

CADENCE FINANCIAL CORP  
Form 10-K  
March 12, 2009  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D. C. 20549**

**FORM 10-K**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the fiscal year ended December 31, 2008

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-15773

**Cadence Financial Corporation**

(Exact name of registrant as specified in its charter)

**Mississippi**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**64-0694775**  
(I.R.S. Employer  
Identification No.)

**301 East Main Street, Starkville, Mississippi**  
(Address of Principal Executive Offices)

**39759**  
(Zip Code)

Registrant's telephone number, including area code:

**(662) 323-1341**

Edgar Filing: CADENCE FINANCIAL CORP - Form 10-K

Securities registered pursuant to Section 12(b) of the Act:

**Common stock, \$1 par value**  
(Title of Class)

**The NASDAQ Global Select Market**  
(Exchange on Which Registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

Aggregate market value of the voting stock held by nonaffiliates as of June 30, 2008, was approximately \$115,406,397, based on most recent sale.

The number of shares outstanding of the registrant's common stock as of February 28, 2009 is 11,914,814 shares.

**Documents incorporated by reference**

Portions of the Corporation's proxy statement for the 2009 annual meeting of shareholders expected to be filed on or before April 10, 2009 are incorporated by reference into Part III and portions of the Corporation's annual report to shareholders are incorporated by reference into Part IV.

**Table of Contents**

## FORM 10-K

## INDEX

Part I		
Item 1	<u>Business</u>	3
Item 1A	<u>Risk Factors</u>	11
Item 1B	<u>Unresolved Staff Comments</u>	16
Item 2	<u>Properties</u>	16
Item 3	<u>Legal Proceedings</u>	16
Item 4	<u>Submission of Matters to a Vote of Security Holders</u>	17
Part II		
Item 5	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	17
Item 6	<u>Selected Financial Data</u>	19
Item 7	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	29
Item 7A	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	42
Item 8	<u>Financial Statements and Supplementary Data</u>	44
Item 9	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	76
Item 9A	<u>Controls and Procedures</u>	76
Item 9B	<u>Other Information</u>	76
Part III		
Item 10	<u>Directors, Executive Officers, and Corporate Governance</u>	77
Item 11	<u>Executive Compensation</u>	77
Item 12	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	77
Item 13	<u>Certain Relationships and Related Transactions and Director Independence</u>	77
Item 14	<u>Principal Accounting Fees and Services</u>	77
Part IV		
Item 15	<u>Exhibits, Financial Statement Schedules</u>	78

**PART I****Forward-Looking Statements**

Certain information included in this report, other reports filed by the Corporation under the Securities Exchange Act of 1934, as amended (the Exchange Act ) and any other written or oral statement by or on behalf of the Corporation contain forward-looking statements and information that are based on management's beliefs, expectations and conclusions, drawn from certain assumptions and information currently available. The Private Securities Litigation Act of 1995 encourages the disclosure of forward-looking information by management by providing a safe harbor for such information. This discussion includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act. Although we believe that the expectations and conclusions reflected in such forward-looking statements are reasonable, such forward-looking statements are based on numerous assumptions (some of which may prove to be incorrect) and are subject to risks and uncertainties, which could cause the actual results to differ materially from our expectations. The words anticipate, believe, estimate, expect, objective, project, forecast, goal and similar expressions contained in the reports and statements referenced are intended to identify forward-looking statements. In addition to any assumptions and other factors referred to specifically in connection with forward-looking statements, factors that could cause our actual results to differ materially from those contemplated in any forward-looking statements include, among others, increased competition, regulatory factors, economic conditions, changing interest rates, changing market conditions, availability or cost of capital, changes in accounting standards and practices, employee workforce factors, ability to achieve cost savings and enhance revenues, the assimilation of acquired operations and

**Table of Contents**

establishing credit practices and efficiencies therein, acts of war or acts of terrorism or geopolitical instability and other effects of legal and administrative proceedings, changes in federal, state or local laws and regulations and other factors identified in Item 1A, Risk Factors, and Item 7A, Quantitative and Qualitative Disclosures about Market Risk of this report and that may be discussed from time to time in other reports filed with the Securities and Exchange Commission ( SEC ) subsequent to this report. Readers are cautioned not to place undue reliance on any forward-looking statements made by or on behalf of the Corporation. Any such statement speaks only as of the date the statement was made. We undertake no obligation to update or revise any forward-looking statements, whether as a result of changes in actual results, changes in assumptions or other factors affecting such statements.

**ITEM 1 - BUSINESS**

**Cadence Financial Corporation**

Cadence Financial Corporation (the Corporation ) is a financial holding company organized under the laws of the State of Mississippi. The Corporation's assets consist primarily of its investment in Cadence Bank, N.A. ( Cadence ), a national banking corporation, and its primary activities are conducted through Cadence. Cadence and its subsidiaries are collectively referred to herein as Cadence .

The Corporation's principal executive offices are located at 301 East Main Street, Starkville, MS 39759 and its telephone number is 662-323-1341.

**Cadence Bank, N.A.**

Cadence is engaged in general banking business and activities closely related to banking, as permitted by the banking laws and regulations of the United States.

Cadence provides a complete line of wholesale and retail financial services, including mortgage loans, investment services, insurance brokerage and trusts. The customer base is well diversified and consists of business, agriculture, government, education and individual accounts in the states of Alabama, Florida, Georgia, Mississippi and Tennessee. Profitability and growth have been important goals throughout Cadence's history. To maintain such growth and profitability, given a relatively slow economy and low loan demand in its core Mississippi market area, the Corporation began to expand into higher growth markets. As part of this business strategy, the Corporation acquired Enterprise Bancshares in Tennessee, SunCoast Bank ( SunCoast ) in Florida and Seasons Bank ( Seasons ) in Georgia. Cadence has also opened new branches in Hoover, Alabama and Brentwood and Franklin, Tennessee.

Mississippi. Cadence is the largest commercial bank domiciled in the north central Golden Triangle area of Mississippi. In Mississippi, a total of nineteen banking facilities and an operations/administration center serve the communities of Aberdeen, Amory, Brooksville, Columbus, Hamilton, Maben, New Hope, Philadelphia, West Point and Starkville. This area extends into six Mississippi counties with a radius of approximately 65 miles from the main office in Starkville.

Alabama. Cadence also serves the Tuscaloosa and Hoover, Alabama areas with seven banking facilities.

Tennessee. Cadence has five banking facilities and an operations/data center in the Memphis, Tennessee area, and two banking facilities in the Brentwood and Franklin, Tennessee areas.

Florida. Cadence has three banking facilities in Sarasota and Bradenton, Florida.

Georgia. Cadence has two banking facilities in Blairsville and Blue Ridge, Georgia.

The following chart reflects, as of December 31, 2008, the distribution of total assets, loans, deposits and branches in the states in which Cadence conducts its business:

State	Assets	Loans	Deposits	Branches
Alabama	11%	16%	11%	18%
Florida	8%	11%	5%	8%
Georgia	2%	3%	2%	5%

Edgar Filing: CADENCE FINANCIAL CORP - Form 10-K

Mississippi	49%	28%	66%	50%
Tennessee	30%	42%	16%	19%
	100%	100%	100%	100%

---

## **Table of Contents**

Other Operations. A wholly-owned subsidiary of Cadence, Galloway-Chandler-McKinney Insurance Agency, Inc. ( GCM ) operates as an independent insurance agency with its primary source of revenue coming from commissions and premiums on the sale of property and casualty insurance, title insurance, life insurance, annuities and other commercial lines. GCM has locations in Aberdeen, Amory, Columbus, Starkville and West Point, Mississippi. At December 31, 2008, GCM had total assets of approximately \$6.1 million, and for the year ended December 31, 2008, earned net income of approximately \$429,000 on gross revenues of approximately \$5.0 million.

Cadence has two other wholly-owned subsidiaries, NBC Service Corporation ( Service ), and NBC Insurance Services of Alabama, Inc. ( Insurance ). Service was formed to provide additional financial services that otherwise might not be provided by Cadence. For 2008, its primary activity was limited to its investment in Commerce National Insurance Company ( CNIC ). CNIC is a credit life insurance company whose primary source of income is from investment income on securities held in its portfolio. In 2002, Cadence discontinued selling credit life insurance on loans. As a result, the Corporation plans to allow CNIC 's outstanding insurance policies to run-off over the next several years and then to dissolve and liquidate CNIC. Insurance was formed in 1999 for the purpose of selling annuity products in the state of Alabama. For 2008, its activities were insignificant.

### **Competition**

Cadence encounters strong competition in each of its markets, based upon interest rates offered on deposit accounts, interest rates charged on loans, other credit and service charges relating to loans, the quality and scope of services provided, the convenience of banking facilities and, in the case of loans to commercial borrowers, relative lending limits.

Cadence currently serves six counties and ten municipalities in north central Mississippi. In this area, the Bank competes directly with numerous banking institutions, credit unions, finance companies, brokerage firms, mortgage companies and insurance companies. The competing banking institutions range in asset size from approximately \$672 million to in excess of \$144 billion (size of parent companies). Cadence is the largest bank domiciled in its immediate service area in Mississippi.

Cadence also serves the cities of Tuscaloosa and Hoover, Alabama; Memphis, Brentwood and Franklin, Tennessee; Sarasota and Bradenton, Florida; and Blairsville and Blue Ridge, Georgia. In these markets, Cadence competes with numerous financial institutions ranging in asset size from approximately \$237 million to \$2.3 trillion (based on the size of parent companies). Cadence also competes with numerous credit unions, finance companies, brokerage firms, mortgage companies and insurance companies in these markets.

Refer to Item 1A - Risk Factors, for discussion of the Corporation 's risks related to competition.

### **Supervision and Regulation**

The Corporation and Cadence are subject to state and federal banking laws and regulations which impose specific requirements and restrictions on, and provide for general regulatory oversight with respect to, virtually all aspects of operations. To the extent that the following summary describes statutory or regulatory provisions, it is qualified in its entirety by reference to the particular statutory and regulatory provisions.

*Bank Holding Company Act and Gramm-Leach-Bliley Act.* The Corporation is a bank holding company within the meaning of the Bank Holding Company Act of 1956 (the BHC Act ) and a financial holding company under the Gramm-Leach-Bliley Financial Modernization Act of 1999 (the GLB Act ) and is registered as such with the Board of Governors of the Federal Reserve System (the Federal Reserve Board ).

The BHC Act restricts the Corporation 's non-banking activities to those that are determined by the Federal Reserve Board to be financial in nature, incidental to such financial activity or complementary to a financial activity. The BHC Act does not place territorial restrictions on the activities of non-bank subsidiaries of holding companies. Cadence is subject to limitations with respect to transactions with affiliates.

The BHC Act further requires every holding company to obtain the prior approval of the Federal Reserve Board before acquiring substantially all the assets of or direct or indirect ownership or control of more than 5% of the voting shares of any bank that is not already majority-owned. The BHC Act also prohibits a holding company, with certain exceptions, from engaging in or acquiring direct or indirect control of more than 5% of the voting shares of any company engaged in non-banking activities. One of the principal exceptions to these prohibitions is for engaging in or acquiring shares of a company engaged in activities found by the Federal Reserve Board by order or regulation to be closely related to banking or managing banks. The BHC Act permits the acquisition by a holding company of more than 5% of the outstanding voting shares of a bank located outside the state in which the operations of its banking subsidiaries are principally conducted, subject to certain



---

## **Table of Contents**

state laws, including the establishment by states of a minimum age of their local banks before such banks can be acquired by an out-of-state institution. The BHC Act and regulations of the Federal Reserve Board also prohibit a holding company and its subsidiaries from engaging in certain tie-in arrangements in connection with any extension of credit or provision of any property or services.

As a financial holding company, the Corporation is required to file with the Federal Reserve Board an annual report and such other information as may be required. The Federal Reserve Board also performs examinations of the Corporation and has the authority to regulate provisions of certain holding company debt.

In addition, and subject to certain exceptions, the BHC Act and the Change in Bank Control Act require Federal Reserve Board approval prior to any person or company acquiring control of a holding company. Control is conclusively presumed to exist if an individual or company acquires 25% or more of any class of voting securities of a bank holding company. Control is rebuttably presumed to exist if a person acquires 10% or more, but less than 25%, of any class of voting securities and either the company has registered securities under Section 12 of the Exchange Act or no other person owns a greater percentage of that class of voting securities immediately after the transaction.

The GLB Act significantly relaxed previously existing restrictions on the activities of banks and bank holding companies. Under such legislation, an eligible bank holding company may elect to be a financial holding company and thereafter may engage in a range of activities that are financial in nature and that were not previously permissible for banks and bank holding companies. A financial holding company may engage directly or through a subsidiary in the statutorily authorized activities of securities dealing, underwriting, and market making, insurance underwriting and agency activities, merchant banking, and insurance company portfolio investments. A financial holding company also may engage in any activity that the Federal Reserve determines by rule or order to be financial in nature, incidental to such financial activity, or complementary to a financial activity and that does not pose a substantial risk to the safety and soundness of an institution or to the financial system generally.

In addition to these activities, a financial holding company may engage in those activities permissible for a bank holding company including factoring accounts receivable, acquiring and servicing loans, leasing personal property, performing certain data processing services, acting as agent or broker in selling credit life insurance and certain other types of insurance in connection with credit transactions, and conducting certain insurance underwriting activities. The BHC Act does not place territorial limitations on permissible nonbanking activities of bank holding companies. Despite prior approval, the Federal Reserve has the power to order any bank holding company or its subsidiaries to terminate any activity or to terminate its ownership or control of any subsidiary when the Federal Reserve has reasonable grounds to believe that continuation of such activity or such ownership or control constitutes a serious risk to the financial soundness, safety, or stability of any bank subsidiary of the bank holding company.

For a bank holding company to be eligible for financial holding company status, all of its subsidiary insured depository institutions must be well-capitalized and well-managed. A bank holding company may become a financial holding company by filing a declaration with the Federal Reserve that it elects to become a financial holding company. The Federal Reserve must deny expanded authority to any bank holding company with a subsidiary insured depository institution that received less than a satisfactory rating on its most recent Community Reinvestment Act of 1977 (the CRA) review as of the time it submits its declaration. If, after becoming a financial holding company and undertaking activities not permissible for a bank holding company, the company fails to continue to meet one of the prerequisites for financial holding company status, the company must enter into an agreement with the Federal Reserve to comply with all applicable capital and management requirements. If the company does not return to compliance within 180 days, the Federal Reserve may order the company to divest its subsidiary banks or the company may discontinue or divest its non-permissible activities.

The BHC Act requires every bank holding company to obtain the prior approval of the Federal Reserve before: (1) it may acquire direct or indirect ownership or control of any voting shares of any bank if, after such acquisition, the bank holding company will directly or indirectly own or control more than 5.0% of the voting shares of the bank; (2) it or any of its subsidiaries, other than a bank, may acquire all or substantially all of the assets of any bank; or (3) it may merge or consolidate with any other bank holding company.

The BHC Act further provides that the Federal Reserve may not approve any transaction that would result in a monopoly or would be in furtherance of any combination or conspiracy to monopolize or attempt to monopolize the business of banking in any section of the United States, or the effect of which may be substantially to lessen competition or to tend to create a monopoly in any section of the country, or that in any other manner would be in restraint of trade, unless the anticompetitive effects of the proposed transaction are clearly outweighed by the public interest in meeting the convenience and needs of the community to be served. The Federal Reserve is also required to consider the financial and managerial



## **Table of Contents**

resources and future prospects of the bank holding companies and banks concerned and the convenience and needs of the community to be served. Consideration of financial resources generally focuses on capital adequacy, and consideration of convenience and needs issues includes the parties' performance under the CRA, both of which are discussed below.

The GLB Act also permits securities brokerage firms and insurance companies to own banks and bank holding companies. The GLB Act also seeks to streamline and coordinate regulation of integrated financial holding companies, providing generally for umbrella regulation of financial holding companies by the Federal Reserve, and for functional regulation of banking activities by bank regulators, securities activities by securities regulators, and insurance activities by insurance regulators.

Under the GLB Act, a national bank may engage in expanded financial activities through a financial subsidiary, provided the aggregate assets of all of its financial subsidiaries do not exceed the lesser of 45 percent of the bank's assets or \$50 billion. A financial subsidiary may underwrite any financial product other than insurance and may sell any financial product, including title insurance. A national bank itself may not sell title insurance, however, unless the state in which the bank is located permits state banks to sell title insurance.

In accordance with Federal Reserve Board policy, the Corporation is expected to act as a source of financial strength to its subsidiaries. The Federal Reserve Board may require a holding company to terminate any activity or relinquish control of a non-bank subsidiary (other than a non-bank subsidiary of a bank) upon the Federal Reserve Board's determination that such activity or control constitutes a serious risk to the financial soundness or stability of any subsidiary depository institution of the holding company. Further, federal bank regulatory authorities have additional discretion to require a holding company to divest itself of any bank or non-bank subsidiary if the agency determines that divestiture may aid the depository institution's financial condition.

*FDIC.* Cadence is a member of the Federal Deposit Insurance Corporation (FDIC), and as such, its deposits are insured by the FDIC to the extent provided by law.

Under the Federal Deposit Insurance Act (FDIA), insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order, or condition imposed by the FDIC.

The FDIA, as amended by Financial Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) and the Riegle Community Development and Regulatory Improvement Act of 1994, requires the federal bank regulatory agencies to prescribe standards, by regulations or guidelines, relating to internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings, stock valuation and compensation, fees and benefits and such other operational and managerial standards as the agencies deem appropriate. In 1995, the federal bank regulatory agencies adopted guidelines prescribing safety and soundness standards pursuant to FDICIA, as amended. The guidelines establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth and compensation, fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risk and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director, or principal stockholder. In addition, the agencies adopted regulations that authorize, but do not require, an agency to order an institution that has been given notice by an agency that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an acceptable compliance plan, the agency must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized institution is subject under the prompt corrective action provisions of FDICIA. If an institution fails to comply with such an order, the agency may seek to enforce such order in judicial proceedings and to impose civil money penalties. The federal bank regulatory agencies also proposed guidelines for asset quality and earning standards.

The Omnibus Budget Reconciliation Act of 1993 provides that deposits and certain claims for administrative expenses and employee compensation against an insured depository institution would be afforded a priority over other general unsecured claims against such an institution in the liquidation or other resolution of such an institution by any receiver.

*OCC.* Dividends paid by the Corporation are substantially provided from dividends from Cadence. Generally, the approval of the Office of the Comptroller of the Currency (the OCC) is required if the total of all dividends declared by a bank in any calendar year exceeds the total of its net profits for that year combined with its retained net profits of the preceding two years. For 2009, without approval from the OCC, Cadence does not have the ability to pay dividends to the Corporation. However, the Corporation has sufficient liquidity at the holding company level to pay dividends to shareholders.



**Table of Contents**

The OCC is the primary supervisory authority for Cadence. The OCC regulates or monitors virtually all areas of operations, including security devices and procedures, adequacy of capitalization and loss reserves, loans, investments, borrowings, deposits, mergers, issuance of securities, payment of dividends, interest rates payable on deposits, interest rates or fees chargeable on loans, establishment of branches, corporate reorganizations, maintenance of books and records, and adequacy of staff training to carry on safe lending and deposit gathering practices. The OCC also imposes limitations on the aggregate investment by a national bank in real estate, bank premises, and furniture and fixtures. In addition to regular examinations, each national bank must furnish to its regulator quarterly reports containing a full and accurate statement of its affairs.

The Federal Reserve Board, FDIC and OCC have established risk-based capital guidelines for holding companies, such as the Corporation, and for the subsidiary banks of holding companies, such as Cadence. The capital-based regulatory framework contains five categories of compliance with regulatory capital requirements, including well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. The Corporation's risk-based capital strategy is to maintain sufficient capital levels to qualify Cadence as well capitalized under the guidelines set forth by FDICIA. Maintaining capital ratios at the well capitalized level avoids certain restrictions, which, for example, could impact the FDIC assessment, trust services and asset/liability management of Cadence. At December 31, 2008, the Tier 1 and total capital ratios, respectively, of the Corporation (consolidated with Cadence) and Cadence (individually) were above the minimum 6% and 10% levels required to be categorized as well capitalized insured depository institutions.

The FDIC, OCC and Federal Reserve Board have historically had common capital adequacy guidelines involving minimum leverage capital and risk-based capital requirements:

The leverage capital requirement establishes a minimum ratio of capital as a percentage of total assets. The FDIC, OCC and Federal Reserve Board require institutions to maintain a minimum leverage ratio of Tier 1 capital to total average assets based on the institution's rating under the international bank rating system, commonly referred to as the CAMELS rating system. CAMELS is an acronym for Capital Adequacy, Asset Quality, Management Quality, Earnings, Liquidity and Sensitivity to Market Risk. Institutions with a CAMELS rating of 1 that are not anticipating or experiencing significant growth and have well-diversified risk are required to maintain a minimum leverage ratio of 3 percent. An additional 100 to 200 basis points are required for all but these most highly rated institutions. At December 31, 2008, the Corporation's leverage capital ratio was 7.7%.

The risk-based capital requirement also establishes a minimum ratio of capital as a percentage of total assets, but gives weight to the relative risk of each asset. The FDIC, OCC and Federal Reserve Board require institutions to maintain a minimum ratio of Tier 1 capital to risk-weighted assets of 4 percent. Banks must also maintain a minimum ratio of total capital to risk-weighted assets of 8 percent. At December 31, 2008, the Corporation's Tier 1 and total capital ratios were 10.1% and 11.4%, respectively.

*Other Banking Regulations.* Banks are subject to the provisions of Sections 23A and 23B of the Federal Reserve Act. Section 23A places limits on the amount of loans or extensions of credit to, investments in, or certain other transactions with affiliates and on the amount of advances to third parties collateralized by the securities or obligations of affiliates. Section 23B, among other things, prohibits an institution from engaging in certain transactions with affiliates unless the transactions are on terms substantially the same, or at least as favorable to the institution, as those prevailing at the time for comparable transactions with non-affiliated companies.

Cadence is subject to certain restrictions on extensions of credit to executive officers, directors, certain principal shareholders and their related interests. Such extensions of credit (i) must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties, and (ii) must not involve more than the normal risk of repayment or present other unfavorable features.

National banks, like Cadence, are required by the National Bank Act to adhere to branch office banking laws of the states in which they operate. Cadence may open branches throughout Mississippi, Alabama, Tennessee, Florida and Georgia with the prior approval of the OCC. In addition, with prior OCC approval, Cadence is able to acquire existing banking operations in Mississippi, Alabama, Tennessee, Florida and Georgia. Furthermore, federal legislation permits interstate branching. The law also permits out of state acquisitions by bank holding companies (subject to veto by state law), interstate branching by banks if allowed by state law, interstate merging by banks, and de novo branching by national banks if allowed by state law. Effective June 1, 1997, the Interstate Banking Act allows banks with different home states to merge, unless a particular state opts out of the statute. The Interstate Banking Act also permits national and state banks to establish de novo branches in another state if the state law applies equally to all banks and expressly permits all out-of-state banks to establish de novo branches.

---

## Table of Contents

The CRA requires that, in connection with examinations of financial institutions within their respective jurisdictions, the Federal Reserve, the FDIC or the OCC shall evaluate the record of the financial institutions in meeting the credit needs of their local communities, including low and moderate income neighborhoods, consistent with the safe and sound operation of those institutions. These factors are also considered in evaluating mergers, acquisitions and applications to open a branch or facility.

Interest and certain other charges collected or contracted by banks are often subject to state usury laws and certain federal laws concerning interest rates. The loan operations are also subject to certain federal laws applicable to credit transactions. These include but are not limited to: (i) the federal Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers; (ii) the Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution will be fulfilling its obligation to help meet the housing needs of the community it serves; (iii) the Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit; and (iv) the rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws. The deposit operations also are subject to certain laws and regulations, including but not limited to, the Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records, and the Electronic Funds Transfer Act and Regulation E issued by the Federal Reserve Board to implement that act, which governs automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services.

CNIC, GCM, and Insurance are subject to a variety of regulations by applicable state agencies. These agencies set reserve requirements and reporting standards and establish regulations, all of which affect business operations.

In 2001, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the USA Patriot Act ) was signed into law. The USA Patriot Act broadened anti-money laundering requirements on financial institutions, including national banks such as Cadence. Among its provisions, the USA Patriot Act requires a financial institution: (i) to establish an anti-money laundering program; (ii) to establish due diligence policies, procedures and controls with respect to its private banking accounts and correspondent banking accounts involving foreign individuals and certain foreign banks; and (iii) to avoid establishing, maintaining, administering or managing correspondent accounts in the United States for, or on behalf of, a foreign bank that does not have a physical presence in any country. In addition, the USA Patriot Act contains a provision encouraging cooperation among financial institutions, regulatory authorities and law enforcement authorities with respect to individuals, entities and organizations engaged in, or reasonably suspected of engaging in, terrorist acts or money laundering activities.

*Public Company Regulations.* The Corporation's common stock is registered with the Securities and Exchange Commission ( SEC ) under the Exchange Act. Consequently, the Corporation is subject to the information, proxy solicitation, insider trading and other restrictions and requirements of the SEC under the Exchange Act.

The Corporation's common stock is traded on The NASDAQ Global Select Market ( NASDAQ ) and is subject to the rules and by-laws of NASDAQ. Penalties for violations of the rules can result in fines for the Corporation and in certain cases the suspension of trading in the Corporation's common stock or delisting.

