during a challenging business climate.

#### **Compensation Committee**

Terry Leonard, Chairman

Martha Bachman

Philip M. Bachman, Jr.

Charles Brooks

Bruce Campbell

W.T. Daniels

John Tolsma

The foregoing report of the Compensation Committee shall not be deemed incorporated by reference by any general statement incorporating by reference this proxy statement in any filing under the Securities Act of 1933 or the Exchange Act, except to the extent that the Company specifically incorporates this information by reference, and shall not otherwise be deemed filed under such acts.



**Compensation Committee Interlocks and Insider Participation**

The members of the Compensation Committee during 2005 consisted of Messrs. Terry Leonard, Bachman, Brooks, Daniels and Campbell and Ms. Bachman.

Except for Mr. Bachman, who serves as the Secretary of the Company and the Bank, for which he receives no compensation, no member of the Compensation Committee of the Board of Directors of the Company was either (i) an officer or employee of the Company or any of its subsidiaries during the fiscal year ended December 31, 2005, (ii) a former officer of the Company or any of its subsidiaries, or (iii) an insider (i.e., director, officer, director or officer nominee, greater than 5% shareholder, or immediate family member of the foregoing) of the Company or any of its subsidiaries that engaged, or is currently engaging, in transactions with the Company or any subsidiary of the Company that must be disclosed in this proxy statement under the rules and regulations of the SEC.

Except as set forth above, there are no relationships among the Company's executive officers, members of its Compensation Committee or entities whose executives serve on the Board of Directors or the Compensation Committee that require disclosure under applicable SEC rules or regulations.

**Cumulative Stock Performance Graph**

The following graph shows the cumulative total return on the Common Stock of the Company over the last five years, compared with the Russell 3000 Index and the Nasdaq Bank Index. Cumulative total return on the stock or the index equals the total increase in value since December 31, 2000 assuming reinvestment of all dividends paid into the stock or the index, respectively. The graph was prepared assuming that \$100 was invested on December 31, 2000 in the Common Stock and also in the securities included in the indices used for comparison purposes. The stockholder returns shown on the performance graph are not necessarily indicative of the future performance of the Common Stock of the Company or particular index. Prior to the Company listing its Common Stock on the Nasdaq National Market effective October 1, 2002, there was no established public trading market in which shares of the Common Stock were regularly traded, nor were there any uniformly quoted prices for the shares of Common Stock.

**CUMULATIVE TOTAL SHAREHOLDER RETURN**

**COMPARED WITH PERFORMANCE OF SELECTED INDICES**

**At December 31, 2000 through December 31, 2005**

| Index                          | Period Ending |        |        |        |        |        |
|--------------------------------|---------------|--------|--------|--------|--------|--------|
|                                | 2000          | 2001   | 2002   | 2003   | 2004   | 2005   |
| Greene County Bancshares, Inc. | 100.00        | 55.78  | 71.20  | 85.99  | 101.49 | 106.00 |
| Russell 3000 Index             | 100.00        | 81.94  | 64.29  | 84.25  | 94.32  | 108.16 |
| Nasdaq Bank Index              | 100.00        | 123.68 | 126.65 | 162.92 | 186.45 | 159.40 |



### **Certain Transactions**

The Company and its subsidiaries have had, and expect to have in the future, transactions in the ordinary course of business with directors and executive officers and members of their immediate families, as well as with principal shareholders. All loans and deposits included in such transactions were made in the ordinary course of business on substantially the same terms, including interest rates and collateral, in the case of loans, as those prevailing for comparable transactions with non-affiliated persons. It is the belief of management that such loans neither involved more than the normal risk of collectability nor presented other unfavorable features.

The Company purchases insurance coverage from McInturff, Milligan and Brooks of which Mr. Brooks is Chairman of the Board and the owner of 25% of the equity interest. During 2005, commissions totaling \$93,876 were paid by the Company to McInturff, Milligan and Brooks. Management believes the fees paid are fair and reasonable and do not exceed those commissions that would be paid to an unaffiliated third-party firm. The Company expects to continue such relationships in the future.

The Company offers insurance products (accident and health, term life, and credit life) to its loan customers through Mountain Life Insurance Company, a subsidiary of Mountain Services Corporation, of which Mr. Bachman has a 12.46% ownership interest and also sits on the Board of Directors. During 2005, the Company forwarded \$367,551 in premiums to Mountain Life Insurance Company. These premiums are net of the Company's customary rebate incurred in the normal course of business. Management believes these insurance products offered to its customers are competitive with similar products offered by other insurance companies.

### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers and directors, and persons who own more than 10% of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the SEC. Officers, directors and greater-than-10% shareholders are required to furnish the Company with copies of all such reports. Based solely on its review of copies of such reports received by it, or written representations from certain reporting persons that no annual report of change in beneficial ownership is required, the Company believes that, during and with respect to the year ended December 31, 2005 all such filing requirements were timely satisfied.

### **Independent Registered Public Accounting Firm**

The Company entered into a three-year agreement in 2004 with the certified public accounting firm of Dixon Hughes PLLC ( Dixon Hughes ) to serve as independent registered public accounting firm for the Company, beginning with the fiscal year ended December 31, 2004. Crowe Chizek and Company LLC ( Crowe Chizek ) served as the Company's independent registered public accounting firm for the year ended December 31, 2003.

A representative of Dixon Hughes is expected to be present at the Annual Meeting and available to respond to appropriate questions, and will have the opportunity to make a statement if he so desires.



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During the years ended December 31, 2005 and December 31, 2004, the Company incurred (including these billed or expected to be billed) the following principal independent auditor fees from Dixon Hughes:

|                         | 2005       |    | 2004    |
|-------------------------|------------|----|---------|
| Audit Fees (a):         | \$ 311,380 | \$ | 185,500 |
| Audit-Related Fees (b): | 39,000     |    | 28,040  |
| Tax Fees(c)             | 10,500     |    | 10,000  |
| All Other Fees (d):     |            |    |         |

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(a) Includes fees related to the annual independent audit of the Company's consolidated financial statements and reviews of the Company's annual report on Form 10-K, review of the Company's interim financial statements, issuance of consents, Federal Deposit Insurance Corporation Improvement Act ( FDICIA ) attest services, Sarbanes-Oxley Section 404 attest services, review of registration statements and quarterly reports on Form 10-Q, report on management's assertion regarding internal control over financial reporting, services provided in connection with the Company's filing of a Registration Statement on Form S-3 and services rendered in connection with the Company's common stock offering in 2005.

(b) Fees incurred were for (a) general accounting matters and related consultations, (b) certain procedures related to the Company's collateral position for its borrowings from the Federal Home Loan Bank of Cincinnati, (c) certain services related to acquisition due diligence and guidance for a business combination and (d) an employee benefit plan audit. The Audit Committee has considered whether the provision of these services is compatible with maintaining the independence of Dixon Hughes.

(c) Fees incurred were for income tax return preparation services. The Audit Committee has considered whether the provision of these services is compatible with maintaining the independence of Dixon Hughes.

(d) There were no additional fees billed to the Company by Dixon Hughes for 2005 and 2004.

The Audit Committee has adopted a formal policy concerning approval of audit and non-audit services to be provided by the independent auditor to the Company. The policy requires that all services provided by the independent auditor, including audit services and permitted audit-related and non-audit services, be pre-approved by the Audit Committee. The Audit Committee approved all audit and non-audit services provided by the Company's independent auditor during fiscal 2005.

### **Audit Committee Report**

The Board of Directors of the Company has appointed an Audit Committee, consisting of five independent directors, which assists the Board of Directors in fulfilling its responsibility for oversight of the quality and integrity of the accounting, auditing and financial reporting practices of the Company.

In discharging its oversight responsibility as to the audit process, the Audit Committee obtained from the Company's independent registered public accounting firm a formal written statement describing all relationships between the independent registered public accounting firm and the Company that might bear on the independent registered public accounting firm's independence consistent with Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*, as amended, and those independent standards promulgated by the Securities and Exchange Commission pursuant to the Sarbanes-Oxley Act of 2002, and has discussed with the independent registered public accounting firm any relationships that may impact their objectivity and independence and satisfied itself as to the independent registered public accounting firm's independence. The Audit Committee also discussed with management, the internal auditors and the independent registered public accounting firm the quality and adequacy of the Company's internal control over financial reporting and the internal audit function's organization, responsibilities, budget and staffing. The Audit Committee reviewed with both the independent registered public accounting firm and the internal auditors their audit plans, audit scope, and identification of audit risks.