In 2002, the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act ) was signed into law. The Sarbanes-Oxley Act attempts to strengthen the independence of public company auditors by, among other things, (i) prohibiting public company auditors from providing certain non-audit services to their audit clients, (ii) requiring a company's audit committee to pre-approve all audit and non-audit services being provided by its independent auditor, (iii) requiring the rotation of audit partners and (iv) prohibiting an auditor from auditing a client that has as its chief executive officer, chief financial officer, chief accounting officer or controller a person that was employed by the auditor during the previous year.

The Sarbanes-Oxley Act also seeks to enhance the responsibility of corporate management by, among other things, (i) requiring the chief executive officer and chief financial officer of public companies to provide certain certifications in their companies' periodic reports regarding the accuracy of the periodic reports filed with the SEC, (ii) prohibiting officers and directors of public companies from fraudulently influencing an accountant engaged in the audit of the company's financial statements, (iii) requiring chief executive officers and chief financial officers to forfeit certain bonuses in the event of a misstatement of financial results, (iv) prohibiting officers and directors found to be unfit from serving in a similar capacity with other public companies and (v) prohibiting officers and directors from trading in the company's equity securities during pension blackout periods. In addition, public companies with securities listed on a national securities exchange or association must satisfy the following additional requirements: (i) the company's audit committee must appoint and oversee the

---

## **Table of Contents**

company's auditors; (ii) each member of the company's audit committee must be independent; (iii) the company's audit committee must establish procedures for receiving complaints regarding accounting, internal accounting controls and audit-related matters; (iv) the company's audit committee must have the authority to engage independent advisors; and (v) the company must provide appropriate funding to its audit committee, as determined by the audit committee.

The Sarbanes-Oxley Act contains several provisions intended to enhance the quality of financial disclosures of public companies, including provisions that (i) require that financial disclosures reflect all material correcting adjustments identified by the company's auditors, (ii) require the disclosure of all material off-balance sheet transactions, (iii) require the reconciliation by public companies of pro forma financial information to financial statements prepared in accordance with generally accepted accounting principles, (iv) with certain limited exceptions, including an exception for financial institutions making loans in compliance with federal banking regulations, prohibit a public company from making personal loans to its officers and directors, (v) with certain limited exceptions, require directors, officers and principal shareholders of public companies to report a change in their ownership in the company's securities within two business days of the change, (vi) require a company's management to provide a report of management's assessment of the internal controls of the company in the company's annual report and requires an opinion from the company's independent auditors on the effectiveness of the company's internal control over financial reporting, (vii) require public companies to adopt codes of conduct and ethics for senior executive officers and (viii) require a public company to disclose whether the company's audit committee has a financial expert as a member.

The Sarbanes-Oxley Act imposes criminal liability for certain acts, including altering documents involving federal investigations, bankruptcy proceedings, and corporate audits and the act increases the penalties for certain offenses, including mail and wire fraud. In addition, the Sarbanes-Oxley Act gives added protection to corporate whistle-blowers.

In response to the worsening financial and economic conditions in late 2008, the Emergency Economic Stabilization Act of 2008 was signed into law. Among other things this Act granted the U.S. Treasury the power, under a program called the Troubled Asset Relief Program ( TARP ), to purchase assets and equity from financial institutions in order to strengthen their financial position and the economy as a whole. Part of TARP included the Capital Purchase Program ( CPP ) where the U.S. Treasury could purchase preferred stock and equity warrants from qualifying institutions in exchange for direct capital infusion. We received \$44 million under CPP in January 2009.

Institutions participating in CPP, like us, must comply with certain restrictions under the terms of the program. For so long as any preferred stock issued under the CPP remains outstanding, we are prohibited from increasing dividends on our common stock. We are also prohibited from making certain repurchases of equity securities, including our common stock, without the U.S. Treasury's prior consent until the third anniversary of the U.S. Treasury's investment or until the U.S. Treasury has transferred all of the preferred stock it purchased under the CPP to third parties.

Additional restrictions were placed on us under the American Recovery and Reinvestment Act of 2009 (the Stimulus Bill ). Under the Stimulus Bill, institutions participating in TARP are restricted in their ability to pay bonuses and so-called "golden parachutes" to senior executives and certain other employees. The Stimulus Bill also requires greater participation of shareholders in executive pay decisions. Regulations further clarifying the extent of these restrictions are to be released by the U.S. Treasury by February of 2010.

### **Governmental Monetary Policies**

As a bank chartered under the laws of the United States, Cadence is a member of the Federal Reserve System. Its earnings are affected by the fiscal and monetary policies of the Federal Reserve System, which regulates the national money supply in order to mitigate recessionary and inflationary pressures. The techniques used by the Federal Reserve System include setting the reserve requirements of depository institutions and establishing the discount rate on member bank borrowings. The Federal Reserve System also conducts open market operations in United States government securities. Refer to Item 1A - Risk Factors, for a discussion of the Corporation's risks relating to governmental monetary policies.

### **Sources and Availability of Funds**

The materials essential to the business of the Corporation and its subsidiaries consist primarily of funds derived from deposits and other borrowings in the financial markets. The availability of funds is primarily dependent upon the economic policies of the government, the economy in general and the institution's ability to compete in its markets. Refer to Item 1A - Risk Factors, for discussion of the Corporation's risks relating to governmental monetary policy, economic conditions, and competition.

## **Table of Contents**

### **Seasonality**

Neither the Corporation nor any of its subsidiaries are engaged in a business that is seasonal in nature.

### **Dependence Upon A Single Customer**

Neither the Corporation nor any of its subsidiaries are dependent upon a single customer or any small group of customers.

### **Available Information**

The Corporation maintains an Internet address at [www.cadencebanking.com](http://www.cadencebanking.com). The Corporation makes available, free of charge on or through its Internet website, access to the Corporation's annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and all amendments thereto filed pursuant to Section 13(a) of the Exchange Act. These documents are made available on the Corporation's website as soon as reasonably practicable after such material is filed with or furnished to the SEC. The Corporation is not incorporating the information on that website into this report, and the website and the information appearing on the website are not included in, and are not a part of, this report.

You may also request a copy of these filings, at no cost, by writing or telephoning the Corporation at the following address:

ATTENTION: Mr. Richard T. Haston

Cadence Financial Corporation

301 East Main Street

P.O. Box 1187

Starkville, MS 39759

(662) 323-1341

Additionally, the public may read and copy any materials the Corporation files with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-6330. Additionally, the SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The Internet address of such site is <http://www.sec.gov>.

### **Personnel**

At December 31, 2008, Cadence had 439 full-time employees and GCM had 45 full-time employees. The Corporation, Service, Insurance and CNIC had no employees at December 31, 2008.

**Table of Contents****Executive Officers of the Registrant**

The executive officers of the Corporation and a brief description of their principal employment during the last five years are listed below:

Name and Title	Age	Five-Year Experience
L. F. Mallory, Jr.  Chairman and Chief Executive Officer,  Cadence Financial Corporation and Cadence	66	Chairman and Chief Executive Officer, Cadence Financial Corporation and Cadence, since 1993
Mark A. Abernathy  President and Chief Operating Officer and Chairman of Executive Committee, Cadence Financial Corporation and Cadence	52	President and Chief Operating Officer, Cadence Financial Corporation and Cadence, since 1997; Chairman of Executive Committee, Cadence Financial Corporation and Cadence, since 2006
Richard T. Haston  Executive Vice President, Chief Financial Officer, and Secretary, Cadence Financial Corporation; Executive Vice President, Chief Financial Officer, and Secretary, Cadence	62	Executive Vice President, Chief Financial Officer, and Secretary, Cadence Financial Corporation, since May 2008; Executive Vice President, Chief Financial Officer, and Assistant Secretary, Cadence Financial Corporation, from July 2005 - May 2008; Executive Vice President, Chief Financial Officer, Treasurer, and Assistant Secretary, Cadence Financial Corporation, from January 1997 - July 2005; Executive Vice President, Chief Financial Officer, and Secretary, Cadence, since May 2008; Executive Vice President and Chief Financial Officer, Cadence, from 1996 - May 2008
John R. Davis  Vice President, Cadence Financial Corporation; Executive Vice President and Manager of Consumer Financial Services, Cadence	53	Vice President, Cadence Financial Corporation, since January 1999; Executive Vice President and Manager of Consumer Financial Services, Cadence, since December 2005; Senior Vice President and Trust Officer, Cadence, from January 1999 - December 2005

Officers of the Corporation are elected annually by the Board of Directors at its January meeting and serve at the discretion of the Board of Directors.

**ITEM 1A - RISK FACTORS**

There are many risks and uncertainties related to the Corporation's business that may adversely affect our business operations. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may adversely affect our business operations. Any of the following risks could negatively impact our business, results of operations and financial condition. The risks discussed below also include forward-looking statements, and actual results may differ substantially from those discussed. See [Forward-Looking Statements](#) above.

## **Table of Contents**

*The current economic environment poses significant challenges for us and could adversely affect our financial condition and results of operations.*

We are operating in a challenging and uncertain economic environment, including generally uncertain national and local conditions. Financial institutions continue to be affected by sharp declines in the real estate market and constrained financial markets. Dramatic declines in the housing market over the past year, with falling home prices and increasing foreclosures and unemployment, have resulted in significant write-downs of asset values by some financial institutions. Continued declines in real estate values, home sales volumes and financial stress on borrowers as a result of the uncertain economic environment which could have an adverse effect on our borrowers or their customers, adversely affecting our financial condition and results of operations. A worsening of these conditions would likely exacerbate the adverse effects on us. For example, a deepening national economic recession or further deterioration in local economic conditions in the Southeastern United States could drive losses beyond that which is provided for in our allowance for loan losses. We may also face the following risks in connection with these events:

Economic conditions that negatively affect housing prices and the job market have resulted, and may continue to result, in deterioration in credit quality of our loan portfolios, and such deterioration in credit quality has had, and could continue to have, a negative impact on our business.

Market developments may affect consumer confidence levels and may cause adverse changes in payment patterns, causing increases in delinquencies and default rates on loans and other credit facilities.

The processes we use to estimate allowance for loan losses and reserves may no longer be reliable because they rely on complex judgments, including forecasts of economic conditions, which may no longer be capable of accurate estimation.

We expect to face increased regulation of our industry, and compliance with such regulation may increase our costs, limit our ability to pursue business opportunities and increase compliance challenges.

As these conditions or similar ones continue to exist or worsen, we could experience continuing or increased adverse effects on our financial condition.

*The real estate market has experienced dramatic declines which may adversely affect our financial situation due to our concentration of credit exposure in commercial real estate.*

As of December 31, 2008, we had approximately \$670.6 million in loans to borrowers in the commercial real estate industry, representing approximately 50.5% of our total loans outstanding as of that date. The real estate consists primarily of office buildings and shopping centers and also includes apartment buildings, owner-operated properties, warehouses and other commercial properties. These types of loans are generally viewed as having more risk of default than residential real estate loans. They are also typically larger than residential real estate loans and consumer loans and depend on cash flows from the property to service the debt. Cash flows may be affected significantly by general economic conditions and a downturn in the local economy or in occupancy rates in the local economy where our property is located could increase the likelihood of default. Because our loan portfolio contains a number of commercial real estate loans with relatively large balances, the deterioration of one or a few of these loans could cause a significant increase in our percentage of non-performing loans. An increase in non-performing loans could result in a loss of earnings from these loans, an increase in the provision for loan losses and an increase in charge-offs, all of which could have a material adverse effect on our financial condition and results of operations.

The banking regulators are giving commercial real estate lending greater scrutiny, and may require banks with higher levels of commercial real estate loans to implement improved underwriting, internal controls, risk management policies and portfolio stress testing, as well as possibly higher levels of allowances for possible loan losses and capital levels as a result of commercial real estate lending growth and exposures.

*Competition in the banking industry is intense and may adversely affect our profitability.*

We currently conduct our banking operations in north central Mississippi, the cities of Tuscaloosa and Hoover, Alabama, the cities of Memphis, Germantown, Brentwood and Franklin, Tennessee, the cities of Sarasota and Bradenton, Florida, and the cities of Blairsville and Blue Ridge,



## Edgar Filing: CADENCE FINANCIAL CORP - Form 10-K

Georgia. The banking business is highly competitive and in our primary market areas, we experience competition from many other financial institutions. We compete with commercial banks, credit unions, savings and loan associations, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market funds, and other mutual funds, as well as other super-regional, national and international financial institutions that operate offices in our primary market areas and elsewhere.

---

## Table of Contents

We compete with these institutions both in attracting deposits and in making loans. Price competition for loans might result in us originating fewer loans, or earning less on our loans, and price competition for deposits might result in a decrease in our total deposits or higher rates on our deposits. In addition, we have to attract our customer base from other existing financial institutions and from new residents. Many of our competitors are well-established, larger financial institutions. We may face a competitive disadvantage as a result of our smaller size and inability to spread our marketing costs across a broader market. Although we compete by concentrating our marketing efforts in our primary markets with local advertisements, personal contacts, and greater flexibility and responsiveness in working with local customers, we can give no assurance that this strategy will be successful.

*Changes in local economic conditions where we operate could have a negative effect on us.*

To a certain extent, our success depends on the general economic conditions of the geographic markets we serve in the states of Mississippi, Alabama, Tennessee, Florida and Georgia. The local economic conditions in these areas have a significant impact on our commercial, real estate and construction loans, the ability of borrowers to repay these loans, and the value of the collateral securing these loans. Adverse changes in the economic conditions of the Southeastern United States in general or any one or more of our local markets could negatively impact our results of operations and our profitability.

*Our allowance for loan losses may not be adequate to cover actual losses.*

If our allowance for loan losses is not sufficient to cover actual loan losses, our earnings could decrease. Management maintains an allowance for loan losses based upon, among other things, (1) historical experience, (2) an evaluation of local, regional and national economic conditions, (3) regular reviews of delinquencies and loan portfolio quality, (4) current trends regarding the volume and severity of past due and problem loans, (5) the existence and effect of concentrations of credit, and (6) results of regulatory examinations. Based on such factors, management makes various assumptions and judgments about the ultimate collectability of the respective loan portfolios. Although we believe that the allowance for loan and lease losses is adequate, there can be no assurance that the allowance will prove sufficient to cover future losses. Future adjustments may be necessary if economic conditions differ or adverse developments arise with respect to nonperforming or performing loans. Material additions to the allowances for loan losses would result in a decrease in our net income and our capital balance.

The amount of future loan losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates, that may be beyond our control, and these losses may exceed current estimates. Federal regulatory agencies, as an integral part of their examination process, review our loans and allowance for loan losses. While we believe that the allowance for loan losses is adequate to cover current losses, we cannot provide assurances that we will not need to increase our allowance for loan losses or that regulators will not require an increase in our allowance. Either of these occurrences could materially and adversely affect our earnings and profitability.

Our business is subject to various lending and other economic risks that could adversely impact its operating results and financial condition. Further deterioration in economic conditions, particularly in the Southeastern United States, could hurt our business. Our business is directly affected by political and market conditions, broad trends in industry and finance, legislative and regulatory changes, and changes in governmental monetary and fiscal policies and inflation, all of which are beyond our control. A continuing deterioration in economic conditions could result in the following consequences, any of which could have a material adverse effect on our business:

Loan delinquencies may increase;

Problem assets and foreclosures may increase;

Demand for our products and services may decline;

Collateral for loans made by us, especially real estate, may decline in value, in turn reducing a customer's borrowing power, and reducing the value of assets and collateral associated with our loans; and

*We could suffer loan losses from a decline in credit quality and support.*

## Edgar Filing: CADENCE FINANCIAL CORP - Form 10-K

We could sustain losses if borrowers, guarantors and related parties fail to perform in accordance with the terms of their loans. Our underwriting and credit monitoring procedures and credit policies, including the establishment and review of the allowance for loan losses, may not prevent unexpected losses that could materially adversely affect our results of operations.

We seek to mitigate the risks inherent in our loan portfolio by adhering to specific underwriting practices. These practices often include analysis of a borrower's prior credit history, financial statements, tax returns and cash flow projections; valuation of collateral; and verification of liquid assets. Although we believe that our underwriting criteria are appropriate for the various kinds of loans we makes, we may incur losses on loans that meet our underwriting criteria, and these losses may exceed the amounts set aside as reserves in the allowance for loan losses.

---

**Table of Contents**

*The banking industry is heavily regulated and such regulation could limit or restrict our activities and adversely affect our earnings.*

We operate in a highly regulated industry and are subject to examination, supervision, and comprehensive regulation by various federal and state agencies, including the Federal Reserve, the FDIC, the OCC and the state banking departments in the states in which our branches are located. Our compliance with these regulations is costly and restricts certain of our activities, including payment of dividends, mergers and acquisitions, investments, loans and interest rates charged and locations of offices. We are also subject to capitalization guidelines established by our regulators, which require us to maintain adequate capital to support our growth.

In light of current conditions in the global financial markets and the global economy, regulators have increased their focus on the regulation of the financial services industry. Most recently, governments in the U.S. and abroad have intervened on an unprecedented scale, responding to the stresses experienced in the global financial markets. Some of the measures subject us and other institutions for which they were designed to additional restrictions, oversight or costs that may have an impact on our business, results of operations or the price of our common stock.

In addition, given the current economic and financial environment, regulators may elect to alter standards or their interpretation of such standards used to measure regulatory compliance or to determine the adequacy of liquidity, certain risk management or other operational practices for financial services companies. Such changes may limit our ability to increase our revenues and cause us to incur additional expenses, as well as subject us to unintended, adverse consequences which may impact our operations, financial condition or business prospects.

Proposals for legislation that could substantially intensify the regulation of the financial services industry are expected to be introduced in the U.S. Congress, in state legislatures and around the world. The agencies regulating the financial services industry also frequently adopt changes to their regulations. Substantial regulatory and legislative initiatives, including a comprehensive overhaul of the regulatory system in the U.S. are possible in the years ahead. Such initiatives could negatively affect our earnings. We are unable to predict whether any of these initiatives will succeed, which form they will take, or whether any additional changes to statutes or regulations, including the interpretation or implementation thereof, will occur in the future. Any such action could affect us in substantial and unpredictable ways and could have an adverse effect on our business, financial condition and results of operations.

In addition, the Sarbanes-Oxley Act of 2002 and the related rules and regulations promulgated by the SEC and NASDAQ that are now applicable to us have increased the scope, complexity and cost of corporate governance, reporting and disclosure practices, including the costs of completing our audit and maintaining our internal controls.

*The financial services industry faces substantial litigation and legal liability risks.*

We have been named, from time to time, as a defendant in various legal actions, including arbitrations, class actions, and other litigation, arising in connection with our activities. Certain of the actual or threatened legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. We are also subject to risk from potential employee misconduct, including non-compliance with policies and improper use or disclosure of confidential information. In connection therewith, any substantial legal liability resulting therefrom could materially and adversely affect our business, financial condition or results of operations.

*The financial services industry faces increased regulatory risks in this economic environment.*

We, along with all financial institutions, are reviewed by our primary governmental regulator on a periodic basis (in our case annually). The regulators review the business of each institution, including among other things, credit and other risks, accounting issues, operational matters and internal controls. Additionally, the regulator will review management systems for their adequacy. In this economic environment (with the credit risks associated with further declines in the real estate market) and as a recipient of TARP funds, we expect such reviews by our regulator to be more intensive. Such reviews could require us to enhance our operational, risk management and internal control practices, planning processes, procedures and policies, among other things. If such enhancements are deemed necessary by our regulator, the regulator may require us to enter into agreements to address those perceived risks or concerns. The number of these types of actions has increased significantly in this economic environment and could have a negative impact on our business.

---

## **Table of Contents**

*Changes in monetary policy and interest rates could adversely affect our profitability.*

Our results of operations are impacted by credit policies of monetary authorities, particularly the Federal Reserve Board. Our profitability depends to a significant extent on our net interest income. Net interest income is the difference between interest income on interest-earning assets, such as loans and investments, and interest expense on interest-bearing liabilities, such as deposits and borrowings. Our net interest income will be adversely affected if market interest rates change such that the interest we pay on deposits and borrowings increases faster than the interest earned on loans and investments. Changes in interest rates could also adversely affect the income of some of our non-interest income sources. For example, if mortgage interest rates increase, the demand for residential mortgage loans will likely decrease, having an adverse effect on our mortgage loan fee income. Continuing declines in security values could further reduce trust and investment income.

In light of changing conditions in the national economy and in the financial markets, particularly the uncertain economic environment, the continuing threat of terrorist acts and the current military operations in the Middle East, no prediction can be made as to possible future changes in interest rates, which may negatively affect our deposit levels, our loan demand and our business and earnings. Furthermore, the actions of the United States and other governments in response to ongoing economic crisis may result in currency fluctuations, exchange controls, market disruption and other adverse effects.

*Liquidity needs could adversely affect our results of operations and financial condition.*

The primary sources of funds of Cadence are customer deposits and loan repayments. While scheduled loan repayments are a relatively stable source of funds, they are subject to the ability of borrowers to repay the loans. The ability of borrowers to repay loans can be adversely affected by a number of factors outside of our control, including changes in economic conditions, adverse trends or events affecting business industry groups, reductions in real estate values or markets, business closings or lay-offs, inclement weather, natural disasters and international instability. Additionally, deposit levels may be affected by a number of factors, including rates paid by competitors, general interest rate levels, returns available to customers on alternative investments and general economic conditions. Accordingly, we may be required from time to time to rely on secondary sources of liquidity to meet withdrawal demands or otherwise fund operations. Such sources include Federal Home Loan Bank advances, brokered deposits and federal funds lines of credit from correspondent banks. While we believe that these sources are currently adequate, there can be no assurance they will be sufficient to meet future liquidity demands, particularly if we continue to grow and experience increasing loan demand or if regulatory decisions should limit their availability. We may be required to slow or discontinue loan growth, capital expenditures or other investments or liquidate assets should such sources not be adequate.

*We may face risks with respect to future de novo branch expansion and acquisitions or mergers.*

We may engage in de novo branch expansion, acquisitions or mergers in the future. We may also consider and enter into new lines of business or offer new products or services. De novo branch expansion involves a number of risks, including:

The time it takes for de novo branches to become profitable;

The time and attention demands of senior management to execute de novo branching;

The dependence of de novo branching upon local banking management;

The time and costs associated with hiring experienced local banking management and opening the branch; and

Entry into new areas where we lack experience.

Acquisitions and mergers involve a number of risks, including:

## Edgar Filing: CADENCE FINANCIAL CORP - Form 10-K

the time and costs associated with identifying and evaluating potential acquisitions and merger partners;

the estimates and judgments used to evaluate credit, operations, management and market risks with respect to the target institution may not be accurate;

the time and costs of evaluating new markets, hiring experienced local management and opening new offices, and the time lags between these activities and the generation of sufficient assets and deposits to support the costs of the expansion;

our ability to finance an acquisition and possible dilution to our existing shareholders;

the diversion of our management's attention to the negotiation of a transaction, and the integration of the operations and personnel of the combining businesses;

entry into new markets where we lack experience;

the incurrence and possible impairment of goodwill associated with an acquisition and possible adverse short-term effects on our results of operations; and

the risk of loss of key employees and customers.

## **Table of Contents**

We may incur substantial costs to expand, and we can give no assurance that such expansion will result in the levels of profits we seek.

There can be no assurance that integration efforts for any future mergers or acquisitions will be successful. Also, we may issue equity securities, including common stock and securities convertible into shares of our common stock, in connection with future acquisitions, which could cause ownership and economic dilution to our shareholders. There is no assurance that, following any future mergers or acquisition, our integration efforts will be successful or that our Corporation, after giving effect to the acquisition, will achieve profits comparable to or better than our historical experience.

*Expanding or combining with acquired companies may be more difficult, costly, or time-consuming than we expect.*

Our recent growth plans have included the expansion of de novo branches and the acquisition of other financial institutions. However, the current economic and regulatory environment may make such acquisitions and expansions more difficult and less attractive and decrease the likelihood that we will carry out such plans. In the event such an acquisition does occur, it is possible that the integration process of the acquisition could result in the loss of key employees or disruption of each company's ongoing business or inconsistencies in standards, procedures and policies that would adversely affect our ability to maintain relationships with clients and employees or to achieve the anticipated benefits of the acquisition. If we have difficulties with the integration process, we might not achieve the economic benefits expected to result from the acquisition. As with any acquisition of a banking institution, there also may be business disruptions that cause us to lose customers or cause customers to remove their deposits or loans from us and move their business to competing financial institutions.

*Our ability to pay dividends is strictly limited under TARP and we may be unable to pay future dividends.*

Our ability to pay dividends is limited by regulatory restrictions and the need to maintain sufficient consolidated capital. In addition, the ability of Cadence to pay dividends to the Corporation is limited by its obligations to maintain sufficient capital and by other general restrictions on dividends that are applicable to national banks that are regulated by the OCC. If we do not satisfy these regulatory requirements, we will be unable to pay dividends on our common stock.

Under the terms of the TARP, for so long as any preferred stock issued under the TARP remains outstanding, we are prohibited from increasing dividends on our common stock, and from making certain repurchases of equity securities, including our common stock, without the U.S. Treasury's prior consent until the third anniversary of the U.S. Treasury's investment or until the U.S. Treasury has transferred all of the preferred stock it purchased under the TARP to third parties. Furthermore, as long as the preferred stock issued to the U.S. Treasury is outstanding, dividend payments and repurchases or redemptions relating to certain equity securities, including our common stock, are prohibited until all accrued and unpaid dividends are paid on such preferred stock, subject to certain limited exceptions.

## **ITEM 1B - UNRESOLVED STAFF COMMENTS**

Not applicable.

## **ITEM 2 - PROPERTIES**

At December 31, 2008, Cadence's properties consisted of 38 full-service bank branches (including the main office in Starkville, Mississippi), of which 30 are owned premises and 8 are leased from third parties. Cadence also owns two operations centers in Starkville, Mississippi and Memphis, Tennessee. GCM operates from five separate locations, two of which are leased. The Corporation, Service, Insurance and CNIC did not own or lease any properties at December 31, 2008.

In the opinion of management, all properties are in good condition and are adequate to meet the needs of the communities they serve.

## **ITEM 3 - LEGAL PROCEEDINGS**

In the normal course of business, the Corporation and its subsidiaries from time to time are involved in legal proceedings. There are no pending proceedings to which either the Corporation or any of its subsidiaries are a party that upon resolution are expected to have a material adverse effect upon the Corporation's or its subsidiaries' financial condition or results of operations.

**Table of Contents****ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

A special meeting of shareholders was held on December 18, 2008, for the purpose of approving an amendment to the Corporation's Restated Articles of Incorporation to authorize the issuance of preferred stock. The amendment was approved by the following vote:

<b>For</b>	<b>Against</b>	<b>Withheld</b>
5,684,169	1,645,104	12,531
	<b><u>PART II</u></b>	

**ITEM 5 - MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES***Market Information*

Common stock market prices for the year ended December 31, 2008 are included in Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations, under the caption, Market Information.

*Number of Security Holders*

The Corporation had 2,417 security holders of record as of December 31, 2008.

*Dividends*

Dividends on common stock were declared quarterly in 2008 and 2007, and totaled as follows:

	<b>(In Thousands)</b>	
	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
Dividends declared, \$0.60 per share	\$ 7,144	\$
Dividends declared, \$1.00 per share	\$	\$ 11,897



**Table of Contents**

*Performance Graph*

The Securities and Exchange Commission requires that the Corporation include in its annual report on Form 10-K a line graph presentation comparing cumulative, five-year shareholder returns on an indexed basis with a performance indicator of the overall stock market and either a nationally recognized industry standard or an index of peer companies selected by the Corporation. The broad market index used in the graph is the NASDAQ Market Index. The Corporation has chosen to use Hemscott Industry Group 413 - Regional-Southeast Banks as its peer group index and to include the NASDAQ Bank Index as additional comparison.

The graph assumes that \$100 was invested in shares of the relevant issuers on December 31, 2002, and all dividends were immediately invested in additional shares. The value of the initial \$100 investment is shown at one-year intervals, for a five-year period ending December 31, 2008. For purposes of constructing this data, the returns of each component issuer have been weighted according to that issuer's market capitalization.

**Table of Contents****ITEM 6 - SELECTED FINANCIAL DATA**

	2008	Years Ended December 31,			2004
		2007	2006	2005	
(In thousands, except per share data)					
<b>INCOME DATA</b>					
Interest and fees on loans	\$ 81,533	\$ 99,591	\$ 74,182	\$ 53,035	\$ 43,242
Interest and dividends on securities	20,832	21,552	21,500	19,480	18,796
Other interest income	492	970	1,312	669	346
<b>Total interest income</b>	<b>102,857</b>	<b>122,113</b>	<b>96,994</b>	<b>73,184</b>	<b>62,384</b>
Interest expense	47,330	64,845	46,512	27,970	21,186
<b>Net interest income</b>	<b>55,527</b>	<b>57,268</b>	<b>50,482</b>	<b>45,214</b>	<b>41,198</b>
Provision for loan losses	28,599	8,130	1,656	2,128	3,522
<b>Net interest income after provision for loan losses</b>	<b>26,928</b>	<b>49,138</b>	<b>48,826</b>	<b>43,086</b>	<b>37,676</b>
Service charges on deposit accounts	9,133	9,295	8,878	7,952	8,581
Other income	13,859	8,190	11,115	11,983	11,526
<b>Total noninterest income</b>	<b>22,992</b>	<b>17,485</b>	<b>19,993</b>	<b>19,935</b>	<b>20,107</b>
Salaries and employee benefits	30,690	30,707	28,766	24,934	23,415
Occupancy and equipment expense	7,993	8,372	6,815	6,172	5,861
Other expenses	19,612	14,963	14,101	13,639	12,451
<b>Total noninterest expenses</b>	<b>58,295</b>	<b>54,042</b>	<b>49,682</b>	<b>44,745</b>	<b>41,727</b>
<b>Income (loss) before income taxes</b>	<b>(8,375)</b>	<b>12,581</b>	<b>19,137</b>	<b>18,276</b>	<b>16,056</b>
Income tax expense (benefit)	(5,019)	2,788	4,984	4,522	3,757
<b>Net income (loss)</b>	<b>\$ (3,356)</b>	<b>\$ 9,793</b>	<b>\$ 14,153</b>	<b>\$ 13,754</b>	<b>\$ 12,299</b>
<b>PER SHARE DATA</b>					
Net income (loss) - basic	\$ (0.28)	\$ 0.82	\$ 1.37	\$ 1.68	\$ 1.51
Net income (loss) - diluted	(0.28)	0.82	1.37	1.68	1.50
Dividends	0.60	1.00	1.00	0.98	0.96
<b>FINANCIAL DATA</b>					
Total assets	\$ 1,979,269	\$ 1,984,155	\$ 1,899,948	\$ 1,446,117	\$ 1,439,573
Net loans	1,307,599	1,322,921	1,210,710	851,332	817,649
Total deposits	1,461,159	1,425,566	1,460,523	1,121,684	1,116,373
Long-term obligations (1)	181,431	94,284	110,832	126,779	121,991
Total shareholders' equity	185,565	194,370	191,265	116,984	114,766

- (1) Long-term obligations are defined as those obligations with maturities in excess of one year. The Corporation's long-term obligations consist of certain term repurchase agreements (included in the Federal funds purchased and securities sold under agreements to repurchase caption on our consolidated balance sheets), subordinated debentures, and certain Federal Home Loan Bank borrowings (included in the Other borrowed funds caption on our consolidated balance sheets).

**Table of Contents**

## SUPPLEMENTAL STATISTICAL INFORMATION

**I. DISTRIBUTION OF ASSETS, LIABILITIES, AND STOCKHOLDERS EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL**

## A. Average balance sheets (consolidated):

The following table presents, for the years indicated, condensed daily average balance sheet information.

	2008	(In Thousands) 2007	2006
<b>Assets:</b>			
Cash and due from banks	\$ 38,836	\$ 46,604	\$ 41,290
<b>Securities:</b>			
Taxable	326,097	335,564	343,515
Tax-exempt	110,691	104,995	116,328
Total securities	436,788	440,559	459,843
Federal funds sold and other interest-bearing assets	21,581	19,384	25,893
Loans	1,350,869	1,284,762	973,466
Less allowance for loan losses	14,126	12,641	10,463
Net loans	1,336,743	1,272,121	963,003
Other assets	157,287	149,951	141,579
Total Assets	\$ 1,991,235	\$ 1,928,619	\$ 1,631,608
<b>Liabilities and Shareholders Equity:</b>			
<b>Deposits:</b>			
Noninterest-bearing	\$ 180,286	\$ 175,196	\$ 165,939
Interest-bearing	1,238,156	1,248,812	1,061,250
Total deposits	1,418,442	1,424,008	1,227,189
Federal funds purchased and securities sold under agreements to repurchase	104,334	95,406	63,830
Borrowed funds	266,024	197,681	144,097
Other liabilities	11,921	19,663	5,020
Total liabilities	1,800,721	1,736,758	1,440,136
Shareholders equity	190,514	191,861	191,472
Total Liabilities and Shareholders Equity	\$ 1,991,235	\$ 1,928,619	\$ 1,631,608

**Table of Contents****B. Analysis of Net Interest Earnings**

The table below shows, for the periods indicated, an analysis of net interest earnings, including the average amount of interest-earning assets and interest-bearing liabilities outstanding during the period, the interest earned or paid on such amounts, the average yields/rates paid and the net yield on interest-earning assets:

	(In Thousands)		
	2008	Average Balance 2007	2006
<b>EARNING ASSETS</b>			
Loans	\$ 1,350,870	\$ 1,284,762	\$ 973,466
Federal funds sold and other interest-bearing assets	21,581	19,384	25,893
Securities:			
Taxable	326,097	335,564	343,515
Tax-exempt	110,691	104,995	116,328
<b>Totals</b>	<b>1,809,239</b>	<b>1,744,705</b>	<b>1,459,202</b>
<b>INTEREST-BEARING LIABILITIES</b>			
Interest-bearing deposits	1,238,156	1,248,812	1,061,250
Borrowed funds, federal funds purchased and securities sold under agreements to repurchase	370,358	293,087	207,927
<b>Totals</b>	<b>1,608,514</b>	<b>1,541,899</b>	<b>1,269,177</b>
<b>Net Amounts</b>	<b>\$ 200,725</b>	<b>\$ 202,806</b>	<b>\$ 190,025</b>

	(\$ In Thousands)			Yields Earned And Rates Paid		
	2008	Average Balance 2007	2006	(%)		
<b>EARNING ASSETS</b>						
Loans	\$ 81,533	\$ 99,591	\$ 74,182	6.04	7.75	7.62
Federal funds sold and other interest-bearing assets	492	970	1,312	2.28	5.00	5.07
Securities:						
Taxable	16,296	17,173	16,641	5.00	5.12	4.84
Tax-exempt	4,536	4,379	4,859	4.10	4.17	4.18
<b>Totals</b>	<b>102,857</b>	<b>122,113</b>	<b>96,994</b>	<b>5.69</b>	<b>7.00</b>	<b>6.65</b>
<b>INTEREST-BEARING LIABILITIES</b>						
Interest-bearing deposits	35,682	49,945	35,992	2.88	4.00	3.39
Borrowed funds, federal funds purchased and securities sold under agreements to repurchase	11,648	14,900	10,520	3.15	5.08	5.06
<b>Totals</b>	<b>47,330</b>	<b>64,845</b>	<b>46,512</b>	<b>2.94</b>	<b>4.21</b>	<b>3.66</b>
<b>Net interest income</b>	<b>\$ 55,527 \$ 57,268 \$ 50,482</b>					
<b>Net yield on earning assets</b>				<b>3.07</b>	<b>3.28</b>	<b>3.46</b>

Edgar Filing: CADENCE FINANCIAL CORP - Form 10-K

- (1) Interest and yields on tax-exempt obligations are not on a fully taxable equivalent basis.
- (2) For the purpose of these computations, nonaccruing loans are included in the average loan balances outstanding.
- (3) Interest income on loans includes related fees.

**Table of Contents**

## C. Increase (Decrease) in Interest Income and Interest Expense

The following table analyzes the year-to-year changes in both the rate and volume components of net interest income at December 31:

	(In Thousands) 2008 Over 2007 Change Due To:			(In Thousands) 2007 Over 2006 Change Due To:		
	Total	Rate	Volume	Total	Rate	Volume
<b>EARNING ASSETS</b>						
Loans	\$ (18,058)	\$ (23,550)	\$ 5,492	\$ 25,409	\$ 1,287	\$ 24,122
Federal funds sold and other interest-bearing assets	(478)	(604)	126	(342)	(18)	(324)
Securities:						
Taxable	(877)	(398)	(479)	532	886	(354)
Tax-exempt	157	(70)	227	(480)	(12)	(468)
<b>Totals</b>	<b>\$ (19,256)</b>	<b>\$ (24,622)</b>	<b>\$ 5,366</b>	<b>\$ 25,119</b>	<b>\$ 2,143</b>	<b>\$ 22,976</b>
<b>INTEREST-BEARING LIABILITIES</b>						
Interest-bearing deposits	\$ (14,263)	\$ (13,841)	\$ (422)	\$ 13,953	\$ 7,039	\$ 6,914
Interest on borrowed funds, federal funds purchased and securities sold under agreements to repurchase	(3,252)	(10,625)	7,373	4,380	42	4,338
<b>Totals</b>	<b>\$ (17,515)</b>	<b>\$ (24,466)</b>	<b>\$ 6,951</b>	<b>\$ 18,333</b>	<b>\$ 7,081</b>	<b>\$ 11,252</b>

- (1) Change in volume is the change in volume times the previous year's rate.
- (2) Change in rate is the change in rate times the previous year's balance.
- (3) The change in interest due to both rate and volume has been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of change to each.

**II. INVESTMENT PORTFOLIO**

A. The following tables present the book values of securities as of the dates indicated:

	(In Thousands) December 31,		
	2008	2007	2006
U. S. Treasury	\$ 326	\$ 300	\$ 300
U. S. Government agencies and mortgage-backed securities	310,615	311,459	326,555
States and political subdivisions	107,804	113,048	108,833
Other	17,684	18,284	12,892
<b>Total book value</b>	<b>\$ 436,429</b>	<b>\$ 443,091</b>	<b>\$ 448,580</b>

**Table of Contents**

- B. The following table sets forth the maturities of investment and mortgage-backed securities (carrying values) at December 31, 2008, and the weighted-average yield of such securities:

	(\$ In Thousands)						
	0 - 1		Weighted-Average Yield		5-10		
	Year	Yield (%)	1 - 5	Yield (%)	Years	Yield (%)	
Securities:							
U. S. Treasury	\$		\$ 326	2.96%	\$		
U. S. Government agencies		4,101	4.75%	48,581	4.20%	25,867	5.03%
Nontaxable municipals		2,868	3.57%	20,232	4.92%	34,965	5.19%
Taxable municipals		40	4.00%	156	4.53%	1,966	5.11%
Other		501	5.73%	248	8.61%		
Total	\$	7,510		\$ 69,543		\$ 62,798	

	10+	Yield
	Years	(%)
U. S. Government agencies	\$ 11,611	5.74%
Nontaxable municipals	45,588	6.75%
Taxable municipals	1,989	5.58%
Other	16,934	3.96%
Total	\$ 76,122	

	Book	Yield
	Value	(%)
Mortgage-backed securities	\$ 220,455	5.24%

NOTE: Interest and yields on tax-exempt obligations are on a taxable equivalent basis, at the statutory rate of 38.25%.

Average yield on floating rate securities was determined using the current yield.

Table includes securities classified as available-for-sale and held-to-maturity at carrying values.

All mortgage-backed securities are backed by U. S. Government agencies.

- C. Investment securities in excess of 10% of stockholders' equity.

At December 31, 2008, there were no securities from any issuers in excess of 10% of stockholders' equity that were not securities of the U. S. Government or U. S. Government agencies or corporations.

**Table of Contents****III. LOAN PORTFOLIO**

## A. Type of loans

The amount of loans outstanding by type at the indicated dates are shown in the following table:

Type	(In Thousands)				
	2008	2007	December 31, 2006	2005	2004
Commercial, financial and agricultural	\$ 244,213	\$ 265,707	\$ 257,661	\$ 209,017	\$ 155,858
Real estate - construction	351,935	431,814	347,568	143,729	119,637
Real estate - mortgage	684,827	586,909	559,604	457,453	478,792
Installment loans to individuals	32,388	37,121	38,833	40,825	57,599
Other	14,966	16,296	19,280	9,620	16,677
Total loans	\$ 1,328,329	\$ 1,337,847	\$ 1,222,946	\$ 860,644	\$ 828,563

## B. Maturities and sensitivities of loans to changes in interest rates

The following table sets forth as of December 31, 2008, the amount of loans due in the periods indicated:

Type	(In Thousands)				Total
	Due Within 1 Year	Due After 1 Year Through 5 Years	Due After 5 Years		
Commercial, financial and agricultural	\$ 151,713	\$ 86,437	\$ 6,063		\$ 244,213
Real estate - construction	299,213	48,782	3,940		351,935
	\$ 450,926	\$ 135,219	\$ 10,003		\$ 596,148

Type	(In Thousands)				Total
	Due Within 1 Year	Due After 1 Year Through 5 Years	Due After 5 Years		
Loans with:					
Predetermined interest rates	\$ 218,811	\$ 129,784	\$ 10,004		\$ 358,599
Floating interest rates	232,114	5,435			237,549
	\$ 450,925	\$ 135,219	\$ 10,004		\$ 596,148

## C. Non-performing loans



Edgar Filing: CADENCE FINANCIAL CORP - Form 10-K

1. The following table states the aggregate amount of loans that were non-performing on the dates indicated:

Type	(In Thousands)				
	December 31,				
	2008	2007	2006	2005	2004
Loans accounted for on a non-accrual basis	\$ 23,761	\$ 3,460	\$ 1,435	\$ 498	\$ 1,918
Accruing loans past due 90 days or more	3,467	5,493	1,146	2,043	1,094
Renegotiated troubled debt	4,397	180	151	73	1,502

**Table of Contents**

2. There were no loan concentrations in excess of 10% of total loans at December 31, 2008. However, lending activities are affected by the economic trends within the areas served by the Corporation and its subsidiaries. These economic trends, in turn, can be influenced by the areas' larger employers and industries, such as Mississippi State University and Columbus Air Force Base in Mississippi; University of Alabama and Mercedes-Benz Automotive Plant in Alabama; Federal Express and Auto Zone in Tennessee; and the tourism industry in Florida.
3. There were no outstanding foreign loans at December 31, 2008.
4. Loans classified for regulatory purposes or for internal credit review purposes that have not been disclosed in the table above do not represent or result from trends or uncertainties that management expects will materially impact the financial condition of the Corporation or the Bank, or their future operating results, liquidity or capital resources.
5. If all nonaccrual loans had been current throughout their terms, management estimates that interest income would have increased by approximately \$1.2 million for the year ended December 31, 2008.
6. Management stringently monitors loans that are classified as non-performing. Non-performing loans include nonaccrual loans, loans past due 90 days or more, and loans renegotiated or restructured because of a debtor's financial difficulties. Loans are generally placed on non-accrual status if any of the following events occur: (a) the classification of a loan as non-accrual internally or by regulatory examiners, (b) delinquency on principal for 90 days or more unless management is in the process of collection, (c) a balance remains after repossession of collateral, (d) notification of bankruptcy, or (e) management judges that non-accrual status is appropriate.
7. At December 31, 2008, the recorded investment in loans identified as impaired totaled approximately \$59.7 million. The allowance for loan losses related to these loans approximated \$10.1 million. The average recorded investment in impaired loans during the year ended December 31, 2008, was \$35.5 million. For the year ended December 31, 2008, management estimates that the amount of income recognized on impaired loans was approximately \$1.5 million.

D. Other interest-bearing assets

There were no other interest-bearing non-performing assets at December 31, 2008.

**Table of Contents****IV. SUMMARY OF LOAN LOSS EXPERIENCE**

A. The following table shows changes in the Corporation's allowance for loan losses for the periods indicated:

	(\$ In Thousands)				
	Years Ended December 31,				
	2008	2007	2006	2005	2004
Beginning balance	\$ 14,926	\$ 12,236	\$ 9,312	\$ 10,914	\$ 6,181
Allowance of acquired entity			3,116		4,547
	14,926	12,236	12,428	10,914	10,728
Charge-offs:					
Domestic:					
Commercial, financial and agricultural	(1,582)	(2,547)	(749)	(1,320)	(732)
Real estate	(21,000)	(2,952)	(526)	(1,373)	(2,070)
Installment loans and other	(1,339)	(1,999)	(1,358)	(1,927)	(1,308)
Total charge-offs	(23,921)	(7,498)	(2,633)	(4,620)	(4,110)
Recoveries:					
Domestic:					
Commercial, financial and agricultural	379	408	259	52	133
Real estate	322	1,171	119	348	185
Installment loans and other	425	479	407	490	456
Total recoveries	1,126	2,058	785	890	774
Net charge-offs	(22,795)	(5,440)	(1,848)	(3,730)	(3,336)
Provision charged to operations	28,599	8,130	1,656	2,128	3,522
Ending balance	\$ 20,730	\$ 14,926	\$ 12,236	\$ 9,312	\$ 10,914
Ratio of net charge-offs to average loans outstanding	1.69	0.42	0.19	0.46	0.44

Estimated charge-offs in 2009 are as follows: commercial, financial and agricultural - \$2.1 million; real estate - \$22.0 million; and installment loans and other - \$900,000.

The following table indicates the ratio of allowance for loan losses to loans outstanding at year-end:

	December 31,				
	2008	2007	2006	2005	2004
Ratio of allowance for loan losses to loans outstanding at year end	1.56	1.12	1.00	1.08	1.32

B. Determination of Allowance for Loan Losses

The determination of the allowance for loan losses requires significant judgment. The balance of the allowance for loan losses reflects management's best estimate of probable loan losses related to specifically identified loans, as well as probable incurred loan losses in the remaining portfolio. Reference should be made to Note A.6. ( Allowance for Loan Losses ) in the Notes to Consolidated Financial Statements and to Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations.



**Table of Contents**

The following schedule sets forth the components of the allowance for loan losses for the periods indicated. This allocation is based upon the consistent, quarterly evaluation of the adequacy of the allowance for loan losses. The entire allowance for loan losses is available to absorb loan losses in any category.

<i>(In thousands)</i>	2008		2007		2006	
	Loan Balance	Allowance for Loan Losses	Loan Balance	Allowance for Loan Losses	Loan Balance	Allowance for Loan Losses
Allocated component:						
Impaired loans	\$ 59,664	\$ 10,075	\$ 23,824	\$ 4,396	\$ 13,577	\$ 2,113
Graded loans	86,376	1,876	24,728	852	32,682	972
Homogeneous pools	141,318	584	133,191	570	105,114	524
Other loans	1,040,971	4,195	1,156,104	4,246	1,071,573	6,107
Unallocated component		4,000		4,862		2,520
	\$ 1,328,329	\$ 20,730	\$ 1,337,847	\$ 14,926	\$ 1,222,946	\$ 12,236

<i>(In thousands)</i>	2005		2004		
	Loan Balance	Allowance for Loan Losses	Loan Balance	Allowance for Loan Losses	
Allocated component:					
Impaired loans		\$ 10,544	\$ 1,293	\$ 4,107	\$ 2,237
Graded loans		19,978	812	44,820	3,805
Homogeneous pools		120,315	855	232,618	2,230
Other loans		709,807	4,768	547,018	1,905
Unallocated component			1,584		737
		\$ 860,644	\$ 9,312	\$ 828,563	\$ 10,914

The allowance allocated to impaired loans for the periods indicated was based upon the estimated fair value of the underlying collateral.

Graded loans are those loans that exhibit some form of weakness. Allocations to this group are based upon the historical loan loss experience of the grades assigned and upon specific allocations to specific loans.

An allowance is allocated to the various pools of loans considered to be homogenous based upon the historical loan losses of each pool. The types of homogeneous pools included in our evaluation of the allowance for loan losses are lease financing loans, mortgage loans, personal loans, home equity lines, student loans, and personal credit lines.

Other loans consist of those loans not graded or impaired or considered homogenous. These loans are grouped by risk assignments, which are based upon consideration of collateral values, borrower financial condition and performance, debt service capacity, cash flows, market share and other indicators. Allocations of the allowance to these loans are based upon historical loan loss experience of the risk assignment.

### C. Loans and Risk Descriptions

#### Real Estate Loans

The Bank originates loans secured by commercial real estate, one-to-four family residential properties, and multi-family dwelling units (5 or more units). At December 31, 2008, these loans totaled \$1.0 billion, or approximately 76% of the Bank's loan portfolio.



**Table of Contents**

The Bank originates commercial real estate loans of up to 80% of the appraised value. Currently, it is the Corporation's policy to originate these loans only to carefully selected borrowers and on properties in the market area. Of primary concern in commercial real estate lending are the borrower's credit worthiness and the feasibility and cash flow potential of the project. To monitor cash flows of borrowers, annual financial statements are obtained from the borrower and loan guarantors, if any.

The Bank originates loans secured by first and junior liens on one-to-four family residences in its lending areas. Typically, such loans are single-family homes that serve as the primary residence of the borrower. Generally, these loans are originated in amounts up to 80% of the appraised value or selling price of the property. See Note D in the Notes to Consolidated Financial Statements for additional information related to these loans.

Loans for multi-family (5 or more units) residential properties are generally secured by apartment buildings. Loans secured by income generating properties are generally larger and involve greater risk than residential loans because payments are often dependent on the successful operation or management of the properties. As a result, these types of loans may be more sensitive to adverse conditions in the real estate market or the economy. Cash flow and financial statements are obtained from the borrowers and any guarantors. Also, rent rolls are often obtained.

**Consumer and Other Loans**

Cadence offers consumer loans in the form of home improvement loans, mobile home loans, automobile loans and unsecured personal loans. These loans totaled \$31 million, or 2% of total loans, at December 31, 2008. Consumer loans are originated in order to provide a wide range of financial services to customers.

In connection with consumer loan applications, the borrower's income statement and credit bureau report are reviewed. In addition, the relationship of the loan to the value of the collateral is considered. All automobile loan applications are reviewed, as well as the value of the collateral securing the loan. Cadence intends to continue to emphasize the origination of consumer loans. Management believes that its loan loss experience in connection with its consumer loan portfolio is favorable in comparison to industry averages.

The Bank makes commercial business loans on both a secured and unsecured basis with terms generally not exceeding five years. Non-real estate commercial loans primarily consist of short-term loans for working capital purposes, inventories, seasonal loans, lines of credit and equipment loans. A personal guaranty of payment by the principals of any borrowing entity is often required and the financial statements and income tax returns of the entity and its guarantors are reviewed. At December 31, 2008, commercial business loans represented \$219 million, or approximately 17%, of the Bank's total loan portfolio.