The Audit Committee reviewed and discussed with the independent registered public accounting firm all matters required by generally accepted auditing standards, including those matters described in Statement on Auditing Standards No. 61, as amended, *Communication with Audit Committees*, and, with and without management present, discussed and reviewed the results of the independent registered public accounting firm's examination of the financial statements. The Audit Committee also discussed the results of the internal audit examinations.

The Audit Committee reviewed and discussed the audited financial statements of the Company as of and for the fiscal year ended December 31, 2005, with management and the independent registered public accounting firm. Management has the responsibility for the preparation of the Company's financial statements, and the independent registered public accounting firm has the responsibility for the examination of those statements and expressing an opinion on the conformity of those audited financial statements with accounting principles generally accepted in the United States of America. The Audit Committee held six meetings during 2005.

Based on the above-mentioned review and discussions with management and the registered public accounting firm, the Audit Committee recommended to the Board of Directors that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005, for filing with the Securities and Exchange Commission.

Jerald K. Jaynes, Chairman

Robert K. Leonard

Terry Leonard

Charles H. Whitfield, Jr.

John Tolsma

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The foregoing report of the Audit Committee shall not be deemed incorporated by reference by any general statement incorporating by reference this proxy statement in any filing under the Securities Act of 1933 or the Exchange Act, except to the extent that the Company specifically incorporates this information by reference, and shall not otherwise be deemed filed under such acts.



### Shareholder Proposals

If a shareholder wishes to have a proposal included in the Company's proxy statement for the Company's 2007 Annual Meeting of Shareholders, that proposal must be received by the Company at its executive offices in Greeneville, Tennessee by November 27, 2006. If a shareholder wishes to present a proposal at the Company's 2007 annual meeting of shareholders and the proposal is not intended to be included in the Company's proxy statement relating to that meeting, the shareholder must give advance notice to the Company prior to the deadline for such meeting determined in accordance with the Company's Amended and Restated Charter (the Charter Deadline). Under the Company's Amended and Restated Charter, in order to be deemed properly presented, notice must be delivered to the Company's Secretary at the Company's principal executive offices no less than forty (40) nor more than sixty (60) days prior to the scheduled date of the meeting at which such matter is to be acted upon; provided, however, that if notice or public disclosure of such meeting is given fewer than fifty (50) days before the meeting, notice by the shareholder must be delivered to the Company not later than the close of business on the tenth (10th) day following the day on which notice of the meeting was mailed to shareholders. If a shareholder gives notice of such a proposal after the Charter Deadline, the shareholder will not be permitted to present the proposal to the shareholders for a vote at the meeting.

The SEC rules also establish a different deadline for submission of shareholder proposals that are not intended to be included in the Company's proxy statement with respect to discretionary voting (the Discretionary Voting Deadline). This deadline for the 2007 annual meeting of shareholders is February 10, 2007. If a shareholder gives notice of a proposal after this deadline, the persons named as proxies in the proxy statement for the 2007 annual meeting will be allowed to use their discretionary voting authority to vote against the shareholder proposal when, and if, the proposal is raised at the 2007 annual meeting. Because the Charter Deadline is not capable of being determined until the Company gives notice of, or publicly announces, the date for the 2007 annual meeting of shareholders, it is possible that the Charter Deadline may occur after the Discretionary Voting Deadline, in which case a proposal received after the Discretionary Voting Deadline but before the Charter Deadline would be eligible to be presented at the 2007 annual meeting of shareholders and the Company believes that the persons named as proxies in the proxy statement would be allowed to use the discretionary authority granted by the proxy card to vote against the proposal at the meeting without including any disclosures of the proposal in the proxy statement relating to the meeting.

The Company has not been notified by any shareholder of his or her intent to present a shareholder proposal from the floor at the Annual Meeting. The enclosed proxy card grants proxy holders discretionary authority to vote on any matter properly brought before the Annual Meeting, including any shareholder proposals received between the date of this proxy statement and the Charter Deadline for the Annual Meeting, which is April 5, 2006.

Shareholder proposals should be addressed to Secretary, Greene County Bancshares, Inc., 100 North Main Street, P.O. Box 1120, Greeneville, Tennessee 37743 and must comply with the provisions of the Company's Amended and Restated Charter. Nothing in this paragraph shall be deemed to require the Company to include in its proxy statement and form of proxy relating to the Company's 2007 Annual Meeting of Shareholders any shareholder proposal that does not satisfy the requirements for inclusion as established by the SEC at the time of receipt.

### Other Matters

The Board of Directors is not aware of any other business to be presented for action by the shareholders at the Annual Meeting other than those matters described in this Proxy Statement and matters incident to the conduct of the Annual Meeting. If, however, any other matters are properly brought before the Annual Meeting, it is intended that the persons named in the accompanying proxy will vote such proxy on such matters as determined by a majority of the Board of Directors.

**Miscellaneous**

The cost of soliciting proxies will be borne by the Company. The Company will reimburse brokerage firms and other custodians, nominees and fiduciaries for reasonable expenses incurred by them in sending proxy materials to the beneficial owners of Common Stock. In addition to solicitations by mail, directors, officers and regular employees of the Company may solicit proxies personally or by telegraph or telephone number without additional compensation.

The Company's 2005 Annual Report to Shareholders (the Annual Report), including financial statements, is being mailed with this Proxy Statement to all persons who were shareholders of record as of the close of business on the Record Date. Any shareholder who does not receive a copy of the Annual Report may obtain a copy by writing to the Secretary of the Company. The Annual Report is not to be treated as a part of this proxy solicitation material or as having been incorporated herein by reference.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ Phil M. Bachman  
Phil M. Bachman  
Secretary

Greeneville, Tennessee  
March 27, 2006

**ANNUAL REPORT ON FORM 10-K**

**A copy of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 as filed with the Securities and Exchange Commission will be furnished without charge to persons who were shareholders as of the Record Date upon written request to the Secretary, Greene County Bancshares, Inc., 100 North Main Street, P.O. Box 1120, Greeneville, Tennessee 37744 or by calling (423) 639-5111.**

**GREENE COUNTY BANCSHARES, INC.**

**100 North Main Street**

**P.O. Box 1120**

**Greeneville, Tennessee 37743**

**REVOCABLE PROXY FOR THE ANNUAL MEETING**

**OF SHAREHOLDERS**

**April 26, 2006**

The undersigned hereby constitutes and appoints R. Stan Puckett and James E. Adams, and each of them, the proxies of the undersigned, with full power of substitution, to attend the Annual Meeting of Shareholders of Greene County Bancshares, Inc. (the Company) to be held at the General Morgan Inn, 111 North Main Street, Greeneville, Tennessee on Wednesday, April 26, 2006 at 11:00 a.m., local time, and any adjournments thereof, and to vote all the shares of stock of the Company which the undersigned may be entitled to vote, upon the following matters.

**This proxy is solicited by the Board of Directors of the Company, will be voted in accordance with the instructions marked herein, and will be voted (i) FOR the election of directors and (ii) as determined by a majority of the Board of Directors as to other matters, if no instructions to the contrary are marked herein and to the extent this proxy confers discretionary authority.**

1. The election of the following directors:

| <b>For terms to expire<br/>in 2009</b> | <b>FOR</b> | <b>WITHHOLD<br/>AUTHORITY</b> | <b>For a term to expire in<br/>2007</b> | <b>FOR</b> | <b>WITHHOLD<br/>AUTHORITY</b> |
|--|------------|-------------------------------|---|------------|-------------------------------|
| <b>01</b> Martha M.<br>Bachman         | o          | o                             | <b>06</b> Robert K.<br>Leonard          | o          | o                             |
| <b>02</b> Charles S.<br>Brooks         | o          | o                             |   |            |                               |
| <b>03</b> W.T. Daniels                 | o          | o                             |   |            |                               |
| <b>04</b> Robin Haynes                 | o          | o                             |   |            |                               |
| <b>05</b> Charles H.<br>Whitfield, Jr. | o          | o                             |   |            |                               |

2. The transaction of such other business as may properly come before the Annual Meeting or any adjournments thereof.
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The undersigned hereby acknowledges receipt of a copy of the accompanying Notice of Annual Meeting of the Shareholders and Proxy Statement and the Annual Report to Shareholders for the fiscal year ended December 31, 2005, and hereby revokes any proxy heretofore given. **This proxy may be revoked at any time before its exercise.**

Date:

Signature:

Signature:

**Please mark, date and sign as your name appears herein and return in the enclosed envelope.** If acting as executor, administrator, trustee, guardian, etc. you should so indicate when signing. If the signor is a corporation, please sign the full name by duly appointed officer. If a partnership, please sign in partnership name by authorized person. If shares are held jointly, each shareholder named should sign.

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