**V. DEPOSITS**

	(\$ In Thousands)					
	2008		2007		2006	
	Amount	Rate	Amount	Rate	Amount	Rate
A. Average deposits:						
Domestic:						
Noninterest-bearing	\$ 177,670		\$ 175,196		\$ 165,939	
Interest-bearing demand (1)	526,918	1.80%	489,136	2.95%	414,137	2.51%
Savings	40,261	0.58%	42,310	0.78%	42,218	0.46%
Time	670,977	3.87%	717,366	4.91%	604,895	4.20%
Foreign	N/A		N/A		N/A	
Total	\$ 1,415,826		\$ 1,424,008		\$ 1,227,189	

(1) Includes Money Market accounts

B. Other categories - None

C. Foreign deposits - Not applicable



**Table of Contents**

D. Time certificates of deposit of \$100,000 or more and maturities at December 31, 2008:

	(In Thousands)					
		3 Months Through			6 Months Through 12 Months	Over 12 Months
	Total	3 Months or Less	6 Months	6 Months Through 12 Months	Over 12 Months	
Time certificates of deposit of \$100,000 or more	\$ 425,901	\$ 161,595	\$ 72,579	\$ 122,346	\$ 69,381	

E. Foreign office time deposits of \$100,000 or more - Not applicable

**VI. RETURN ON EQUITY AND ASSETS**

The following financial ratios are presented for analytical purposes:

	December 31,		
	2008	2007	2006
Return on assets (net income divided by total average assets)	(0.2)	0.5	0.9
Return on equity (net income divided by average equity)	(1.8)	5.1	9.0
Dividend payout ratio (dividends per share divided by basic net income per share)	**	122.0	73.0
Equity to asset ratio (average equity divided by average total assets)	9.6	9.9	9.6

\*\* For the year ended December 31, 2008, dividends paid exceeded net income.

**VII. SHORT-TERM BORROWINGS**

	(\$ In Thousands)		
	2008	2007	2006
Balance at year end	\$ 48,527	\$ 57,060	\$ 30,838
Weighted average interest rate at year end	0.92%	3.40%	3.43%
Maximum amount outstanding at any month end for the year	\$ 75,068	\$ 57,060	\$ 30,838
Average amount outstanding during the year	54,334	45,406	37,578
Weighted average interest rate during the year	1.81%	3.58%	3.31%

Note: Short term borrowings include federal funds purchased and securities sold under agreements to repurchase (excluding certain term repurchase agreements).

**ITEM 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following provides a narrative discussion and analysis of the financial condition, changes in financial condition and results of operations of the Corporation). You should read this discussion in conjunction with the Consolidated Financial Statements, including the notes thereto, and the Supplemental Financial Data included elsewhere in this report.

**INTRODUCTION AND MANAGEMENT OVERVIEW**

The Corporation is a financial holding company that owns Cadence. Cadence operates in the states of Mississippi, Alabama, Tennessee, Florida and Georgia. Cadence's primary business is providing traditional commercial and retail banking services to customers. Cadence also provides other financial services, including trust services, mortgage services, insurance and investment products. Our stock is traded on The NASDAQ Global Select Market ( NASDAQ ) under the ticker symbol of CADE .



---

## **Table of Contents**

Cadence's profitability, like that of many financial institutions, is dependent on its ability to generate revenue from net interest income and noninterest income sources. Net interest income is the difference between the interest income Cadence receives on earning assets, such as loans and securities, and the interest expense Cadence pays on interest-bearing liabilities, principally deposits and borrowings. Noninterest income includes fees from service charges on deposit accounts, trust, investment activities, mortgage origination, insurance and other customer services which Cadence provides. Results of operations are also affected by the provision for loan losses and noninterest expenses such as salaries, employee benefits, occupancy and other operating expenses, including taxes.

Economic conditions, competition, the regulatory environment, and the monetary and fiscal policies of the Federal government in general, significantly affect financial institutions, including Cadence. Lending and deposit activities and fee income generation are influenced by the level of business spending and investment, consumer income, spending and savings, capital market activities, competition among financial institutions, customer preferences, interest rate conditions and prevailing market rates on competing products in Cadence's market areas.

During 2008, three major factors significantly impacted our operating results, as follows:

A \$20.5 million increase in provision for loan losses due to a general deterioration in the real estate sectors of some of our markets, overall economic conditions, and credit downgrades on some customer relationships.

Federal Reserve rate reductions totaling four hundred basis points in 2008. These rate reductions impacted our yields on earning assets and cost of funds.

A \$3.6 million increase in legal fees, appraisal fees and other maintenance and holding expenses, as well as losses on sales of other real estate owned (OREO), due to an increase in properties on which Cadence has foreclosed.

For 2008, our non-tax equivalent net interest margin was 3.07%, compared to 3.28% for 2007. Our loan yields declined by 171 basis points between 2007 and 2008; however, our overall cost of funds only declined by 127 basis points. Pricing for deposits did not decline at the same pace as variable rate loans (which comprise approximately 64% of our loan portfolio) because of the strong competition for these funds. Our margins were continually under pressure due to the rate reductions occurring throughout 2008 and the timing differences between the repricing of our interest-bearing assets and liabilities.

Our provision for loan losses was substantially higher in 2008 as compared to 2007, due to a further deterioration in the real estate sectors of some of our markets, overall economic conditions, and credit downgrades on some customer relationships. We do not engage in any sub-prime or Alt A lending; therefore, none of the increase in our provision for loan losses related to or was affected by these types of loans. Our underwriting standards have tightened based on recent changes in market conditions, and we believe that the current level of our allowance for loan losses is adequate as of December 31, 2008.

During 2008, noninterest income, including gains and losses on securities, increased from \$17.5 million to \$23.0 million. Noninterest income for 2007 reflects an impairment loss on certain investment securities that related to our decision to rescind the application of FASB Statement No. 159 to these securities. The components of and other reasons for the increase in noninterest income are discussed more fully below. Noninterest income accounted for 29.3% of income in 2008, 23.4% of income in 2007, and 28.4% of income in 2006. The growth of noninterest income continues to be an important part of our strategic goals.

One of our goals in 2008 was to continue to control the level of noninterest expenses. During 2008, total noninterest expenses increased by \$4.3 million, or 7.9%, as compared to the year ended December 31, 2007. The majority of the increase, or \$3.6 million, is attributable to increased costs associated with OREO.

For 2008, we reported a net loss of \$3.4 million, or \$0.28 per diluted share, compared to net income of \$9.8 million, or \$0.82 per diluted share, for 2007.

In January 2009, we closed on the sale of \$44 million in non-voting preferred stock to the U.S. Treasury Department under its Capital Purchase Program. This additional capital strengthens our capital base significantly above regulatory requirements. We will deploy these funds into short-term investments so that we can convert them quickly to fund future loan growth while minimizing our interest rate risks. Our goal is to offset the cost of the preferred stock dividend by conservatively leveraging this capital; however, this objective will be difficult in the current

low interest rate and slow loan growth environment.

Our most significant challenge for 2009 is credit quality. We have taken an aggressive stance in addressing credit issues in our loan portfolio to minimize future risks. We have increased our focus on underwriting standards and have revamped our

---

## Table of Contents

loan policy. We also have a special assets team in place to manage workout situations and to assist in the timely disposition of defaulted assets. Our management information systems relating to loan concentrations provide us with current and detailed information about the status of the loans in our portfolio. We feel that these steps place us in the best position possible to manage credit quality; however, credit quality will remain an issue as long as current economic trends, including increasing unemployment rates and declining real estate prices, continue.

We expect our loan portfolio balance to remain flat or decline slightly during the first part of 2009. Our recent loan growth was mostly attributable to real estate-related credits, but with declining demand, higher credit standards for these loans, and the regulatory attitude toward real estate-related loans, generating new loans in this current environment will be a challenge. We intend to diversify our portfolio with more commercial loans as opportunities arise. Currently, we expect that interest rates will remain flat for 2009. We based our 2009 projections, budgets and goals on these expectations. If these trends move differently than expected in either direction or speed, they could have a material impact on our financial condition and results of operations. The areas of our operations most directly impacted would be the net interest margin, loan and deposit growth and the provision for loan losses.

We remain focused on our strategy to build future earnings and understand that improved asset quality and margin growth are the real keys to achieving that strategy. We also continue to refine our funding plan, including both the mix and the funding decisions we make, but remain within our policies regarding types of funding to be used. To optimize costs, we must remain somewhat flexible. The additional capital raised through the preferred stock sale to the U.S. Treasury will play an important part in supporting future loan growth.

We will also continue our efforts to control noninterest expenses by working to achieve maximum efficiencies within our new expanded footprint. We continue to leverage the investments in infrastructure that we have made over the past few years and believe that they will continue to have a positive impact on our costs going forward, as well as provide us with a solid platform on which to expand future operations. Reducing our efficiency ratio remains a key objective. However, our noninterest expenses will be negatively affected by the significant increase in FDIC insurance premiums. Costs associated with OREO will also negatively affect our noninterest expenses in 2009.

In summary, our largest challenges in 2009 are credit quality and improving our net interest margin. We are managing our credit problems aggressively and refining our risk management processes in order to enhance our future earnings.

## RECENTLY ISSUED ACCOUNTING STANDARDS AND CRITICAL ACCOUNTING POLICIES

Our accounting and financial reporting policies conform to United States generally accepted accounting principles and, where applicable, to general practices within the banking industry. Note A of the Notes to Consolidated Financial Statements contains a summary of our accounting policies. Management is of the opinion that Note A, read in conjunction with all other information in this report, including this Management's Discussion and Analysis, is sufficient to provide the reader with the information needed to understand our financial condition and results of operations.

### *Critical Accounting Policies*

It is management's opinion that the areas of the financial statements that require the most difficult, subjective and complex judgments, and therefore contain the most critical accounting estimates, are the provision for loan losses and the resulting allowance for loan losses; the liability and expense relating to our pension and other postretirement benefit plans; issues relating to other-than-temporary impairment losses in the securities portfolio; and goodwill and other intangible assets.

### Provision/Allowance for Loan Losses

Our provision for loan losses is utilized to replenish the allowance for loan losses on the balance sheet. The allowance is maintained at a level deemed adequate by management after their evaluation of the risk exposure contained in our loan portfolio. The senior credit officers and the loan review staff perform the methodology used to make this determination of risk exposure on a quarterly basis. As a part of this evaluation, certain loans are individually reviewed to determine if there is an impairment of our ability to collect the loans and the related interest. This determination is generally made based on collateral value securing such loans. If the senior credit officers and loan review staff determine that impairments exist, specific portions of the allowance are allocated to these individual loans. We group all other loans into homogeneous pools and determine risk exposure by considering the following non-exclusive list of factors: historical loss experiences; trends in delinquencies and non-accruals; and national, regional and local economic conditions. These economic conditions would include, but not be limited to, general real estate conditions, the current interest rate environment and trends, unemployment levels and other information, as deemed appropriate. Additionally, management looks at specific external credit risk factors that bring additional risk into the portfolio. For the year ended December 31, 2008, we identified the following external risk factors: (1) declining national and local economic conditions; (2) increased risk associated with commercial real estate



## Table of Contents

credits; and (3) the deterioration of real estate sectors in specific markets. These external risk factors are re-evaluated on a quarterly basis. Management makes its estimates of the credit risk in the portfolio and the amount of provision needed to keep the allowance for loan losses at an appropriate level using what management believes are the best and most current sources of information available at the time of the estimates; however, many of these factors can change quickly and with no advance warning. Due to the speed in which some real estate credits are deteriorating in the current environment, it has been very difficult to project future potential losses in the loan portfolio. If management significantly misses its estimates in any period, it can have a material impact on the results of operations for that period and for subsequent periods.

### Pension and Other Postretirement Benefit Plans

Another area that requires subjective and complex judgments is the liability and expense relating to our pension and other postretirement benefit plans. We maintain several benefit plans for our employees. They include a defined benefit pension plan, a defined contribution pension plan, a 401(k) plan and a deferred compensation plan. We make all contributions to these plans when due.

The defined benefit pension plan is the only plan that requires multiple assumptions to determine the liability under the plan. This plan has been frozen to new participants for several years. Management evaluates, reviews with the plan actuaries, and updates as appropriate the assumptions used in the determination of pension liability, including the discount rate, the expected rate of return on plan assets, and increases in future compensation. Actual experience that differs from the assumptions could have a significant impact on our financial position and results of operations. The discount rate and the expected rate of return on the plan assets have a significant impact on the actuarially computed present value of future benefits that is recorded on the financial statements as a liability and the corresponding pension expense.

In selecting the expected rate of return, management, in consultation with the plan trustees, selected a rate based on assumptions compared to recent returns and economic forecasts. We consider the current allocation of the portfolio and the probable rates of return of each investment type. Management, with the assistance of actuarial consultants, selects the appropriate discount rate by performing an analysis of the plan's projected benefit cash flows against discount rates from a national Pension Discount Curve (a yield curve used to measure pension liabilities). Based on the analysis, management used a discount rate of 5.75% in 2006 and 2007 and a discount rate of 6.0% in 2008. We used an expected rate of return of 7.5% for 2006, 2007 and 2008. From a historical perspective, the rates of return on the plan were 9.5% for 2006, 7.6% for 2007, and (21.7%) for 2008. Additionally, our philosophy has been to fund the plan annually to the maximum amount deductible under the Internal Revenue Service rules. As of December 31, 2008, the plan had a current accumulated benefit obligation of approximately \$10.7 million, and plan assets with a fair value of approximately \$10.7 million.

FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, requires us to recognize the funded status of the plan (defined as the difference between the fair value of plan assets and the projected benefit obligation) on the balance sheet and to recognize in other comprehensive income any gains or losses and prior service costs or benefits not included as components of periodic benefit cost. Detailed information on our pension plan and the related impacts of these changes on the amounts recorded in our financial statements can be found in Note M ( *Employee Benefits* ) of the Notes to Consolidated Financial Statements.

### Other-Than-Temporary Impairment of Investment Securities

A third area that requires subjective and complex judgments on the part of management is the review of the investments in the securities portfolio for other-than-temporary impairments. EITF Issue 03-01 and FASB FSP FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, require us to review our investment portfolio and determine if it has impairment losses that are other-than-temporary. In making its determination, management considers the following items: (1) the length of time and extent to which the current market value is less than cost; (2) evidence of a forecasted recovery; (3) financial condition and the industry environment of the issuer; (4) downgrades of the securities by rating agencies; (5) whether there has been a reduction or elimination of dividends or interest payments; (6) whether we have the intent or ability to hold the securities for a period of time sufficient to allow for anticipated recovery of fair value; and (7) interest rate trends that may impact recovery and realization.

During the first quarter of 2007, we recognized a \$5.1 million impairment loss relating to certain collateralized mortgage obligations and mortgage-backed securities. During the third quarter of 2006, we recognized a \$2.0 million other-than-temporary impairment charge relating to certain Fannie Mae and Freddie Mac preferred stock.

As of December 31, 2008, our securities portfolio included certain securities that were, by definition, impaired. We reviewed each of these securities to determine if any of the impairments were other-than-temporary. Using the criteria listed above, we determined that none of the impairments were other-than-temporary as of December 31, 2008.





---

**Table of Contents**

Goodwill and Other Intangible Assets

Although FASB Statement No. 142, Goodwill and Other Intangible Assets, eliminated the requirement to amortize goodwill, it does require periodic testing for impairment. Due to the deterioration in the national financial markets in 2008 and the related impact on the fair value of the Corporation, we engaged a third party to conduct our goodwill impairment testing in accordance with FASB Statement No. 142. This testing was performed in the fourth quarter of 2008 and resulted in the conclusion that no impairment writedown was warranted. At December 31, 2008, we had approximately \$66.8 million of goodwill on our balance sheet.

*Other Accounting/Regulatory Issues*

In the normal course of business, Cadence makes loans to related parties, including our directors and executive officers and their relatives and affiliates. We make these loans on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other parties. Also, the loans are consistent with sound banking practices and within applicable regulatory and lending limitations. Please see Note O in the Notes to Consolidated Financial Statements and our proxy statement for additional details concerning related party transactions.

Section 402 of the Sarbanes-Oxley Act generally prohibits loans to executive officers. However, the rule does not apply to any loan made or maintained by an insured depository institution if the loan is subject to the insider lending restrictions of section 22(h) of the Federal Reserve Act. All loans that the Bank makes to executive officers are subject to the above referenced section of the Federal Reserve Act.

During 2007 and 2008, we owned NBC Capital Corporation (MS) Statutory Trust I and Enterprise (TN) Statutory Trust I, both organized under the laws of the State of Connecticut for the purpose of issuing trust preferred securities. In accordance with FASB Interpretation No. 46 (revised December 2003), the trusts, which are considered variable interest entities, are not consolidated into our financial statements because the only activity of the variable interest entities is the issuance of the trust preferred securities. The trust preferred securities related to Enterprise (TN) Statutory Trust I were fully redeemed in December 2007, and the trust was dissolved in January 2008.

**RESULTS OF OPERATIONS**

Net loss for 2008 was \$3.4 million, or \$0.28 per diluted share, a decrease from net income of \$9.8 million, or \$0.82 per diluted share, in 2007 and \$14.2 million, or \$1.37 per diluted share, in 2006. Return on average equity was (1.8)% in 2008, 5.1% in 2007, and 9.0% in 2006. Return on average assets was (0.2)% in 2008, 0.5% in 2007, and 0.9% in 2006.

Net interest income, the primary source of our earnings, represents income generated from earning assets, less the interest expense of funding those assets. Changes in net interest income may be divided into two components: (1) the change in average earning assets (volume component) and (2) the change in the net interest spread (rate component). Net interest spread represents the difference between yields on earning assets and rates paid on interest-bearing liabilities.

Net interest income decreased by \$1.7 million, or 3.0%, from \$57.3 million in 2007 to \$55.5 million in 2008. Average earning assets increased from \$1.74 billion in 2007 to \$1.81 billion in 2008, an increase of \$64.5 million, or 3.7%. During this period, the net interest margin declined to 3.07%, compared to 3.28% for 2007. Net interest margin is net interest income divided by average earning assets.

In analyzing the rate component of net interest income, from 2007 to 2008, we lost 131 basis points of yield on our earning assets. However, during this period, the cost of funds decreased by 127 basis points. Our loan portfolio, which is comprised of approximately 64% variable rate loans, reflected a yield decrease from 7.75% to 6.04% from 2007 to 2008, due to the 400 basis point reduction in interest rates in 2008. The yield on our investment securities portfolio also declined from 2007 to 2008, from 4.89% to 4.77%. However, our cost of deposits declined from 4.00% to 2.88%, and our cost of other borrowings declined from 5.08% to 3.15%.

Our loan yields and margin were also impacted by the reversal of interest income on loans that were placed on non-accrual status. During 2008, these reversals of interest income totaled \$1,139,000, compared to \$461,000 for 2007. This difference amounted to five basis points of yield on our loan portfolio and four basis points on our margin. Also, we have recently generated fewer real estate development loans, which typically have higher yields. This reduction in higher yield loans is a result of the softening economy, a reduction in demand for real estate development loans, and our focus on credit quality.

The increase of \$64.5 million in our average earning asset balances between 2007 and 2008 is attributable primarily to a \$66.1 million increase in average loan balance. From 2007 to 2008, the average balance of interest-bearing deposits decreased by \$10.7 million, and the average balance of other borrowings increased by \$77.3 million.



**Table of Contents**

Net interest income increased by \$6.8 million, or 13.5%, from \$50.5 million in 2006 to \$57.3 million in 2007. Average earning assets increased from \$1.46 billion in 2006 to \$1.74 billion in 2007, an increase of \$285.5 million, or 19.6%. During this period, the net interest margin declined to 3.28%, compared to 3.46% for 2006.

In analyzing the rate component of net interest income, from 2006 to 2007, we gained 35 basis points of yield on our earning assets. However, during this period, the cost of funds increased by 55 basis points. Our loan portfolio, which is comprised of approximately 61% variable rate loans, reflected a yield increase from 7.62% to 7.75% from 2006 to 2007. The yield on our investment securities portfolio also increased from 2006 to 2007, from 4.68% to 4.89%. However, our cost of deposits increased from 3.39% to 4.00%.

The primary reason for our increased net interest income between 2006 and 2007 is the increase in average earning asset balances. The increase in average earning assets from 2006 to 2007 is composed of the following: average loans increased by \$311.3 million; average federal funds sold and other interest-bearing assets decreased by \$6.5 million; and average investment securities decreased by \$19.3 million. From 2006 to 2007, the average balance of interest-bearing deposits increased by \$187.6 million, and the average balance of other borrowings increased by \$85.2 million.

The following table shows, for the periods indicated, an analysis of net interest income, including the average amount of earning assets and interest-bearing liabilities outstanding during the period, the interest earned or paid on such amounts, the average yields/rates paid and the net yield on earning assets on both a book and tax equivalent basis:

	(\$ in Thousands)	
	Average Balance	
	Year Ended 12/31/08	Year Ended 12/31/07
<b>EARNING ASSETS:</b>		
Net loans	\$ 1,350,870	\$ 1,284,762
Federal funds sold and other interest-bearing assets	21,581	19,384
Securities:		
Taxable	326,097	335,564
Tax-exempt	110,691	104,995
<b>Totals</b>	<b>1,809,239</b>	<b>1,744,705</b>
<b>INTEREST-BEARING LIABILITIES:</b>		
Interest-bearing deposits	1,238,156	1,248,812
Borrowed funds, federal funds purchased and securities sold under agreements to repurchase and other interest-bearing liabilities	370,358	293,087
<b>Totals</b>	<b>1,608,514</b>	<b>1,541,899</b>
Net amounts	\$ 200,725	\$ 202,806

**Table of Contents**

	(\$ in Thousands) Interest For		Yields Earned And Rates Paid (%)	
	Year Ended 12/31/08	Year Ended 12/31/07	Year Ended 12/31/08	Year Ended 12/31/07
<b>EARNING ASSETS:</b>				
Net loans	\$ 81,533	\$ 99,591	6.04	7.75
Federal funds sold and other interest-bearing assets	492	970	2.28	5.00
Securities:				
Taxable	16,296	17,173	5.00	5.12
Tax-exempt	4,536	4,379	4.10	4.17
<b>Totals</b>	<b>102,857</b>	<b>122,113</b>	<b>5.69</b>	<b>7.00</b>
<b>INTEREST-BEARING LIABILITIES:</b>				
Interest-bearing deposits	35,682	49,945	2.88	4.00
Borrowed funds, federal funds purchased and securities sold under agreements to repurchase and other interest-bearing liabilities	11,648	14,900	3.15	5.08
<b>Totals</b>	<b>47,330</b>	<b>64,845</b>	<b>2.94</b>	<b>4.21</b>
<b>Net amounts</b>	<b>\$ 55,527</b>	<b>\$ 57,268</b>	<b>3.07</b>	<b>3.28</b>
Note: Yields on a tax equivalent basis would be:				
Tax-exempt securities			6.31	6.42
<b>Total earning assets</b>			<b>5.82</b>	<b>7.13</b>
<b>Net yield on earning assets</b>			<b>3.20</b>	<b>3.42</b>

We utilize the provision for loan losses to replenish the allowance for loan losses on the balance sheet. Based on an evaluation of the risk exposure contained in the loan portfolio, management believes that the level of the allowance is adequate. Cadence's Board of Directors reviews and approves management's evaluation. This is an ongoing process, and we review and determine the amount of the provision quarterly, using a methodology that has historically proven to be sound. The provision for loan losses increased from \$1.7 million in 2006 to \$8.1 million in 2007 and to \$28.6 million in 2008. The increase for 2007 was due to the deterioration of some large credits, including two commercial loans, a bankruptcy of a customer, and an agricultural loan, as well as a softening in certain real estate sectors and a general softening in the economy. The substantial increase for 2008 was due primarily to continued deterioration in the real estate sectors of some of our markets, overall national economic conditions, and credit downgrades on certain customer relationships. Please see the Financial Condition section of this Management Discussion and Analysis for additional discussion of the allowance for loan losses. At this time, management believes that the level of the provision for loan losses for 2008 is appropriate based on the risk in the loan portfolio. However, if during 2009, any or all of these factors change in direction or speed, we will make the necessary adjustments in the provision for loan losses to reflect these changes.

Noninterest income includes various service charges, fees and commissions we collect, including insurance commissions earned by Galloway-Chandler-McKinney Insurance Agency, Inc., a wholly-owned subsidiary of Cadence. It has been, and continues to be, one of our strategic objectives to diversify our other income sources so that we can be less dependent on net interest income. Other income increased from \$17.5 million in 2007 to \$23.0 million in 2008. The changes in the major categories between 2008 and 2007 are as follows:

(In thousands)	2008	2007	Change
Service charges on deposit accounts	\$ 9,133	\$ 9,295	\$ (162)
Insurance commissions, fees, and premiums	5,028	4,999	29
Other service charges and fees	3,294	3,337	(43)
Trust Department income	2,305	2,558	(253)
Mortgage loan fees	1,156	1,690	(534)
Securities gains (losses), net	390	(17)	407
Bank owned life insurance income	683	681	2

Edgar Filing: CADENCE FINANCIAL CORP - Form 10-K

Impairment loss on securities		(5,097)	5,097
Other	1,003	39	964
Total other income	\$ 22,992	\$ 17,485	\$ 5,507

**Table of Contents**

Trust Department income declined by 9.9%, because of lower asset balances under management, reflecting the downturn of the equity markets during the year. Mortgage loan fees declined by 31.6%, as a result of reduced home sales and demand for refinancing. The increase in other noninterest income between 2007 and 2008 resulted primarily from a \$232,000 gain on the sale of an asset held by the Corporation; a \$443,000 gain on the sale of a previously closed branch property in Mississippi; and \$110,000 in proceeds from the redemption of stock in VISA. Changes in other accounts were not individually material.

We recognized \$390,000 in net securities gains during 2008, compared with \$17,000 in net securities losses during 2007. During the first quarter of 2007, we recognized a \$5.1 million impairment loss on certain collateralized mortgage obligations ( CMOs ) and mortgage-backed securities. Those securities were sold in early April and the proceeds reinvested in agency securities.

Other income decreased from \$20.0 million in 2006 to \$17.5 million in 2007. The changes in the major categories between 2007 and 2006 are as follows:

<i>(In thousands)</i>	2007	2006	Change
Service charges on deposit accounts	\$ 9,295	\$ 8,878	\$ 417
Insurance commissions, fees, and premiums	4,999	4,441	558
Other service charges and fees	3,337	2,933	404
Trust Department income	2,558	2,341	217
Mortgage loan fees	1,690	876	814
Securities gains (losses), net	(17)	66	(83)
Bank owned life insurance income	681	641	40
Impairment loss on securities	(5,097)	(2,025)	(3,072)
Other	39	1,842	(1,803)
Total other income	\$ 17,485	\$ 19,993	\$ (2,508)

Service charges on deposit accounts increased by 4.7% in 2007, mostly due to improved management and oversight of our noninterest-bearing accounts. Insurance commissions, fees, and premiums increased by 12.6% in 2007, because of an increase in profit sharing received from the insurance carriers based on loss experience. Other service charges and fees increased by 13.8%, primarily due to increases in checkcard income and retail investment income. Trust Department income increased by 9.3%, because of higher asset balances under management. Mortgage loan fees increased by 92.9%, as a result of our recent restructuring of the division and the expanding of our mortgage operations into our newer markets. Other noninterest income decreased significantly in 2007. This decline is mostly due to the following items included in 2006 noninterest income: 1) a \$488,000 gain on the sale of our credit card portfolio; 2) a \$215,000 increase in earnings from our investment in a low income housing partnership; and 3) \$842,000 in gains on early extinguishment of debt related to prepayments on certain Federal Home Loan Bank ( FHLB ) borrowings. Changes in other accounts were not individually material.

We recognized \$17,000 in net securities losses during 2007, compared with \$66,000 in net securities gains during 2006. During the first quarter of 2007, we recognized a \$5.1 million impairment loss on certain CMOs and mortgage-backed securities. Those securities were sold in early April and the proceeds reinvested in agency securities. During the third quarter of 2006, we recognized a \$2.0 million other-than-temporary impairment charge relating to certain Fannie Mae and Freddie Mac preferred stock. Those securities were sold in the fourth quarter of 2006 for amounts approximating their fair values.

**Table of Contents**

Noninterest expense represents ordinary overhead expenses. These expenses increased from \$54.0 million in 2007 to \$58.3 million in 2008. The following table shows the detailed changes in the major categories of noninterest expense between 2008 and 2007:

<i>(In thousands)</i>	2008	2007	Change
Salaries	\$ 25,461	\$ 25,351	\$ 110
Employee benefits	5,229	5,356	(127)
Net occupancy	3,923	4,367	(444)
Furniture and equipment	4,070	4,005	65
Communications	1,251	1,272	(21)
Data processing	1,629	1,736	(107)
Advertising	997	820	177
Professional fees	2,417	1,712	705
Intangible amortization	890	1,328	(438)
Loss on sale of assets/other real estate owned	3,413	180	3,233
Other	9,015	7,915	1,100
Total other expense	\$ 58,295	\$ 54,042	\$ 4,253

The 10.2% decrease in net occupancy expense is mostly due to a decrease in premises rental expense and depreciation. Advertising expenses increased by 21.6% in 2008 because of a general brand advertising campaign implemented during the year. Professional fees increased by 41.2% in 2008, due to increased legal fees associated with OREO, attorney consultations regarding our participation in the U.S. Treasury Department's Capital Purchase Program (please see Note X of the Notes to Consolidated Financial Statements for additional information), and the outsourcing of a portion of our credit review function. Other noninterest expenses increased by 13.9%, due primarily to increases in FDIC insurance premiums and expenses related to OREO. Prior to 2008, Cadence paid the majority of its FDIC insurance premiums using credits with the FDIC; however, these credits were depleted in early 2008. For 2008, Cadence's FDIC insurance premiums expense totaled \$923,000, compared with approximately \$248,000 for 2007. Due to the increased number of properties foreclosed on by Cadence, we incurred increased legal fees, appraisal fees and other maintenance and holding expenses, as well as losses on sales of OREO. These expenses totaled approximately \$4.1 million in 2008, compared with \$463,000 in 2007. The most significant component of this increase is a \$2.7 million writedown representing a decline in market value of OREO property that we hold and have not yet sold. This writedown is reflected in the loss on sale of assets/other real estate owned category of noninterest expense. None of the changes in the other expense categories were considered to be individually material.

The following table shows the detailed changes in the major categories of noninterest expense between 2007 and 2006:

<i>(In thousands)</i>	2007	2006	Change
Salaries	\$ 25,351	\$ 23,010	\$ 2,341
Employee benefits	5,356	5,756	(400)
Net occupancy	4,367	3,314	1,053
Furniture and equipment	4,005	3,501	504
Communications	1,272	1,128	144
Data processing	1,736	1,676	60
Advertising	820	969	(149)
Professional fees	1,712	1,476	236
Intangible amortization	1,328	1,144	184
Other	8,095	7,708	387
Total other expense	\$ 54,042	\$ 49,682	\$ 4,360

The 10.2% increase in salaries can be attributed to three primary factors: 1) a full year of salaries related to the former SunCoast and Seasons branches acquired in 2006, 2) a full year of salaries related to branches opened in Memphis and Brentwood, Tennessee in 2006, and 3) salaries related to new branches in Hoover, Alabama and Franklin, Tennessee opened in 2007. For 2007, salaries related to the former SunCoast and Seasons branches increased by \$1.7 million, salaries related to the new branches in Memphis and Brentwood increased by \$275,000, and salaries expense for the new branches in Hoover and Franklin totaled \$286,000. Exclusive of these items, our overall salaries expense remained virtually

flat, as normal raises were offset by increased staffing efficiencies. However, employee benefits expense decreased by 6.9% in 2007, due primarily to pension costs associated with certain retirements in 2006.



---

## **Table of Contents**

The 31.8% increase in net occupancy expense and the 14.4% increase in furniture and equipment expense are mostly due to increased depreciation, facility rental, and equipment rental expenses associated with new branches opened in Hoover, Alabama, and Franklin, Tennessee, and a full year of expenses related to the newer branches in Memphis and Brentwood and the former SunCoast and Seasons branches. These branches accounted for \$1.4 million of the \$1.6 million increase in expense in these two categories from 2006 to 2007.

None of the changes in the other expense categories were considered to be individually material.

Changes in our income tax expense in 2006 and 2007 have generally paralleled changes in pre-tax income. Our effective tax rates were 26.0% in 2006 and 22.2% in 2007. These changes resulted primarily from the mix of income from tax-exempt investments and the percentage relationship of tax-exempt income to total pre-tax income. The alternative minimum tax provision, the market supply of acceptable municipal securities, the level of tax-exempt yields and our normal liquidity and balance sheet structure requirements limit our ability to reduce income tax expense by acquiring additional tax-free investments.

The tax benefit for 2008 reflects the addition of tax free income of approximately \$4.5 million to our pre-tax operating loss of \$8.4 million, to reflect a tax loss of approximately \$12.9 million. The tax benefit of \$5.0 million reflects a rate of 38.75% for 2008, which is approximately the statutory rate.

In summary, net income declined from \$14.2 million, or \$1.37 per diluted share, in 2006, to \$9.8 million, or \$0.82 per diluted share, in 2007, and to a net loss of \$3.4 million, or \$0.28 per diluted share, in 2008.

The \$20.5 million increase in our provision for loan losses for 2008 (\$12.6 million after tax) equates to approximately \$1.06 per share. The \$3.6 million increase in OREO-related expenses for 2008 (\$2.2 million after tax) equates to approximately \$0.18 per share.

The reduction in earnings per share in 2007 can be attributed to several factors, including: 1) the first quarter impairment loss of \$5.1 million (\$3.1 million after tax), or \$0.26 per share, 2) the \$6.5 million increase in our provision for loan losses (\$4.0 million after tax), or \$0.34 per share, and 3) the 15.4% increase in average weighted shares outstanding, resulting from the \$50.2 million stock offering and shares issued in the SunCoast acquisition during 2006.

## **FINANCIAL CONDITION**

Our balance sheet showed a slight decrease in total assets of \$4.9 million, or 0.2%, from December 31, 2007, to December 31, 2008.

Cash and cash equivalents increased from \$52.4 million in 2007 to \$61.2 million in 2008, an increase of \$8.8 million, or 16.9%. The investment securities portfolio decreased slightly from \$443.1 million in 2007 to \$436.4 million in 2008, a decrease of \$6.7 million, or 1.5%.

The loan portfolio declined by \$9.5 million, or 0.7%, during 2008. This slight decline was due primarily to the effects of the softening economy in our markets, declining loan demand, and our focus on credit quality. In addition, we have seen increased competition to lend on quality credits in our markets.

During 2008, the allowance for loan losses increased by \$5.8 million, or 38.9%, from \$14.9 million to \$20.7 million. We have tightened our underwriting standards for certain segments based on recent changes in market conditions. See Note D in the Notes to Consolidated Financial Statements for additional information concerning the transactions in the allowance for loan losses for the three-year period ended December 31, 2008.

**Table of Contents**

The following table reflects some of the statistics we use to evaluate the quality and potential exposure within our loan portfolio. Classified assets included graded loans (loans exhibiting some form of weakness), other real estate owned, and repossessed assets.

	Year Ended 12/31/08	Year Ended 12/31/07
Non-performing loans as a percentage of total loans	2.38%	0.68%
Non-performing assets as a percentage of total loans	3.74%	1.49%
Allowance for loan losses as a percentage of non-performing loans	65.51%	163.36%
Allowance for loan losses as a percentage of total loans	1.56%	1.12%
Classified assets as a percentage of average capital	54.50%	25.92%
Classified loans as a percentage of total loans	44.42%	2.91%
Net charge-offs as a percentage of average net loans outstanding	1.69%	0.42%

Based on the evaluations described earlier and the information above, the allowances for loan losses at the end of 2008 and 2007 were deemed adequate to cover exposure in our loan portfolio.

The liability side of the balance sheet increased by \$3.9 million, or 0.2%, from December 31, 2007, to December 31, 2008.

During 2008, deposits increased by \$35.6 million, or 2.5%, to \$1.46 billion. Interest-bearing deposits increased by \$25.8 million, or 2.1%, and noninterest-bearing deposits increased by \$9.8 million, or 5.7%. Federal funds purchased and securities sold under agreements to repurchase declined by \$8.5 million, or 8.0%, from \$107.1 million to \$98.5 million. Also during 2008, other borrowed funds (primarily FHLB advances) declined by \$21.8 million, or 10.4%. Our objective is to fund loan growth with the proper mix of retail and wholesale funding that will maximize net interest income and yet maintain our core deposits at an acceptable level.

**CAPITAL RESOURCES AND SHAREHOLDERS EQUITY**

Shareholders' equity decreased from \$194.4 million as of December 31, 2007, to \$185.6 million as of December 31, 2008. During 2008, we incurred a net loss of \$3.4 million and declared approximately \$7.1 million in dividends. Accumulated other comprehensive income improved from an unrealized loss of \$1.6 million in 2007 to an unrealized gain of \$237,000 in 2008. The increase in accumulated other comprehensive income during 2008 included a \$2.9 million increase in the market value of the available-for-sale portion of our investment securities portfolio, a \$1.2 million adjustment to our pension liability, in accordance with FASB Statement No. 158, and a \$94,000 unrealized gain on interest rate swaps.

The capital to asset ratio decreased from 9.8% at December 31, 2007, to 9.4% at December 31, 2008. Peer organizations are traditionally in the 8.2% to 8.8% range.

Current regulatory requirements call for a basic leverage ratio of 5.0% for an institution to be considered well-capitalized. As of December 31, 2008, we maintained a leverage ratio of 7.7%, significantly exceeding the ratio required for a well-capitalized institution. Regulatory authorities also evaluate a financial institution's capital under certain risk-weighted formulas (high-risk assets would require a higher capital allotment, lower risk assets a lower capital allotment). In this context, a well-capitalized financial institution is required to have a Tier 1 risk-based capital ratio (excludes allowance for loan losses) of 6.0% and a total risk-based capital ratio (includes allowance for loan losses) of 10.0%. At the end of 2008, we had a Tier 1 risk-based capital ratio of 10.1% and a total risk-based capital ratio of 11.4%. As of December 31, 2008, these ratios were below our peer bank averages. On January 9, 2009, we received \$44 million from the U.S. Treasury (which is considered Tier 1 capital) from the sale of preferred stock, allowing us to significantly increase our ratios. If we had completed this transaction on December 31, 2008, for purposes of comparison, our ratios would have increased to the following: leverage ratio 10.0%; Tier 1 risk-based capital ratio 13.2%; and total risk-based capital ratio 14.4%.

Dividends paid by the Corporation are provided from dividends received from Cadence. Under regulations controlling national banks, the payment of dividends by a bank without prior approval from the Comptroller of the Currency is limited in amount to the current year's net profit and the retained net earnings of the two preceding years. At December 31, 2008, without approval from the Comptroller of the Currency, Cadence does not have the ability to pay dividends to the Corporation. However, the Corporation has sufficient liquidity at the holding company level to pay dividends to shareholders.



---

**Table of Contents****LIQUIDITY, INFLATION AND ASSET/LIABILITY MANAGEMENT**

Liquidity may be defined as our ability to meet cash flow requirements created by decreases in deposits and/or other sources of funds or increases in loan demand. We have not experienced any problems with liquidity during 2008 and anticipate that all liquidity requirements will be met in the future. Our traditional sources of funds from deposit growth, maturing loans and investments, wholesale borrowing lines and earnings have generally allowed us to consistently generate sufficient funds to meet our daily operational liquidity needs. As the result of a \$9.5 million decrease in loans and a \$35.6 million increase in deposits in 2008 from 2007, our loan/deposit ratio declined from 93.8% in 2007 to 90.1% in 2008. Our total funding sources include not only deposits, but also federal funds purchased, securities sold under agreements to repurchase and FHLB borrowings. When we include these sources of funding with deposits, our loans to total funding ratio declined from 76.7% in 2008 to 76.0%. Management's target loans to deposits ratio is in the range of 85-95%, and our goal is to limit wholesale funding to no more than 25% of total assets.

We offer retail repurchase agreements to accommodate excess funds of some of our larger depositors. Management believes that these repurchase agreements stabilize traditional deposit sources as opposed to risking the potential loss of these funds to alternative investment arrangements. Retail repurchase agreements, which we view as a source of funds, totaled \$48.7 million and \$48.5 million at December 31, 2007 and 2008, respectively. The level of retail repurchase agreement activity is limited by the availability of investment portfolio securities to be pledged against the accounts and our asset/liability funding policy. Because of the limited amount of retail repurchase agreements and the fact that the underlying securities remain under our control, we do not consider the exposure for this service material.

In September 2007, we entered into a \$25.0 million structured repurchase transaction. This transaction was a standard repurchase transaction with a fixed rate of 4.255% and a forty-two month term. The transaction has a quarterly call option after one year.

In March 2008, we restructured a \$25.0 million repurchase transaction initially entered into in December 2006. This transaction is a standard repurchase transaction with a fixed rate of 4.10% and a thirty-three month term. The transaction has a quarterly call option after nine months.

We believe that normal earnings and other traditional sources of cash flow, along with additional FHLB borrowings, if necessary, will provide the cash to allow us to meet our obligations with no adverse effect on liquidity. At December 31, 2008, we had the ability to borrow approximately \$137.0 million from the FHLB under the blanket line, a \$19.5 million available line of credit from the Federal Reserve, and other unused short-term borrowing lines (federal funds purchased lines) of approximately \$85.0 million from upstream correspondent banks. As of December 31, 2008, we had \$188.4 million in outstanding FHLB borrowings.

In December 2007, we extended a secured line of credit with an upstream correspondent that provided us access to borrow up to \$30.0 million. These borrowings would have been used to finance acquisitions and for other general corporate purposes, provided that the borrowings used for purposes other than acquisitions did not exceed \$15.0 million. No funds were ever borrowed under this line. The term of the line of credit was two years. Interest on each borrowing would have been paid at the lender's base rate or at LIBOR, plus 1.25% annually. We also paid a commitment fee, accruing at the annual rate of 0.15%, on the daily amount of the unused commitment. Borrowings were contingent on our ability to maintain various operational and financial covenants, unless a waiver was granted. We had pledged 605,000 shares of Bank stock as collateral for these borrowings and additionally had agreed that such pledged shares will have a minimum book value of \$75.0 million. We terminated this agreement in February 2009, due to this upstream correspondent's decision to exit this line of business and the fact that we had adequate liquidity at the Corporation's level to meet our cash needs.

We have no plans for the refinancing or redemption of any liabilities other than normal maturities and payments relating to the FHLB borrowings. We do not have plans at this time for any discretionary spending that would have a material impact on liquidity. Under regulations controlling financial holding companies and national banks, Cadence is limited in the amount it can lend to the Corporation, and such loans are required to be on a fully secured basis. At December 31, 2008, there were no loans between Cadence and the Corporation.

The majority of assets and liabilities of a financial institution are monetary in nature; therefore, a financial institution differs greatly from most commercial and industrial companies, which have significant investments in fixed assets or inventories. Fluctuations in interest rate and actions of the Federal Reserve Board to regulate the national money supply in order to mitigate recessionary and inflationary pressures have a greater effect on a financial institution's profitability than do the higher costs for goods and services.

The primary objective of rate sensitivity management is to maintain net interest income growth while reducing exposure to adverse fluctuations in rates. The Asset/Liability Management Committee of Cadence's Board of Directors evaluates and



**Table of Contents**

analyzes our pricing, asset/liability maturities and growth, and balance sheet mix strategies in an effort to make informed decisions that will increase income and limit interest rate risk. The Committee uses simulation modeling as a guide for decision-making and to forecast changes in net income and the economic value of equity under assumed fluctuations in interest rate levels.

Due to the potential volatility of interest rates, our goal is to stabilize the net interest margin by maintaining a relatively neutral rate sensitive position. As of December 31, 2008, our balance sheet reflected approximately \$163.5 million more in rate sensitive assets than liabilities that were scheduled to reprice within one year. This represents 8.26% of our total assets and indicates that we are in an asset-sensitive position. This computation results from a static gap analysis that weights assets and liabilities equally. Management believes that interest rates will remain flat for 2009 and that our current position places us in the correct interest rate risk posture for this rate environment. Management does not believe that it is in our best interest to speculate on changes in interest rate levels. Although earnings could be enhanced if predictions were correct, if interest rates move against predictions, then Cadence's earnings will be less than predicted. We maintained a consistent and disciplined asset/liability management policy during 2008 focusing on interest rate risk and sensitivity.

**OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS**

During 2008, we hedged a portion of our floating rate prime based lending portfolio using floating to fixed interest rate swaps. As of December 31, 2008, we had two outstanding swaps with an aggregate notional amount of \$20.0 million. The original maturities on the swaps range from twelve months to fifteen months, and rates range from 5.735% to 5.905%. These transactions were initiated to protect us from future downward fluctuations in the prime rate and to help ensure a more consistent cash flow from interest earned by our prime based lending portfolio.

These transactions are cash flow hedges as defined by FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, and were accounted for in accordance with the provisions of that Statement. As required by FASB Statement No. 133, we measured the effectiveness of the transactions as of December 31, 2008 and determined that they remained highly effective, as defined by the Statement.

The following table shows our contractual obligations as of December 31, 2008:

<i>(In thousands)</i>	<b>Total</b>	<b>Due in less than 1 year</b>	<b>Due in 1-3 years</b>	<b>Due in 3-5 years</b>	<b>Due after 5 years</b>
FHLB advances	\$ 188,357	\$ 87,854	\$ 79,970	\$ 20,533	\$
Subordinated debentures	30,928				30,928
Operating leases	11,344	1,471	2,259	1,910	5,704
Federal funds purchased and securities sold under agreements to repurchase	98,527	48,527	50,000		
Other borrowings	581	581			
<b>Total contractual obligations</b>	<b>\$ 329,737</b>	<b>\$ 138,433</b>	<b>\$ 132,229</b>	<b>\$ 22,443</b>	<b>\$ 36,632</b>

The following table shows our other commercial commitments as of December 31, 2008:

<i>(In thousands)</i>	<b>Total</b>	<b>Expires in less than 1 year</b>	<b>Expires in 1-3 years</b>	<b>Expires in 3-5 years</b>	<b>Expires after 5 years</b>
Lines of credit (unfunded commitments)	\$ 257,797	\$ 172,501	\$ 21,057	\$ 14,483	\$ 49,756
Standby letters of credit	16,027	9,382	200	6,445	
<b>Total commercial commitments</b>	<b>\$ 273,824</b>	<b>\$ 181,883</b>	<b>\$ 21,257</b>	<b>\$ 20,928</b>	<b>\$ 49,756</b>

**Table of Contents**

## MARKET INFORMATION

Our stock is listed on the NASDAQ and is traded under the symbol CADE. Registrar and Transfer Company acts as our transfer agent. The following table sets forth, for the periods indicated, the range of sales prices of our common stock as reported on NASDAQ for 2007 and 2008 and the dividends declared for each period.

YEAR	QUARTER	HIGH	LOW	CASH DIVIDEND DECLARED PER QUARTER
2007	First	\$ 23.00	\$ 19.88	\$ 0.25
	Second	20.48	18.92	0.25
	Third	20.35	16.62	0.25
	Fourth	20.48	14.25	0.25
2008	First	\$ 16.99	\$ 13.88	\$ 0.25
	Second	16.87	10.50	0.25
	Third	12.30	8.27	0.05
	Fourth	10.39	4.10	0.05

We have paid cash dividends on our common stock since our inception. We currently estimate that dividends in 2009 will approximate \$0.20 per share.

**ITEM 7A - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Corporation is exposed only to U.S. dollar interest rate changes and, accordingly, we manage exposure by considering the possible changes in the net interest margin. We do not have any trading instruments nor do we classify any portion of our investment portfolio as held for trading. In 2006, 2007, and 2008, we entered into floating to fixed interest rate swaps to hedge a portion of our floating rate prime based lending portfolio. Two of these hedges remain outstanding at December 31, 2008. The transactions are cash flow hedges as defined by FASB Statement No. 133 and are accounted for under the provisions of such Statement. These transactions are in line with our asset/liability strategy and were entered into to help protect the Corporation against an unexpected downturn in short-term interest rates. As we continue to enhance our asset/liability management, we will continue to look for opportunities to protect the Corporation from unexpected changes in interest rates. We have no exposure to foreign currency exchange rate risk, commodity price risk, and other market risks.

The following table reflects the year-end position of our interest-earning assets and interest-bearing liabilities, which can either reprice or mature within the designated time period. The interest rate sensitivity gaps can vary from day-to-day and are not necessarily a reflection of the future. In addition, certain assets and liabilities within the same designated time period may nonetheless reprice at different times and at different levels.

	(\$ In Thousands)			
	December 31, 2008			
	Interest Sensitive Within (Cumulative)			Total
	Three Months	Twelve Months	Five Years	
<b>Interest-earning assets:</b>				
Loans	\$ 782,957	\$ 944,843	\$ 1,266,311	\$ 1,329,815
Investment and mortgage-backed securities	80,947	175,114	360,876	435,964
Federal funds sold and other	10,117	29,219	29,219	29,219
	\$ 874,021	\$ 1,149,176	\$ 1,656,406	\$ 1,794,998
<b>Interest-bearing liabilities:</b>				
Deposits	\$ 508,957	\$ 817,744	\$ 1,364,741	\$ 1,461,159
Borrowed funds	112,514	167,885	318,393	318,393
	\$ 621,471	\$ 985,629	\$ 1,683,134	\$ 1,779,552

Edgar Filing: CADENCE FINANCIAL CORP - Form 10-K

Sensitivity gap:

Dollar amount	\$ 252,550	\$ 163,547	\$ (26,728)	\$ 15,446
Percent of total interest-earning assets	28.90%	14.23%	-1.61%	0.86%



---

**Table of Contents**

The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are interest rate sensitive and by monitoring an institution's interest rate sensitivity gap. An asset or liability is said to be interest rate sensitive within a specific time period if it will mature or reprice within that time period. The interest rate sensitivity gap is defined as the difference between the amounts of interest-earning assets and interest-bearing liabilities anticipated, based upon certain assumptions, to mature or reprice within that time period. A gap is considered positive when the amount of interest rate sensitive assets maturing within a specific time frame exceeds the amount of interest rate sensitive liabilities maturing within that same time frame. During a period of falling interest rates, a negative gap would tend to result in an increase in net interest income while a positive gap would tend to adversely affect net interest income. In a rising interest rate environment, an institution with a positive gap would generally be expected, absent the effects of other factors, to experience a greater increase in the yield of its assets relative to the costs of its liabilities and thus an increase in the institution's net interest income would result.

At December 31, 2008, total interest-earning assets maturing or repricing within one year were more than interest-bearing liabilities maturing or repricing within the same time period by approximately \$163.5 million (cumulative), representing a positive cumulative one-year gap of 14.2% of earning assets. Management believes this position to be acceptable in the current interest rate environment.

Banking regulators have issued advisories concerning the management of interest rate risk ( IRR ). The regulators consider effective interest rate management an essential component of safe and sound banking practices. To monitor our IRR, our interest rate management practices include (a) risk management, (b) risk monitoring and (c) risk control as described below.

Risk management consists of a system in which a measurement is taken of the amount of earnings at risk when interest rates change. We first prepare a base strategy, which is the position of the Bank and its forecasted earnings based upon the current interest rate environment or most likely interest rate environment. The IRR is then measured based upon hypothetical changes in interest rates by measuring the impact such a change will have on the base strategy.

Risk monitoring consists of evaluating the base strategy and the assumptions used in its development based upon the current interest rate environment. This evaluation is performed quarterly by management or more often in a rapidly changing interest rate situation and monitored by the Asset/Liability Management Committee of Cadence's Board of Directors.

Risk control consists of setting policies and parameters regarding interest rates and performing simulations based on trends and projections. Interest rate risk is managed based upon our tolerance for interest rate exposure and the resulting effect on net interest income and the economic value of equity. A balance sheet and income statement simulation model is prepared monthly, using current month end data. A base case simulation is prepared monthly using current month growth trends, projected forward and a flat rate forecast. Two additional interest rate shock simulations are prepared, one showing rates rising 200 basis points and one showing a 200 basis point decline in rates. Our policy is that a 200 basis point shock in rates should not cause the projection of net interest income to change by more than 15% and cause the economic value of equity to change by more than +25% and -20%. The December 2008 model reflects net interest income under this scenario decreasing by 10.20% with a 200 basis point upward shock of rates and decreasing 7.19% if rates are shocked down 200 basis points. At December 31, 2008, a 200 basis point immediate increase in interest rates would have resulted in a 6.94% increase in market value of equity, and a 200 basis point instant decrease would have resulted in a 0.37% decrease in market value of equity. At December 31, 2008, we are within policy on both of these tests, and management believed that changes in net interest income and market value of equity, as reflected in our models, were acceptable.

---

**Table of Contents**

**ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Audit Committee of the Board of Directors and Shareholders

Cadence Financial Corporation

We have audited the accompanying consolidated balance sheets of Cadence Financial Corporation and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in shareholders' equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2008. We also have audited Cadence Financial Corporation's internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Cadence Financial Corporation's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Corporation's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cadence Financial Corporation and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Cadence Financial Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/s/ T. E. Lott & Company

Columbus, Mississippi

March 12, 2009

**Table of Contents****CADENCE FINANCIAL CORPORATION****CONSOLIDATED BALANCE SHEETS****DECEMBER 31, 2008 AND 2007**

	<b>2008</b>	<b>2007</b>
	<b>(In thousands)</b>	
<b>ASSETS</b>		
Cash and due from banks	\$ 37,207	\$ 36,729
Interest-bearing deposits with banks	14,403	12,250
Federal funds sold	9,623	3,418
<b>Total cash and cash equivalents</b>	<b>61,233</b>	<b>52,397</b>
Securities available-for-sale	398,702	403,796
Securities held-to-maturity (estimated fair value of \$22,115 in 2008 and \$23,957 in 2007)	21,358	22,846
Other securities	16,369	16,449
<b>Total securities</b>	<b>436,429</b>	<b>443,091</b>
Loans	1,328,329	1,337,847
Less allowance for loan losses	(20,730)	(14,926)
<b>Net loans</b>	<b>1,307,599</b>	<b>1,322,921</b>
Interest receivable	9,714	13,200
Premises and equipment	33,409	35,908
Goodwill and other intangible assets	68,849	69,738
Other assets	62,036	46,900
<b>Total Assets</b>	<b>\$ 1,979,269</b>	<b>\$ 1,984,155</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>Liabilities:</b>		
Noninterest-bearing deposits	\$ 181,191	\$ 171,403
Interest-bearing deposits	1,279,968	1,254,163
<b>Total deposits</b>	<b>1,461,159</b>	<b>1,425,566</b>
Interest payable	2,892	4,632
Federal funds purchased and securities sold under agreements to repurchase	98,527	107,060
Subordinated debentures	30,928	30,928
Other borrowed funds	188,938	210,771
Other liabilities	11,260	10,828
<b>Total liabilities</b>	<b>1,793,704</b>	<b>1,789,785</b>
<b>Shareholders equity:</b>		
Common stock - \$1 par value, authorized 50,000,000 shares in 2008 and 2007; issued 11,914,814 shares in 2008 and 11,901,132 shares in 2007	11,915	11,901
Surplus	93,438	93,251
Retained earnings	79,975	90,843
Accumulated other comprehensive income (loss)	237	(1,625)

Edgar Filing: CADENCE FINANCIAL CORP - Form 10-K

Total shareholders' equity	185,565	194,370
Total Liabilities and Shareholders' Equity	\$ 1,979,269	\$ 1,984,155

The accompanying notes are an integral part of these statements.

**Table of Contents**

**CADENCE FINANCIAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**YEARS ENDED DECEMBER 31,**

	2008	2007	2006
	(In thousands, except per share data)		
<b>INTEREST INCOME</b>			
Interest and fees on loans	\$ 81,533	\$ 99,591	\$ 74,182
Interest and dividends on securities:			
Taxable	16,296	17,173	16,641
Tax-exempt	4,536	4,379	4,859
Other	492	970	1,312
Total interest income	102,857	122,113	96,994
<b>INTEREST EXPENSE</b>			
Interest on time deposits of \$100,000 or more	15,116	18,838	13,902
Interest on other deposits	20,566	31,107	22,090
Interest on borrowed funds	11,648	14,900	10,520
Total interest expense	47,330	64,845	46,512
Net interest income	55,527	57,268	50,482
Provision for loan losses	28,599	8,130	1,656
Net interest income after provision for loan losses	26,928	49,138	48,826
<b>OTHER INCOME</b>			
Service charges on deposit accounts	9,133	9,295	8,878
Insurance commissions, fees, and premiums	5,028	4,999	4,441
Other service charges and fees	3,294	3,337	2,933
Trust Department income	2,305	2,558	2,341
Mortgage loan fees	1,156	1,690	876
Securities gains (losses), net	390	(17)	66
Bank owned life insurance income	683	681	641
Impairment loss on securities		(5,097)	(2,025)
Other	1,003	39	1,842
Total other income	22,992	17,485	19,993
<b>OTHER EXPENSE</b>			
Salaries	25,461	25,351	23,010
Employee benefits	5,229	5,356	5,756
Net occupancy	3,923	4,367	3,314
Furniture and equipment	4,070	4,005	3,501
Communications	1,251	1,272	1,128
Data processing	1,629	1,736	1,676
Advertising	997	820	969
Professional fees	2,417	1,712	1,476
Intangible amortization	890	1,328	1,144
Loss on sale of assets/other real estate owned	3,413	180	132
Other	9,015	7,915	7,576

Edgar Filing: CADENCE FINANCIAL CORP - Form 10-K

Total other expense	58,295	54,042	49,682
Income (loss) before income tax expense (benefit)	(8,375)	12,581	19,137
Income tax expense (benefit)	(5,019)	2,788	4,984
Net income (loss)	\$ (3,356)	\$ 9,793	\$ 14,153
Net income (loss) per share:			
Basic	\$ (0.28)	\$ 0.82	\$ 1.37
Diluted	\$ (0.28)	\$ 0.82	\$ 1.37

The accompanying notes are an integral part of these statements.

**Table of Contents****CADENCE FINANCIAL CORPORATION****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY****YEARS ENDED DECEMBER 31, 2008, 2007, AND 2006**

<i>(In thousands)</i>	Comprehensive Income	Common Stock	Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2006		\$ 9,616	\$ 53,749	\$ 89,516	\$ (27,737)	\$ (8,160)	\$ 116,984
Comprehensive income:							
Net income for 2006	\$ 14,153			14,153			14,153
Net change in unrealized gains (losses) on securities available-for-sale, net of tax	3,767					3,767	3,767
Net change in unrealized gains (losses) on derivative transactions	(41)					(41)	(41)
Comprehensive income	\$ 17,879						
Cash dividends declared, \$1.00 per share				(10,722)			(10,722)
Net proceeds from equity offering		1,331	21,423		27,464		50,218
Acquisition of SunCoast Bancorp, Inc.		922	17,940				18,862
Issuance of performance shares		19	362				381
Unearned compensation relating to performance shares			(365)				(365)
Exercise of stock options		1	(25)		273		249
Tax benefit of stock options			38				38
Balance, December 31, 2006		11,889	93,122	92,947		(4,434)	193,524
SFAS 158 transition adjustment						(2,259)	(2,259)
Adjusted balance, December 31, 2006		\$ 11,889	\$ 93,122	\$ 92,947	\$	\$ (6,693)	\$ 191,265
Comprehensive income:							
Net income for 2007	\$ 9,793			9,793			9,793
Net change in unrealized gains (losses) on securities available-for-sale, net of tax	5,273					5,273	5,273
Net change in unrealized gains (losses) on derivative transactions	63					63	63
Net change in pension liability	(268)					(268)	(268)
Comprehensive income	\$ 14,861						
Cash dividends declared, \$1.00 per share				(11,897)			(11,897)
Net performance share activity		12	234				246
Unearned compensation relating to performance shares			(105)				(105)
Balance, December 31, 2007		\$ 11,901	\$ 93,251	\$ 90,843	\$	\$ (1,625)	\$ 194,370

(Continued)





**Table of Contents****CADENCE FINANCIAL CORPORATION****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY****YEARS ENDED DECEMBER 31, 2008, 2007, AND 2006**

<i>(In thousands)</i>	Comprehensive Income	Common Stock	Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2007 (brought forward)		\$ 11,901	\$ 93,251	\$ 90,843	\$	\$ (1,625)	\$ 194,370
Cumulative-effect adjustment for EITF Issue No. 06-04 adoption				(368)			(368)
Comprehensive income (loss):							
Net loss for 2008	\$ (3,356)			(3,356)			(3,356)
Net change in unrealized gains (losses) on securities available-for-sale, net of tax	2,920					2,920	2,920
Net change in unrealized gains (losses) on derivative transactions	94					94	94
Net change in pension liability	(1,152)					(1,152)	(1,152)
Comprehensive income	\$ (1,494)						
Cash dividends declared, \$0.60 per share				(7,144)			(7,144)
Net performance share activity		14	213				227
Unearned compensation relating to performance shares			(26)				(26)
Balance, December 31, 2008		\$ 11,915	\$ 93,438	\$ 79,975	\$	\$ 237	\$ 185,565

The accompanying notes are an integral part of these statements.

**Table of Contents**

**CADENCE FINANCIAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS FOR**  
**YEARS ENDED DECEMBER 31,**

(Amounts in thousands)	2008	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income (loss)	\$ (3,356)	\$ 9,793	\$ 14,153
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	3,845	4,565	4,104
Deferred income taxes	(2,025)	(2,424)	(1,350)
Provision for loan losses	28,599	8,130	1,656
Increase in cash value of life insurance, net	(683)	(681)	(641)
Securities amortization and accretion, net	331	698	1,524
FHLB discount accretion			(142)
Tax benefit of stock options			(38)
Net performance share activity	201	141	
Loss (gain) on sale of securities, net	(390)	17	(66)
Impairment loss on securities		5,097	2,025
(Increase) decrease in interest receivable	3,486	(855)	(3,580)
(Increase) decrease in loans held for sale	452	909	(3,377)
(Increase) decrease in other assets	(13,879)	(6,131)	3,668
Increase (decrease) in interest payable	(1,740)	(2,248)	4,442
Increase (decrease) in other liabilities	(436)	(753)	195
Net cash provided by operating activities	14,405	16,258	22,573
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Cash paid in excess of cash equivalents for acquisition			(28,369)
Purchases of securities available-for-sale	(213,680)	(308,303)	(98,306)
Purchases of securities held-to-maturity	(4,000)		
Purchases of other securities	(2,400)	(11,494)	(2,449)
Proceeds from sales of securities available-for-sale	24,497	6,738	29,278
Proceeds from sales of securities held-to-maturity	279		
Proceeds from sales of securities held-for-trading		161,391	
Proceeds from redemption of other securities	2,480	6,336	2,730
Proceeds from maturities and calls of securities available-for-sale	199,264	145,443	76,032
Proceeds from maturities and calls of securities held-to-maturity	3,296	704	315
Proceeds from maturities and calls of securities held-for-trading		7,069	
(Increase) decrease in loans	(13,729)	(121,250)	(157,760)
(Additions) disposal of premises and equipment	(159)	(6,205)	(7,659)
Net cash provided by (used in) investing activities	(4,152)	(119,571)	(186,188)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Increase (decrease) in deposits	35,593	(34,957)	128,665
Dividends paid on common stock	(7,144)	(11,897)	(12,766)
Net change in federal funds purchased and securities sold under agreements to repurchase	(8,533)	26,222	22,267
Net change in short-term FHLB borrowings	(165,972)	128,972	57,000
Proceeds from long-term debt	170,000		40,000
Repayment of long-term debt	(25,361)	(36,134)	(81,674)
Exercise of stock options			249
Tax benefit of stock options			38
Net proceeds from equity offering			50,218
Net cash provided by (used in) financing activities	(1,417)	72,206	203,997

Edgar Filing: CADENCE FINANCIAL CORP - Form 10-K

Net increase (decrease) in cash and cash equivalents	8,836	(31,107)	40,382
Cash and cash equivalents at beginning of year	52,397	83,504	43,122
Cash and cash equivalents at end of year	\$ 61,233	\$ 52,397	\$ 83,504

The accompanying notes are an integral part of these statements.

---

**Table of Contents**

**CADENCE FINANCIAL CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

***NOTE A - SUMMARY OF ACCOUNTING POLICIES***

Cadence Financial Corporation (the Corporation) and its subsidiaries follow accounting principles generally accepted in the United States of America, including, where applicable, general practices within the banking industry.

***1. Basis of Presentation***

The consolidated financial statements include the accounts of the Corporation and Cadence Bank, N.A. (Cadence or the Bank), a wholly-owned subsidiary of the Corporation, Enterprise Bancshares, Inc. (Enterprise), a wholly-owned subsidiary of the Corporation, Galloway-Chandler-McKinney Insurance Agency, Inc. (GCM), a wholly-owned subsidiary of Cadence, NBC Insurance Services of Alabama, Inc., a wholly-owned subsidiary of Cadence, NBC Service Corporation, a wholly-owned subsidiary of Cadence, and Commerce National Insurance Company (CNIC), a wholly-owned subsidiary of NBC Service Corporation.

Significant intercompany accounts and transactions have been eliminated in consolidation.

Certain amounts reported in prior years have been reclassified to conform with the 2008 presentation. These reclassifications did not significantly impact the Corporation's consolidated financial condition or results of operations.

***2. Nature of Operations***

The Corporation is a financial holding company. Its primary asset is its investment in Cadence, its subsidiary bank. Cadence operates under a national bank charter and is subject to regulation by the Office of the Comptroller of the Currency. Cadence provides full banking services in five southeastern states as follows: the north central region of Mississippi; the Tuscaloosa and Hoover (Birmingham MSA), Alabama market areas; the Memphis, Tennessee market area; the Brentwood and Franklin (Nashville MSA), Tennessee market area; the Sarasota (Sarasota-Bradenton-Venice MSA), Florida market area; and the cities of Blairsville and Blue Ridge in northeast Georgia.

Enterprise is an inactive subsidiary of the Corporation. GCM operates insurance agencies in Cadence's Mississippi market area. NBC Insurance Services of Alabama, Inc., sells annuity contracts in Alabama. The primary asset of NBC Service Corporation is its investment in CNIC, a wholly-owned life insurance company.

***3. Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***4. Securities***

Securities are accounted for as follows:

***Securities Available-for-Sale***

Securities classified as available-for-sale are those securities that are intended to be held for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including movements in interest rates, liquidity needs, security risk assessments, changes in the mix of assets and liabilities and other similar factors. These securities are carried at their estimated fair value, and the net unrealized gain or loss is reported as accumulated other comprehensive income (loss), net of tax, until realized. Premiums and discounts are recognized in interest income using the interest method.

Gains and losses on the sale of securities available-for-sale are determined using the adjusted cost of the specific security sold.



## **Table of Contents**

### *Securities Held-to-Maturity*

Securities classified as held-to-maturity are those securities for which there is a positive intent and ability to hold to maturity. These securities are carried at cost adjusted for amortization of premium and accretion of discount, computed by the interest method.

### *Trading Account Securities*

Trading account securities are securities that are held for the purpose of selling them at a profit. There were no trading account securities on hand at December 31, 2008 and 2007.

### *Other Securities*

Other securities are carried at cost and are restricted in marketability. Other securities consist of required investments in the Federal Home Loan Bank ( FHLB ) and Federal Reserve Bank.

### *Derivative Instruments*

Derivative instruments are accounted for under the requirements of Financial Accounting Standards Board ( FASB ) Statement No. 133, Accounting for Derivative Instruments and Hedging Activities.

The Corporation has hedged a portion of its floating rate prime based lending portfolio by entering into two floating to fixed interest rate swaps. As of December 31, 2008, the total notional amount of the two outstanding swaps was \$20 million. The original maturities on the swaps range from twelve to fifteen months, and rates range from 5.735% to 5.905%. The transactions are cash flow hedges as defined by FASB Statement No. 133 and are accounted for under the provisions of that Statement.

The effectiveness of the transactions described above was tested as of December 31, 2008, in accordance with FASB Statement No. 133, and management determined as of that date, the transactions remained highly effective, as defined by FASB Statement No. 133. For the years ended December 31, 2008 and 2007, \$94,000 and \$63,000, respectively, were recorded as adjustments to accumulated other comprehensive income (loss) for the change in fair value of the Corporation's outstanding swaps.

## **5. Loans**

Loans are carried at the principal amount outstanding adjusted for the allowance for loan losses, net deferred origination fees, and unamortized discounts and premiums. Interest income on loans is recognized based on the principal balance outstanding and the stated rate of the loan.

A loan is considered to be impaired when it appears probable that the entire amount contractually due will not be collected. Factors considered in determining impairment include payment status, collateral values, and the probability of collecting scheduled payments of principal and interest when due. Generally, impairment is measured on a loan-by-loan basis using the fair value of the supporting collateral.

Loans are generally placed on a nonaccrual status when principal or interest is past due ninety days or when specifically determined to be impaired. When a loan is placed on nonaccrual status, interest accrued but not received is generally reversed against interest income. If collectibility is in doubt, cash receipts on nonaccrual loans are used to reduce principal rather than recorded as interest income. Past due status is determined based upon contractual terms.

Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield on the related loan. Premiums and discounts on purchased loans are recognized as an adjustment of yield over the contractual life of the loan.

Fees on mortgage loans sold individually in the secondary market, including origination fees, service release premiums, processing and administrative fees, and application fees, are recognized as other income in the period in which the loans are sold. These loans are underwritten to the standards of upstream correspondents and are not held on the Corporation's consolidated balance sheets.

## **6. Allowance for Loan Losses**

The allowance for loan losses is maintained at a level believed adequate to absorb probable losses inherent in the loan portfolio and is based on the size and current risk characteristics of the loan portfolio, an assessment of individual problem



## **Table of Contents**

loans, actual and anticipated loss experience, current economic events, internal and regulatory loan reviews, and other pertinent factors, including regulatory guidance and general economic conditions. Determination of the allowance is inherently subjective, as it requires significant estimates, including the evaluation of collateral supporting impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends, all of which may be susceptible to significant change. When management believes the collectibility of a loan is unlikely, the loss is charged off against the allowance, while any recovery of an amount previously charged off is credited to the allowance. A provision for loan losses is charged to operations based on management's periodic evaluation of the factors previously mentioned.

The allowance for loan losses consists of an allocated component and an unallocated component. The components of the allowance for loan losses represent an estimation made pursuant to either FASB Statement No. 5, *Accounting for Contingencies*, or FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan*. The allocated component of the allowance for loan losses reflects expected losses resulting from an analysis developed through specific credit allocations for individual loans and historical loss experience for each loan category. The specific allocations are based on a regular review of all loans over a fixed-dollar amount and where the internal credit rating is at or below a predetermined classification. The historical loan loss element is determined statistically using loss experience and the related internal gradings of loans charged off. The analysis is performed quarterly and loss factors are updated regularly based on actual experience. The allocated component of the allowance for loan losses also includes consideration of the amounts necessary for any concentrations and changes in portfolio mix and volume.

The unallocated portion of the allowance reflects management's estimate of probable inherent but undetected losses within the portfolio due to external credit risk factors, such as uncertainties in economic conditions, changes in certain market segments, and changes in collateral values.

### ***7. Premises and Equipment***

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are determined using the straight-line method at rates calculated to depreciate or amortize the cost of assets over their estimated useful lives.

Maintenance and repairs of property and equipment are charged to operations, and major improvements are capitalized. Upon retirement, sale, or other disposition of property and equipment, the cost and accumulated depreciation are eliminated from the accounts, and any gains or losses are included in operations.

### ***8. Other Real Estate***

Other real estate consists of properties acquired through foreclosure and, as held for sale property, is recorded at the lower of the outstanding loan balance or current appraisal less estimated costs to sell. Any write-down to fair value required at the time of foreclosure is charged to the allowance for loan losses. Subsequent gains or losses on other real estate resulting from the sale of the property or additional valuation allowances required due to further declines in market value are reported in other noninterest income or expenses.

### ***9. Goodwill and Other Intangible Assets***

Goodwill represents the cost of acquired institutions in excess of the fair value of the net assets acquired. In accordance with FASB Statement No. 142, *Goodwill and Other Intangible Assets*, the Corporation does not amortize goodwill but performs periodic testing of goodwill for impairment. If impaired, the asset is written down to its estimated fair value.

Other identifiable intangible assets consist primarily of the core deposit premium arising from acquisitions. The core deposit premium was established using the discounted cash flow approach and is being amortized using an accelerated method over the estimated remaining life of the acquired core deposits.

### ***10. Income Taxes***

Income taxes are provided for the tax effects of the transactions reported in the financial statements and consist of taxes currently payable plus deferred taxes related primarily to differences between the bases of assets and liabilities as measured by income tax laws and their bases as reported in the financial statements. The deferred tax assets and liabilities represent the future tax consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Tax credits are recognized as a reduction of the current tax provision in the period they may be utilized.



## Edgar Filing: CADENCE FINANCIAL CORP - Form 10-K

The Corporation and its subsidiaries file consolidated income tax returns. The subsidiaries provide for income taxes on a separate return basis and remit to the Corporation amounts determined to be payable.

---

## **Table of Contents**

### ***11. Trust Assets***

Except for amounts included in deposits, assets of the Trust Department are not included in the accompanying consolidated balance sheets.

### ***12. Advertising Costs***

Advertising costs are expensed in the period in which they are incurred.

### ***13. Employee Benefits***

Employees hired prior to January 1, 2001, participate in a noncontributory defined benefit pension plan. The plan calls for benefits to be paid to eligible employees at retirement based primarily upon years of service and compensation. Contributions to the plan reflect benefits attributed to employees' services to date, as well as services expected to be earned in the future. The annual pension cost charged to expense is actuarially determined in accordance with the provisions of FASB Statement No. 87, *Employers' Accounting for Pensions*. The plan was amended effective January 1, 2001, to close participation in the plan. Employees hired subsequent to December 31, 2000, are not eligible to participate.

On January 1, 2001, the Corporation and its subsidiaries adopted a defined contribution profit sharing plan. Employer contributions are made annually equal to 3% of each participant's base pay. Participant accounts are 100% vested upon completion of five years of service. Effective January 1, 2008, the plan was frozen, and employees hired subsequent to December 31, 2007, are not eligible to participate. Current participant accounts will continue to share in the earnings of the plan, and the accounts will be available to participants at retirement in accordance with the plan documents.

The Corporation and its subsidiaries provide a deferred compensation arrangement (401(k)) plan whereby employees contribute a percentage of their compensation. Prior to January 1, 2008, the plan provided for matching contributions of fifty percent of employee contributions of six percent or less for employees with less than twenty years of service. For employees with service of twenty years or more, the matching contribution was seventy-five percent of employee contributions of six percent or less. Effective January 1, 2008, the plan provides for a 100% match of employee contributions up to six percent of employee compensation, and the matching contributions are immediately vested at 100%.

Employees participate in a nonleveraged Employee Stock Ownership Plan (ESOP) through which common stock of the Corporation is purchased at its market price for the benefit of employees. Effective January 1, 2001, the ESOP was amended to freeze the plan and to allow no new entrants into the ESOP. All participants at December 31, 2000, became 100% vested in their accounts. The ESOP is accounted for in accordance with Statement of Position 93-6, *Employers' Accounting for Employee Stock Ownership Plans*.

The Corporation has a supplemental retirement plan that originated from an acquired bank for certain directors and officers of that acquired bank. Life insurance contracts have been purchased which may be used to fund payments under the plans. The annual cost charged to expense and the estimated present value of the projected payments are actuarially determined in accordance with the provisions of FASB Statement No. 87, *Employers' Accounting for Pensions*.

In 1998, the Corporation entered into agreements with certain senior officers to establish an indexed retirement plan (an unqualified supplemental retirement plan). Benefit amounts were based on additional earnings from bank owned life insurance (BOLI) policies compared to the yield on treasury securities. In 2008, as part of the plan amendments required for compliance with Regulation 409A, the payments to participants on this plan were changed from variable payment amounts to fixed payment amounts to begin on a monthly basis at age 65. The annual cost charged to expense and the estimated present value of the projected payments are determined in accordance with the provisions of Accounting Principles Board No. 12, as amended by FASB Statement No. 106, relating to deferred compensation contracts.

The Corporation provides a voluntary deferred compensation plan for certain of its executive and senior officers. Under this plan, the participants may defer up to 25% of their annual compensation. The Corporation may, but is not obligated to contribute to the plan. Amounts contributed to this plan are credited to a separate account for each participant and are subject to a risk of loss in the event of the Corporation's insolvency. The Corporation made no contributions to this plan in 2006, 2007 or 2008.

The Corporation provides an employee phantom stock plan whereby 11,245 units or phantom shares of the Corporation's stock have been assigned for the benefit of certain key employees. Under the terms of the plan, retirement or similar payments will be equal to the fair market value of the stock plus all cash dividends paid since the adoption of the agreement. An expense was recorded at the establishment date based on the market value of the stock. Any increase or decrease in the value of the stock is recorded as an adjustment to employee benefits expense.



---

## **Table of Contents**

As of January 1, 2008, the Corporation adopted Emerging Issues Task Force ( EITF ) Issue No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements. Under the terms of an endorsement arrangement, an employer owns and controls a policy that will provide future postretirement benefits to an employee. EITF Issue No. 06-4 requires that a liability be recognized for the postretirement benefit obligation, together with related postretirement benefit expense, based on the substantive agreement with the employee. As of January 1, 2008, the Corporation recorded a cumulative-effect debit adjustment to retained earnings of approximately \$368,000 related to the adoption of EITF Issue No. 06-4. Related postretirement benefit expense has been and will be recorded monthly thereafter.

### ***14. Other Assets***

Financing costs related to the issuance of junior subordinated debentures and the origination cost of the Corporation's revolving line of credit have been capitalized and are being amortized over the life of the respective instruments and are included in other assets.

The Corporation has invested in a low income housing partnership as a 99% limited partner. The partnership has qualified to receive annual low income housing federal tax credits that are recognized as a reduction of current tax expense. The investment is accounted for using the equity method.

The Corporation invests in BOLI, which involves the purchasing of life insurance on a chosen number of employees. The Corporation is the owner of the policies and, accordingly, the cash surrender value of the policies is included in other assets, and increases in cash surrender values are reported as income.

### ***15. Stock Options/Performance Share Grants***

Effective January 1, 2006, the Corporation adopted FASB Statement No. 123(R), Share-Based Payment. This Statement requires that the fair value of equity instruments exchanged for employee service (as determined on the grant date of the award) be recognized as compensation cost over the period during which an employee is required to provide service in exchange for the award—the requisite service period (usually the vesting period). Changes in fair value during the requisite service period are recognized as compensation cost over that period. The Statement's provisions are applied to new awards and to awards modified, repurchased, or cancelled after the required effective date. Additionally, compensation cost for the portion of awards for which the requisite service has not been rendered that are outstanding as of the required effective date is recognized as the requisite service is rendered on or after the required effective date. FASB Statement No. 123(R) did not impact the Corporation's financial statements for the years ended December 31, 2008, 2007 or 2006, as all options were vested as of December 31, 2005.

During 2006, the shareholders of the Corporation adopted a new Long-Term Incentive Compensation Plan. This plan gave the Compensation Committee of the Board of Directors additional alternatives for using share-based compensation. During 2006, 2007, and 2008, the Compensation Committee granted performance shares to certain officers. These shares are being accounted for under FASB Statement No. 123(R) and compensation expense is being recognized over the requisite service period based upon the fair market value of the shares at grant date. See Note L of these Consolidated Financial Statements for additional information concerning performance shares.

### ***16. Cash Flows***

For purposes of reporting cash flows, cash and cash equivalents include cash on hand and amounts due from banks, interest-bearing deposits with banks, and federal funds sold. Generally, federal funds are sold for one to seven day periods.

### ***17. Net Income Per Share***

Basic net income per share computations are based upon the weighted average number of common shares outstanding during the periods. Diluted net income per share computations are based upon the weighted average number of common shares outstanding during the periods plus the dilutive effect of outstanding stock options.

Performance shares outstanding are included in the average diluted shares outstanding until the performance targets have been achieved. Once the performance has been attained and the shares are vesting over a time period, they are included in average primary shares outstanding.

**Table of Contents**

Presented below is a summary of the components used to calculate basic and diluted net income per share for the years ended December 31, 2008, 2007, and 2006:

<i>(In thousands, except per share data)</i>	Years Ended December 31,		
	2008	2007	2006
<b>Basic Net Income (Loss) Per Share</b>			
Weighted average common shares outstanding	11,907	11,896	10,323
Net income (loss)	\$ (3,356)	\$ 9,793	\$ 14,153
Basic net income (loss) per share	\$ (0.28)	\$ 0.82	\$ 1.37
<b>Diluted Net Income (Loss) Per Share</b>			
Weighted average common shares outstanding	11,907	11,896	10,323
Net effect of weighted average outstanding but unearned performance shares	24	17	
Net effect of the assumed exercise of stock options based on the treasury stock method		2	6
Total weighted average common shares and common stock equivalents outstanding	11,931	11,915	10,329
Net income (loss)	\$ (3,356)	\$ 9,793	\$ 14,153
Diluted net income (loss) per share	\$ (0.28)	\$ 0.82	\$ 1.37

**18. Off-Balance Sheet Financial Instruments**

In the ordinary course of business, the Corporation enters into off-balance sheet financial instruments consisting of commitments to extend credit, credit card lines, standby letters of credit and commitments to purchase securities. Such financial instruments are recorded in the financial statements when they are exercised.

**19. Business Segments**

FASB Statement No. 131, Disclosures About Segments of an Enterprise and Related Information, requires public companies to report (i) certain financial and descriptive information about their reportable operating segments (as defined) and (ii) certain enterprise-wide financial information about products and services, geographic areas, and major customers. Management believes the Corporation's principal activity is commercial banking and that other activities are not considered significant segments.

**20. Recent Accounting Pronouncements**

In March 2008, the FASB issued Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities, which requires enhanced financial statement disclosures for companies holding derivative instruments. The provisions of FASB Statement No. 161 are effective for financial statements of fiscal years and interim periods beginning after November 15, 2008. The Corporation is currently determining the effects of FASB Statement No. 161 on its consolidated financial statement disclosures.

In May 2008, the FASB issued Statement No. 162, The Hierarchy of Generally Accepted Accounting Principles, which identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. FASB Statement No. 162 became effective in November 2008 for the Public Company Accounting Oversight Board (PCAOB) amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. FASB Statement No. 162 is not expected to result in a change in the Corporation's financial reporting practices.

In June 2008, the FASB issued Staff Position (FSP) No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities. FSP No. EITF 03-6-1 requires unvested share-based payment awards containing nonforfeitable rights to dividends or dividend equivalents, whether paid or unpaid, to be classified as participating securities and thus, be included in the computation

## Edgar Filing: CADENCE FINANCIAL CORP - Form 10-K

of basic earnings per share. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008. The Corporation is currently determining the effects of FSP No. EITF 03-6-1 on its consolidated financial statements and related disclosures.

**Table of Contents**

In December 2008, the FASB issued FSP No. FAS 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets*. FSP No. FAS 132(R)-1 requires companies to disclose additional information about their postretirement benefit plan assets, including investment policies and strategies, categories of plan assets, fair value measurements of plan assets, and significant concentrations of risk. The additional disclosure requirements are effective for fiscal years ending after December 15, 2009, with earlier application permitted. The Corporation is currently determining the effects of FSP No. FAS 132(R)-1 on its financial statement disclosures.

**NOTE B - ACQUISITIONS**

On November 14, 2006, the Corporation completed the acquisition of Seasons Bancshares, Inc. ( *Seasons* ), and its subsidiary bank, Seasons Bank, located in Blairsville, Georgia. On August 17, 2006, the Corporation completed the acquisition of SunCoast Bancorp, Inc. ( *SunCoast* ), and its subsidiary bank, SunCoast Bank, located in Sarasota and Manatee Counties, Florida. The Corporation's financial statements include the results of operations for Seasons and SunCoast from their respective merger dates. The pro forma impact of these acquisitions on the Corporation's results of operations was immaterial.

**NOTE C - SECURITIES**

A summary of amortized cost and estimated fair value of securities available-for-sale and securities held-to-maturity at December 31, 2008 and 2007, follows:

	December 31, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<i>(In thousands)</i>				
Securities available-for-sale:				
U. S. Treasury securities	\$ 310	\$ 16	\$	\$ 326
Obligations of other U. S. government agencies	88,593	1,567		90,160
Obligations of states and municipal subdivisions	86,940	582	1,076	86,446
Mortgage-backed securities	213,736	6,736	17	220,455
Other securities	1,685	3	373	1,315
	\$ 391,264	\$ 8,904	\$ 1,466	\$ 398,702
Securities held-to-maturity:				
Obligations of states and municipal subdivisions	\$ 21,358	\$ 757	\$	\$ 22,115
<b>December 31, 2007</b>				
Securities available-for-sale:				
U. S. Treasury securities	\$ 300	\$	\$	\$ 300
Obligations of other U. S. government agencies	172,749	935	5	173,679
Obligations of states and municipal subdivisions	90,224	364	386	90,202
Mortgage-backed securities	137,221	971	412	137,780
Other securities	1,855	39	59	1,835
	\$ 402,349	\$ 2,309	\$ 862	\$ 403,796
Securities held-to-maturity:				
Obligations of states and municipal subdivisions	\$ 22,846	\$ 1,111	\$	\$ 23,957

**Table of Contents**

The scheduled maturities of securities available-for-sale and securities held-to-maturity at December 31, 2008 were as follows:

<i>(In thousands)</i>	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 5,257	\$ 5,365	\$ 2,145	\$ 2,182
Due after one year through five years	68,675	69,545		
Due after five years through ten years	61,176	60,865	1,933	2,009
Due after ten years	42,420	42,472	17,280	17,924
Mortgage-backed securities and other securities	213,736	220,455		
	\$ 391,264	\$ 398,702	\$ 21,358	\$ 22,115

Gross gains of \$440,000, \$124,000, and \$72,000, and gross losses of \$50,000, \$141,000, and \$6,000, were realized on securities available-for-sale in 2008, 2007, and 2006, respectively.

The Corporation recognized a \$5.1 million impairment loss in the first quarter of 2007 relating to certain collateralized mortgage obligations and mortgage-backed securities. These securities were sold early in the second quarter of 2007, and the proceeds were invested in agency securities.

During the third quarter of 2006, the Corporation recognized a \$2.0 million other-than-temporary impairment charge relating to certain Fannie Mae and Freddie Mac preferred stock. Those securities were sold in the fourth quarter of 2006 for amounts approximating their fair values.

Securities with a carrying value of \$319.8 million and \$316.2 million at December 31, 2008 and 2007, respectively, were pledged to secure public and trust deposits, FHLB borrowings, repurchase agreements and for other purposes as required or permitted by law.

The details concerning securities classified as available-for-sale with unrealized losses as of December 31, 2008 and 2007, were as follows:

<i>(In thousands)</i>	Losses < 12 Months		Losses 12 Months or >		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<b>2008</b>						
Obligations of other U.S. government agencies	\$	\$	\$	\$	\$	\$
Obligations of states and municipal subdivisions	33,898	1,055	1,217	21	35,115	1,076
Mortgage-backed securities	2,315	17			2,315	17
Other securities	336	150	477	223	813	373
	\$ 36,549	\$ 1,222	\$ 1,694	\$ 244	\$ 38,243	\$ 1,466
<b>2007</b>						
Obligations of other U.S. government agencies	\$ 1,999	\$ 1	\$ 2,696	\$ 4	\$ 4,695	\$ 5
Obligations of states and municipal subdivisions	1,434	6	39,924	380	41,358	386
Mortgage-backed securities	256	1	50,355	411	50,611	412
Equity securities	1,032	55	59	4	1,091	59
	\$ 4,721	\$ 63	\$ 93,034	\$ 799	\$ 97,755	\$ 862



**Table of Contents**

There were no securities classified as held-to-maturity with unrealized losses as of December 31, 2008 or 2007.

As of December 31, 2008, approximately 29% of the number of securities in the investment portfolio reflected an unrealized loss. Management does not believe any individual security with an unrealized loss as of December 31, 2008 is other-than-temporarily impaired, as discussed in more detail below:

**Obligations of States and Municipal Subdivisions** The unrealized losses on the Corporation's investments in obligations of states and municipal subdivisions were caused by interest rate fluctuations. Because none of these investments have been downgraded by rating agencies and the Corporation has the ability and intent to hold these investments until a recovery of fair value, which may be maturity, the Corporation does not consider these investments to be other-than-temporarily impaired as of December 31, 2008.

**Mortgage-Backed Securities** Contractual cash flows of these investments are guaranteed by an agency of the U.S. government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the Corporation's investment, unless they have early prepayments that would place any unamortized premium at risk. The total amount of unamortized premium at December 31, 2008, is not material to the Corporation. Because the Corporation has the ability and intent to hold these investments until a recovery of fair value, which may be maturity, the Corporation does not consider these investments to be other-than-temporarily impaired as of December 31, 2008.

**Other Securities** The unrealized losses on the Corporation's investments in other securities relate to various mutual funds held in deferred compensation accounts. The amount of these securities and the related unrealized losses are not material and the Corporation has the ability and intent to hold the investments until a recovery of fair value; thus, the Corporation does not consider these investments to be other-than-temporarily impaired as of December 31, 2008.

**NOTE D - LOANS**

Loans outstanding include the following types:

<i>(In thousands)</i>	December 31,	
	2008	2007
Commercial and industrial	\$ 219,236	\$ 233,055
Personal	30,921	34,702
Real estate:		
Construction	179,381	281,391
Commercial real estate	670,595	573,387
Real estate secured by residential properties	130,060	130,432
Mortgage	29,702	35,392
Total real estate	1,009,738	1,020,602
Other	68,434	49,488
	1,328,329	1,337,847
Allowance for loan losses	(20,730)	(14,926)
	\$ 1,307,599	\$ 1,322,921

**Table of Contents**

Transactions in the allowance for loan losses are summarized as follows:

<i>(In thousands)</i>	Years Ended December 31,		
	2008	2007	2006
Balance at beginning of year	\$ 14,926	\$ 12,236	\$ 9,312
Allowance of acquired entities			3,116
	14,926	12,236	12,428
Additions:			
Provision for loan losses charged to operating expense	28,599	8,130	1,656
Recoveries of loans previously charged off	1,126	2,058	785
	29,725	10,188	2,441
Deductions:			
Loans charged off	23,921	7,498	2,633
	23,921	7,498	2,633
Balance at end of year	\$ 20,730	\$ 14,926	\$ 12,236

At December 31, 2008, 2007, and 2006, the recorded investment in loans considered to be impaired (as defined in FASB Statement No. 114, Accounting by Creditors for Impairment of a Loan ) totaled approximately \$59.7 million, \$23.8 million, and \$13.6 million, respectively. The allowance for loan losses related to these loans approximated \$10.1 million, \$4.4 million, and \$2.1 million at December 31, 2008, 2007, and 2006, respectively. The average recorded investment in impaired loans during the years ended December 31, 2008, 2007, and 2006 was approximately \$35.5 million, \$17.2 million, and \$10.2 million, respectively. For the year ended December 31, 2008, management estimates that the amount of income recognized on impaired loans was approximately \$1.5 million. For the years ended December 31, 2007 and 2006, the amount of income recognized on impaired loans was immaterial. At December 31, 2008, 2007, and 2006, nonaccrual loans amounted to approximately \$28.2 million, \$3.6 million, and \$1.5 million, respectively, and loans past due ninety days or more and still accruing interest amounted to approximately \$3.5 million, \$5.5 million, and \$1.3 million, respectively.

Generally, mortgage loans are originated in amounts up to 80% of the appraised value or selling price of the property. However, certain loans may allow the borrower to borrow more than 80% of the appraised value, often without buying private mortgage insurance, therefore subjecting the Corporation to greater credit risk. The amount of residential mortgage loans with loan-to-value ratios greater than 80% was approximately \$8.4 million and \$3.2 million as of December 31, 2008 and 2007, respectively.

**NOTE E - PREMISES AND EQUIPMENT**

Premises and equipment are stated at cost, less accumulated depreciation and amortization as follows:

<i>(In thousands)</i>	Estimated Useful Lives In Years	December 31,	
		2008	2007
Premises:			
Land		\$ 13,130	\$ 10,524
Buildings, construction and improvements	10 - 50	29,082	32,349
		42,212	42,873
Equipment	3 - 10	14,822	15,362

Edgar Filing: CADENCE FINANCIAL CORP - Form 10-K

	57,034	58,235
Less accumulated depreciation and amortization	(23,625)	(22,327)
	\$ 33,409	\$ 35,908

The amount charged to operating expenses for depreciation was \$2,658,000 for 2008, \$2,832,000 for 2007, and \$2,410,000 for 2006.

**NOTE F - DEPOSITS**

The aggregate amount of time deposits in denominations of \$100,000 or more as of December 31, 2008 and 2007, was \$425,901,000 and \$383,229,000, respectively.

**Table of Contents**

At December 31, 2008, the scheduled maturities of time deposits included in interest-bearing deposits were as follows:

Year	Amount (In thousands)
2009	\$ 544,153
2010	121,502
2011	10,565
2012	6,152
2013	5,918
Thereafter	971

**NOTE G - BORROWED FUNDS**

Federal funds purchased and securities sold under agreements to repurchase, excluding the term repurchase transactions discussed in the following paragraphs, generally mature within one to seven days from the transaction date. Securities underlying the repurchase agreements remain under the control of the Corporation.

In September 2007, the Corporation entered into a \$25.0 million structured repurchase transaction. This transaction is a standard repurchase transaction with a fixed rate of 4.255% and a forty-two month term. The transaction has a quarterly call option after one year.

In March 2008, the Corporation restructured a \$25.0 million repurchase transaction initially entered into in December 2006. This transaction is a standard repurchase transaction with a fixed rate of 4.10% and a thirty-three month term. The transaction has a quarterly call option after nine months.

Information concerning federal funds purchased and securities sold under agreements to repurchase is summarized as follows:

(\$ In thousands)	2008	2007
Balance at year end	\$ 98,527	\$ 107,060
Average balance during the year	104,334	95,406
Average interest rate during the year	2.99%	4.29%
Maximum month-end balance during the year	\$ 125,068	\$ 107,060

Repurchase agreements are treated as collateralized financing obligations and are reflected as a liability in the consolidated financial statements.

On December 30, 2003, the Corporation issued \$30.9 million of floating rate junior subordinated deferrable interest debentures to the NBC Capital Corporation (MS) Statutory Trust I ( Trust ), a Connecticut business trust, in which the Corporation owns all of the common equity. The debentures are the sole asset of the Trust. The net proceeds received by the Corporation from the issuance of the debentures were used for the Enterprise acquisition. The Trust issued \$30.0 million of Trust Preferred Securities ( TPSs ) to investors. The Corporation's obligations under the debentures and related documents, taken together, constitute a full and unconditional guarantee by the Corporation of the Trust's obligations under the TPSs. The TPSs are redeemable at the Corporation's option on or after December 30, 2008, on any interest payment date. The TPSs must be redeemed upon maturity of the debentures in 2033. Interest on the debentures and TPSs is the three month London Interbank Offer Rate ( LIBOR ) plus 2.85% and is payable quarterly.

With the 2004 acquisition of Enterprise, the Corporation assumed the liability for an additional \$6.2 million in subordinated debentures issued to support TPSs. As a result, the Corporation became the sole shareholder of Enterprise (TN) Statutory Trust I, a Connecticut business trust. The TPSs were fully redeemed in December 2007, and the trust was dissolved in January 2008.

In accordance with FASB Interpretation No. 46R, neither of the above-referenced trusts are consolidated into the financial statements of the Corporation.

Other borrowed funds consisted of the following at December 31:

Edgar Filing: CADENCE FINANCIAL CORP - Form 10-K

<i>(In thousands)</i>	2008	2007
FHLB advances	\$ 188,357	\$ 209,690
Treasury tax and loan note	581	1,081
	\$ 188,938	\$ 210,771

**Table of Contents**

Advances due to the FHLB consist of both monthly amortized and term borrowings with maturity dates ranging from January 2009 through November 2013. Interest is payable monthly at rates ranging from 1.9% to 5.58%. Advances due to the FHLB are collateralized by FHLB stock and a blanket lien on first mortgage loans in the amount of the outstanding borrowings. FHLB advances available and unused at December 31, 2008, totaled \$137.0 million. The treasury tax and loan note generally matures within one to sixty days from the transaction date. Interest is paid at an adjustable rate as set by the U. S. Government.

Annual principal repayment requirements on FHLB borrowings at December 31, 2008, were as follows:

Year	Amount (In thousands)
2009	\$ 87,854
2010	63,662
2011	16,308
2012	533
2013	20,000
Thereafter	

In December 2007, the Corporation extended a revolving credit agreement (the Agreement) that provided the Corporation with access to borrow up to \$30.0 million. These borrowings could have been used to finance acquisitions and for other general corporate purposes, provided that the borrowings used for purposes other than acquisitions did not exceed \$15.0 million. Interest on each borrowing would have been paid at the lender's base rate or at LIBOR, plus 1.25% annually. The Corporation also paid a commitment fee, accruing at the annual rate of 0.15%, on the daily amount of the unused commitment. Borrowings were contingent on the Corporation's ability to maintain various operational and financial covenants, unless the Corporation was granted a waiver. The Corporation had pledged 605,000 shares of Cadence stock as collateral for these borrowings and had covenanted to pledge shares with a minimum book value of \$75.0 million. The Corporation had no outstanding borrowings under the Agreement as of December 31, 2008 or 2007, and the Corporation terminated the Agreement in February 2009.

**NOTE H - OTHER ASSETS AND OTHER LIABILITIES**

Other assets and other liabilities at December 31, 2008 and 2007, consisted of the following:

<i>(In thousands)</i>	December 31,	
	2008	2007
<b>Other assets:</b>		
Cash surrender value of life insurance	\$ 23,584	\$ 22,755
Deferred income tax benefits	7,514	6,640
Other real estate	18,691	10,678
Prepaid expenses and other	12,247	6,827
	\$ 62,036	\$ 46,900
<b>Other liabilities:</b>		
Accrued expenses	\$ 5,366	\$ 6,354
Pension obligation	2,242	1,014
Other	3,652	3,460
	\$ 11,260	\$ 10,828

**Table of Contents****NOTE I - COMPREHENSIVE INCOME**

In the calculation of comprehensive income, certain reclassification adjustments are made to avoid double counting amounts that are displayed as part of net income for a period that also had been displayed as part of other comprehensive income. The disclosures of the reclassification amounts are as follows:

<i>(In thousands)</i>	Years Ended December 31,		
	2008	2007	2006
Net change in unrealized gains (losses) on securities:			
Net unrealized gains (losses) on securities available-for-sale	\$ 5,119	\$ 3,425	\$ 4,141
Reclassification adjustment for (gains) losses on securities available-for-sale	(390)	5,114	1,959
Net change in unrealized gains (losses) on securities available-for-sale before tax	4,729	8,539	6,100
Income tax:			
Net unrealized gains (losses) on securities available-for-sale	(1,958)	(1,310)	(1,584)
Reclassification adjustment for (gains) losses on securities available-for-sale	149	(1,956)	(749)
Total income tax	(1,809)	(3,266)	(2,333)
Net change in unrealized gains (losses) on securities	\$ 2,920	\$ 5,273	\$ 3,767

**NOTE J - INCOME TAXES**

The provision for income taxes including the tax effects of securities transactions (2008 \$149,000; 2007 (\$1,956,000); 2006 (\$749,000)) was as follows:

<i>(In thousands)</i>	Years Ended December 31,		
	2008	2007	2006
Current:			
Federal	\$ (1,180)	\$ 4,872	\$ 5,472
State	(767)	340	862
Deferred (credits)	(3,072)	(2,424)	(1,350)
	\$ (5,019)	\$ 2,788	\$ 4,984

The difference between the total expected tax expense at the federal tax rate and the reported income tax expense is as follows:

<i>(In thousands)</i>	Years Ended December 31,		
	2008	2007	2006
Tax on income before income taxes	\$ (2,727)	\$ 4,405	\$ 6,698
Increase (decrease) resulting from:			
Tax-exempt income	(1,908)	(1,829)	(1,943)
Nondeductible expenses	186	251	188
State income taxes, net of federal benefit	(604)	221	560
Tax credits	(172)	(291)	(432)
Other, net	206	31	(87)
	\$ (5,019)	\$ 2,788	\$ 4,984





**Table of Contents**

The components of the net deferred tax included in the consolidated balance sheets are as follows:

<i>(In thousands)</i>	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>Deferred tax assets:</b>		
Allowance for loan losses	\$ 7,929	\$ 5,709
Deferred compensation	1,370	1,416
Pension	877	408
Other	3,610	2,170
<b>Total deferred tax assets</b>	<b>13,786</b>	<b>9,703</b>
<b>Deferred tax liabilities:</b>		
Premises and equipment	(812)	(186)
FHLB stock	(490)	(161)
Core deposit intangible premium	(757)	(1,089)
Unrealized gain on securities available-for-sale	(2,977)	(557)
Other	(1,236)	(1,070)
<b>Total deferred tax liabilities</b>	<b>(6,272)</b>	<b>(3,063)</b>
<b>Net deferred tax asset</b>	<b>\$ 7,514</b>	<b>\$ 6,640</b>

The Corporation has adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109 ( FIN 48 ). FIN 48 requires a company to evaluate whether the tax position taken by a company will more likely than not be sustained upon examination by the appropriate taxing authority. It also provides guidance on how a company should measure the amount of benefit that the company is to recognize in its financial statements. The Corporation does not have tax positions that meet these requirements as of December 31, 2008 or 2007.

**NOTE K - GOODWILL AND OTHER INTANGIBLE ASSETS**

The following table summarizes goodwill and intangible assets at December 31:

<i>(In thousands)</i>	<b>2008</b>	<b>2007</b>
Core deposit intangible, net of accumulated amortization	\$ 1,980	\$ 2,848
Trademarks, net of accumulated amortization	24	24
Noncompete agreements, net of accumulated amortization		21
<b>Total intangible assets</b>	<b>2,004</b>	<b>2,893</b>
<b>Goodwill</b>	<b>66,845</b>	<b>66,845</b>
<b>Total goodwill and intangible assets</b>	<b>\$ 68,849</b>	<b>\$ 69,738</b>

The amortization expense relating to intangible assets was \$890,000, \$1,328,000, and \$1,144,000 for 2008, 2007, and 2006, respectively.

Estimated intangible assets amortization expense for the next five years and thereafter is:

<b>Year</b>	<b>Amount</b> <i>(In thousands)</i>
2009	\$ 619
2010	450
2011	333
2012	249
2013	191
Thereafter	138

**Table of Contents****NOTE L - PERFORMANCE SHARES AND STOCK OPTIONS**

The Corporation has one active Long Term Incentive Compensation Plan (the LTIP), administered by the Compensation Committee of the Board of Directors. Under the LTIP, 750,000 shares of common stock have been reserved for issuance to the Corporation's eligible employees, as well as the directors and employees of certain of the Corporation's affiliates. The form of share awards that may be awarded under the LTIP include the following: (i) incentive stock options under Section 422 of the Internal Revenue Code, as amended (the Code); (ii) non-statutory stock options not covered by Section 422 of the Code; (iii) stock appreciation rights, granting the recipient the right to receive an excess in the fair market value of shares of common stock over a specified exercise price; (iv) restricted stock, which will be non-transferable until it vests over time; (v) qualified performance-based incentives to employees who qualify as covered employees within the meaning of Section 162(m) of the Code; and (vi) performance shares, consisting of common stock, cash, or a combination of common stock and cash.

In 2006, 2007, and 2008, under the provisions of the LTIP, the Compensation Committee awarded performance shares of stock to certain eligible employees. The shares vest in equal amounts over a four-year period after they are earned.

A summary of the Corporation's performance share activity for the years ended December 31, 2008, 2007 and 2006, follows:

	2008	2007	2006
Shares outstanding, beginning of year	35,450	18,750	
Shares granted	79,332	70,300	18,750
Shares forfeited	(68,150)	(53,600)	
Shares outstanding, end of year	46,632	35,450	18,750
Shares earned, beginning of year	30,950	18,750	
Shares earned	13,682	15,200	18,750
Shares forfeited		(3,000)	
Shares earned, end of year	44,632	30,950	18,750
Shares unearned, end of year	2,000	4,500	
Shares outstanding, end of year	46,632	35,450	18,750
Compensation expense for year	\$ 202,354	\$ 148,928	\$ 16,000

Prior to 2006, the Corporation had certain nonqualified stock option plans administered by the Compensation Committee. Employees eligible to receive incentives under these plans were those designated, individually or by groups or categories, by the Compensation Committee. The following grants were issued under these plans:

Grant Date	Number of Shares	Option Price
June 2001	112,000	\$ 20.75
June 2002	117,868	\$ 24.11
April 2004	139,187	\$ 25.18
January 2005	16,300	\$ 25.28

Initially under these plans, the options were to vest in equal amounts over a four-year period. However, during the third quarter of 2005, the Compensation Committee reviewed the Corporation's stock option plans and the options outstanding. At the time of the review, all outstanding options that were not vested were out-of-the-money. This situation had existed for much of 2005. In the opinion of the Compensation Committee, the options were not achieving their intended purposes of incentive compensation and employee retention. As a result, the Compensation Committee recommended to the Board of Directors that all outstanding options be vested to avoid recognizing future expense for options that were not achieving their intended results, and the Board of Directors voted to vest all outstanding options, effective August 31, 2005.

## Edgar Filing: CADENCE FINANCIAL CORP - Form 10-K

In April of 2004, the Corporation exchanged its options for options that had been issued by Enterprise. As a result of this transaction, the Corporation issued 16,731 options at an exercise price of \$16.14 per share and 22,308 options at an exercise price of \$17.21 per share. All of these options became fully vested at the change of control and expire between 2010 and 2013. At December 31, 2008, 11,154 of the \$16.14 options and 14,872 of the \$17.21 options were outstanding and exercisable.

**Table of Contents**

FASB 123(R) requires that compensation cost related to share-based payment transactions, including stock options, be recognized in the financial statements; however, since all options were fully vested as of the effective date of this pronouncement, no expense was recognized in the income statement in 2006, 2007 or 2008.

A summary of the status of the Corporation's stock option plans for the three years ended December 31, 2008 follows:

	2008		2007		2006	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding, beginning of year	327,286	\$ 23.01	339,286	\$ 23.07	374,263	\$ 22.91
Options granted						
Options exercised					(14,513)	17.16
Options cancelled			(12,000)	24.65	(20,464)	24.33
Options outstanding, end of year	327,286	23.01	327,286	23.01	339,286	23.07
Options exercisable at end of year	327,286	23.01	327,286	23.01	339,286	23.07
Weighted average fair value of options granted during year	\$		\$		\$	

The following table summarizes information about stock options outstanding at December 31, 2008:

Exercise Price	Number Outstanding	Remaining Contractual Life In Years	Number Exercisable
\$ 20.75	88,400	2.5	88,400
24.11	94,267	3.5	94,267
25.18	102,293	5.7	102,293
16.14	3,718	2.0	3,718
17.21	7,436	3.0	7,436
17.21	7,436	4.0	7,436
16.14	7,436	5.0	7,436
25.28	16,300	6.1	16,300

**NOTE M - EMPLOYEE BENEFITS**

The Corporation accounts for its defined benefit plan in accordance with FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. This Statement requires companies to recognize the funded status of a defined benefit plan (measured as the difference between the fair value of plan assets and the projected benefit obligation) on the balance sheet and to recognize in other comprehensive income any gains or losses and prior service costs or benefits not included as components of periodic benefit cost.

**Table of Contents**

The following table sets forth the defined benefit plan's funded status and amounts recognized in the Corporation's consolidated financial statements at December 31, 2008 and 2007:

<i>(\$ in thousands)</i>	December 31,	
	2008	2007
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 13,210	\$ 12,147
Service cost	821	638
Interest cost	675	691
Actuarial loss (gain)	(219)	354
Administrative expenses paid	(129)	(120)
Benefits paid	(1,409)	(848)
Plan change		348
Benefit obligation at end of year	12,949	13,210
Change in plan assets:		
Fair value of plan assets at beginning of year	12,196	11,631
Return on plan assets	(2,651)	879
Employer contributions	2,700	654
Administrative expenses paid	(129)	(120)
Benefits paid	(1,409)	(848)
Settlements		
Fair value of plan assets at end of year	10,707	12,196
Funded status	\$ (2,242)	\$ (1,014)
Weighted average assumptions used to determine benefit obligations at December 31:		
Discount rate	6.25%	6.00%
Compensation increase rate	3.50%	4.00%
Measurement date	12/31/2008	12/31/2007
Census date	1/1/2008	1/1/2007

**Table of Contents**

	Years Ended December 31,		
	2008	2007	2006
Weighted average assumptions used to determine net periodic benefit cost for years ended December 31:			
Discount rate	6.00%	5.75%	5.75%
Expected return on plan assets	7.50%	7.50%	7.50%
Rate of compensation increase	4.00%	4.00%	4.00%
Components of net periodic benefit cost:			
Service cost	\$ 821	\$ 638	\$ 591
Interest cost	675	691	703
Expected return on plan assets	(770)	(831)	(832)
Amortization of prior service costs	(93)	(126)	(126)
Recognized net actuarial loss	275	346	381
<b>Net periodic benefit cost</b>	<b>\$ 908</b>	<b>\$ 718</b>	<b>\$ 717</b>
Amounts recognized in accumulated other comprehensive income:			
Net actuarial loss	\$ (7,185)	\$ (4,257)	\$ (4,297)
Prior service cost	71	165	638
	(7,114)	(4,092)	(3,659)
Tax effect	(2,721)	(1,565)	(1,400)
<b>Net</b>	<b>\$ (4,393)</b>	<b>\$ (2,527)</b>	<b>\$ (2,259)</b>

The amounts in accumulated other comprehensive income that are expected to be recognized as components of net periodic benefit cost in 2009 are as follows:

	Amount (In thousands)
Amortization of net actuarial loss	\$ 343
Amortization of prior service cost	(93)
<b>Total</b>	<b>\$ 250</b>

The accumulated benefit obligation for the defined benefit pension plan was \$10.7 million and \$10.1 million at December 31, 2008 and 2007, respectively.

Retiree benefit payments, which reflect expected future service, are anticipated to be paid as follows:

Year	Amount (In thousands)
2009	\$ 1,334
2010	1,050
2011	3,145
2012	991
2013	1,038
2014-2018	6,345
<b>Total</b>	<b>\$ 13,903</b>

## Edgar Filing: CADENCE FINANCIAL CORP - Form 10-K

In determining the expected return on plan assets, the Corporation considers the relative weighting of plan assets, the historical performance of total plan assets, individual asset classes, and economic and other indicators of future performance. In addition, the Corporation may consult with and consider the opinions of financial and other professionals in developing appropriate return benchmarks.



**Table of Contents**

The Corporation's pension plan weighted-average asset allocations at December 31, 2008 and 2007, by asset category were as follows:

<i>Asset Category</i>	<b>Plan Assets at December 31,</b>	
	<b>2008</b>	<b>2007</b>
Equity securities	40%	60%
Debt securities	27%	33%
Cash and cash equivalents	33%	7%
<b>Total</b>	<b>100%</b>	<b>100%</b>

The primary investment objective of the Corporation's defined benefit pension plan is to maximize total return while accepting and managing a moderate to average degree of risk. The assets are invested based upon a moderate growth asset allocation model, which seeks to provide long-term growth of capital with a moderate level of current income and a somewhat higher level of principal volatility. The assets are allocated in a target mix of 37% fixed income, 53% equity and 10% money market. The fixed income class is divided between a short-term government bond fund, a core fixed income bond fund, a high-yield bond fund and an international bond fund. The equity class is diversified among large, mid and small cap growth and value stock funds with an emphasis being placed on large cap. There is also an exposure in the international equity market. This diversification among all of the equity sectors is an effort to reduce risk and attempt to generate higher returns. As a result of market conditions and cash contributions by the Corporation, the target percentages may not be achieved at any one point in time. The asset category percentages for 2008 reflect a \$2.7 million cash contribution made by the Corporation in late December. This contribution will be worked into the portfolio over a four to six month period.

The Employee Benefit Committee of the Corporation reviews annually the investments of the plan made throughout the year and approves and ratifies the investment model used for the upcoming year. The investments are managed by the Trust Division of the Corporation within the guidelines established by the Employee Benefit Committee. It is the intent of management and the Committee to give the investment managers flexibility within the overall parameters designated in the investment model selected by the Employee Benefit Committee for the plan.

Equity securities do not include common stock of the Corporation.

The Corporation has until September 15, 2009 to make any necessary cash contributions to the plan for 2008. A 2008 plan year contribution of \$1.1 million was made by the Corporation in February 2009. There is no requirement to make a 2009 plan contribution by December 31, 2009. However, to maximize funding levels and to take advantage of certain tax benefits, the Corporation expects to deposit to the plan an amount ranging from the calculated minimum required contribution to the maximum deductible contribution by December 31, 2009. This amount is estimated to be approximately \$500,000.

No contributions were made to the Corporation's nonleveraged ESOP in each of the three years ended December 31, 2008. At December 31, 2008, the plan held 300,902 shares of the Corporation's common stock. Contributions to the 401(k) plan amounted to \$1.1 million in 2008, \$604,000 in 2007, and \$527,000 in 2006. Contributions to the defined contribution plan totaled \$515,000 in 2007 and \$430,000 in 2006. There were no contributions made to the defined contribution plan in 2008.

The accrued liability for the supplemental retirement plan, accounted for under FASB Statement No. 87, approximates the projected benefit obligation; therefore, the adoption of FASB Statement No. 158 had no impact on this plan. The accrued liability for this plan was \$1,806,000 and \$1,843,000 at December 31, 2008 and 2007, respectively. The amounts recognized in compensation expense were \$154,000 for the years ended December 31, 2008 and 2007, and \$144,000 for the year ended December 31, 2006.

Projected benefit payments under the supplemental retirement plan are anticipated to be paid as follows:

<b>Year</b>	<b>Amount (In thousands)</b>
2009	\$ 191
2010	191

Edgar Filing: CADENCE FINANCIAL CORP - Form 10-K

2011	191
2012	189
2013	168
2014-2018	356
Total	\$ 1,286

**Table of Contents**

The accrued liability for the index retirement and deferred compensation plans was \$2,879,000 and \$3,190,000 at December 31, 2008 and 2007, respectively. The amounts recognized in compensation expense were (\$368,000), \$29,000, and \$170,000 for the years ended December 31, 2008, 2007, and 2006, respectively. Compensation expense is impacted by the changes in market values of plan assets. As market values declined during 2008, the liabilities under the plans declined and the plans recognized income.

**NOTE N - TREASURY STOCK**

The Corporation had no shares held in treasury at December 31, 2008 and 2007.

In April 2007, the Corporation's Board of Directors approved a stock repurchase plan, which authorized the Corporation to repurchase up to 500,000 shares of its common stock through open market purchases, block trades, and negotiated private transactions. The Corporation did not repurchase any shares of its common stock in 2007. The stock repurchase plan was not renewed by the Board of Directors for 2008.

**NOTE O - RELATED PARTY TRANSACTIONS**

In the normal course of business, loans are made to directors and executive officers and to companies in which they have a significant ownership interest. In the opinion of management, these loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other parties, are consistent with sound banking practices, and are within applicable regulatory and lending limitations. The activity in loans to current directors, executive officers, and their affiliates during 2008 and 2007 is summarized as follows:

<i>(In thousands)</i>	December 31,	
	2008	2007
Loans outstanding at beginning of year	\$ 13,966	\$ 13,586
New loans	24,084	21,920
Repayments	(18,314)	(21,540)
Loans outstanding at end of year	\$ 19,736	\$ 13,966

Also, in the normal course of business, the Corporation and its subsidiaries enter into transactions for services with companies and firms whose principals are directors and shareholders.

**NOTE P - REGULATORY MATTERS**

Generally, dividends paid by the Corporation are provided from dividends received from Cadence. Under regulations controlling national banks, the payment of any dividends by a bank without prior approval of the Comptroller of the Currency is limited to the current year's net profits (as defined by the Comptroller of the Currency) and retained net profits of the two preceding years. At December 31, 2008, Cadence can not make dividend payments to the Corporation without prior approval.

The Corporation and Cadence are subject to regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Corporation's Consolidated Financial Statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and Cadence must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgment by regulators about components, risk weightings, and other related factors.

To ensure capital adequacy, quantitative measures have been established by regulators that require the Corporation and Cadence to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined) to risk-weighted assets (as defined), and of Tier 1 capital to adjusted average total assets (leverage). Management believes, as of December 31, 2008, that the Corporation and Cadence exceed all capital adequacy requirements.

For 2008 and 2007, Cadence was categorized by regulators as well-capitalized under the regulatory framework for prompt corrective action. A financial institution is considered to be well-capitalized if it has a total risk-based capital ratio of 10% or more, has a Tier 1 risk-based capital

## Edgar Filing: CADENCE FINANCIAL CORP - Form 10-K

ratio of 6% or more, and has a Tier 1 leverage capital ratio of 5% or more. There are no conditions or anticipated events that, in the opinion of management, would cause the Corporation or Cadence to drop below these percentages.

**Table of Contents**

The actual capital amounts and ratios are presented in the following table. No amount was deducted from capital for interest-rate risk exposure.

(\$ In thousands)	Cadence Financial Corporation (Consolidated)		Cadence	
	Amount	Ratio	Amount	Ratio
December 31, 2008:				
Total risk-based	\$ 164,255	11.4%	\$ 153,652	10.4%
Tier 1 risk-based	146,164	10.1%	135,607	9.3%
Tier 1 leverage	146,164	7.7%	135,607	7.0%
December 31, 2007:				
Total risk-based	\$ 168,640	11.2%	\$ 156,272	10.2%
Tier 1 risk-based	153,714	10.2%	141,346	9.3%
Tier 1 leverage	153,714	8.0%	141,346	7.4%

The minimum amounts of capital and ratios as established by banking regulators are as follows:

December 31, 2008:				
Total risk-based	\$ 115,569	8.0%	\$ 115,274	8.0%
Tier 1 risk-based	57,785	4.0%	57,637	4.0%
Tier 1 leverage	76,472	4.0%	76,132	4.0%
December 31, 2007:				
Total risk-based	\$ 120,173	8.0%	\$ 119,777	8.0%
Tier 1 risk-based	60,087	4.0%	59,889	4.0%
Tier 1 leverage	76,463	4.0%	76,001	4.0%

The Corporation is required to maintain average reserve balances in the form of cash or deposits with the Federal Reserve Bank. The reserve balance varies depending upon the types and amounts of deposits. At December 31, 2008 and 2007, the required reserve balance on deposit with the Federal Reserve Bank was approximately \$250,000 and \$150,000, respectively.

**NOTE Q - COMMITMENTS AND CONTINGENT LIABILITIES**

The consolidated financial statements do not reflect various commitments and contingent liabilities which arise in the normal course of banking business and which involve elements of credit risk, interest rate risk, and liquidity risk. The commitments and contingent liabilities are commitments to extend credit, home equity lines, overdraft protection lines, and standby letters of credit. Such financial instruments are recorded when they are funded. A summary of commitments and contingent liabilities at December 31, 2008 and 2007 is as follows:

(In thousands)	Contractual Amount December 31,	
	2008	2007
Commitments to extend credit	\$ 257,797	\$ 357,541
Standby letters of credit	16,027	23,904

Commitments to extend credit and letters of credit include some exposure to credit loss in the event of nonperformance of the customer. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. The credit policies and procedures for such commitments are the same as those used for lending activities. Because these instruments have fixed maturity dates and because a number expire without being drawn upon, they generally do not present any significant liquidity risk. No significant losses on commitments were incurred during the three years ended December 31, 2008, nor are any significant losses as a result of these transactions anticipated.

In June 2008, the FHLB of Dallas issued a \$35 million standby letter of credit to the Bank to secure public funds.



**Table of Contents**

The Corporation leases various premises and equipment under operating leases. At December 31, 2008, future minimum rental commitments are as follows:

Year	Amount (In thousands)
2009	\$ 1,471
2010	1,177
2011	1,082
2012	1,006
2013	904
Thereafter	5,704

Rental expense for premises and equipment for the years ended December 31, 2008, 2007 and 2006, was \$1,539,000, \$1,776,000, and \$1,069,000, respectively.

The Corporation is a defendant in various pending and threatened legal actions arising in the normal course of business. In the opinion of management, based upon the advice of legal counsel, the ultimate disposition of these matters will not have a material effect on the Corporation's consolidated financial statements.

**NOTE R - CONCENTRATIONS OF CREDIT**

Most of the loans, commitments and letters of credit have been granted to customers in the Corporation's market areas. Generally, such customers are also depositors. Investments in state and municipal securities also involve governmental entities within the Corporation's market areas. The concentrations of credit by type of loan are set forth in Note D of these Consolidated Financial Statements. The distribution of commitments to extend credit approximates the distribution of loans outstanding. Letters of credit were granted primarily to commercial borrowers.

**NOTE S - SUPPLEMENTAL CASH FLOW INFORMATION**

(In thousands)	Years Ended December 31,		
	2008	2007	2006
Cash paid during the year for:			
Interest	\$ 49,070	\$ 67,093	\$ 42,070
Income taxes, net of refunds	2,554	7,064	6,890
Non-cash activities:			
Transfers of loans to other real estate	16,251	8,979	1,079
Stock issued for acquisition			18,862

**NOTE T - DISCLOSURE ABOUT FAIR VALUES OF FINANCIAL INSTRUMENTS**

The following disclosure of the estimated fair value of financial instruments is made in accordance with FASB Statement No. 107, Disclosures About Fair Value of Financial Instruments. The estimated fair value amounts have been determined using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

**Cash and Cash Equivalents** For such short-term instruments, the carrying amount is a reasonable estimate of fair value.

**Securities** For securities held as investments, fair value equals market price, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities; however, as of December 31, 2008, quoted market prices were available for all

## Edgar Filing: CADENCE FINANCIAL CORP - Form 10-K

securities. The fair value of other securities, which consist of FHLB stock and Federal Reserve Bank stock, is estimated to be the carrying value, which is par.

**Loans** The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.



**Table of Contents**

**Deposits** The fair values of demand deposits are, as required by Statement No. 107, equal to the carrying value of such deposits. Demand deposits include noninterest-bearing demand deposits, savings accounts, NOW accounts, and money market demand accounts. The fair value of variable rate term deposits, those repricing within six months or less, approximates the carrying value of these deposits. Discounted cash flows have been used to value fixed rate term deposits and variable rate term deposits repricing after six months. The discount rate used is based on interest rates currently being offered on comparable deposits as to amount and term.

**Federal Funds Purchased and Securities Sold Under Agreements to Repurchase** The fair value of any federal funds purchased, securities sold under agreements to repurchase and other short-term borrowings generally approximates their carrying value. The fair value of structured repurchase agreements is estimated using discounted cash flows, based on current incremental borrowing rates for similar types of arrangements.

**Subordinated Debentures** The subordinated debentures bear interest at a variable rate and the carrying value approximates the fair value.

**FHLB and Other Borrowings** The fair value of the fixed rate borrowings is estimated using discounted cash flows, based on current incremental borrowing rates for similar types of borrowing arrangements. The carrying amount of any variable rate borrowings approximates their fair values.

**Off-Balance Sheet Instruments** Fair values of off-balance sheet financial instruments are based on fees charged to enter into similar agreements. However, commitments to extend credit do not represent a significant value until such commitments are funded or closed. Management has determined that these instruments do not have a distinguishable fair value and no fair value has been assigned.

<i>(In thousands)</i>	December 31, 2008		December 31, 2007	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<b>Financial Instruments:</b>				
<b>Assets:</b>				
Cash and cash equivalents	\$ 61,233	\$ 61,233	\$ 52,397	\$ 52,397
Securities available-for-sale	398,702	398,702	403,796	403,796
Securities held-to-maturity	21,358	22,115	22,846	23,957
Other securities	16,369	16,369	16,449	16,449
Loans	1,307,599	1,305,410	1,322,921	1,321,174
<b>Liabilities:</b>				
Noninterest-bearing deposits	181,191	181,191	171,403	171,403
Interest-bearing deposits	1,279,968	1,285,294	1,254,163	1,247,841
Federal funds purchased and securities sold under agreements to repurchase	98,527	101,427	107,060	106,410
Subordinated debentures	30,928	30,928	30,928	30,928
FHLB and other borrowings	188,938	192,491	210,771	210,988

The Corporation elected early adoption of FASB Statement No. 159 and adopted FASB Statement No. 157, effective January 1, 2007. As of December 31, 2008 and 2007, the Corporation's balance sheet does not include any financial assets or liabilities for which the fair value option of FASB Statement No. 159 was elected.

The following table reflects assets measured at fair value on a recurring basis:

<i>(In thousands)</i>	Fair Value at December 31, 2008
Available-for-sale securities	\$ 398,702

Fair value for these assets was determined by reference to quoted market prices in active markets for identical assets.

**Table of Contents****NOTE U - CONDENSED PARENT COMPANY STATEMENTS**

Balance sheets as of December 31, 2008 and 2007, and statements of income and cash flows for the years ended December 31, 2008, 2007 and 2006, of Cadence Financial Corporation (parent company only) are presented below:

**BALANCE SHEETS**

<i>(In thousands)</i>	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 9,638	\$ 7,669
Securities available-for-sale	565	3,730
Investment in and advances to subsidiaries	206,661	213,950
Other assets	1,005	1,596
	\$ 217,869	\$ 226,945
<b>Liabilities and Shareholders' Equity</b>		
Dividends payable and other liabilities	\$ 1,376	\$ 1,647
Subordinated debentures	30,928	30,928
Shareholders' equity	185,565	194,370
	\$ 217,869	\$ 226,945

**STATEMENTS OF INCOME**

<i>(In thousands)</i>	<b>Years Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Dividends from subsidiaries	\$ 6,548	\$ 11,897	\$ 10,722
Other	427	929	1,313
Total income	6,975	12,826	12,035
Total expense	2,226	3,539	3,601
Income before income taxes and equity in undistributed earnings of subsidiaries	4,749	9,287	8,434
Income tax benefit	683	998	875
Income before equity in undistributed earnings of subsidiaries	5,432	10,285	9,309
Equity in undistributed earnings of subsidiaries in excess of (less than) dividends	(8,788)	(492)	4,844
Net income (loss)	\$ (3,356)	\$ 9,793	\$ 14,153

**Table of Contents****STATEMENTS OF CASH FLOWS**

<i>(In thousands)</i>	Years Ended December 31,		
	2008	2007	2006
<b><i>Cash Flows From Operating Activities</i></b>			
Net income (loss)	\$ (3,356)	\$ 9,793	\$ 14,153
Equity in subsidiaries earnings (in excess of) less than dividends	8,788	492	(4,844)
Other, net	395	(10)	2,097
Net cash provided by operating activities	5,827	10,275	11,406
<b><i>Cash Flows From (Used In) Investing Activities</i></b>			
Payments for investments in and advances to subsidiaries		(180)	(34,505)
Purchase of investments available-for-sale	(5,856)	(6,213)	(50,921)
Proceeds from sales and maturities of securities available-for-sale	8,730	13,128	41,000
Other, net	187		498
Net cash provided by (used in) investing activities	3,061	6,735	(43,928)
<b><i>Cash Flows From (Used In) Financing Activities</i></b>			
Repayment of advances from subsidiaries		(6,000)	
Dividends paid on common stock	(7,144)	(11,897)	(12,766)
Net proceeds from equity offering			50,218
Other, net	225	247	479
Net cash provided by (used in) financing activities	(6,919)	(17,650)	37,931
Net increase (decrease) in cash and cash equivalents	1,969	(640)	5,409
Cash and cash equivalents at beginning of year	7,669	8,309	2,900
Cash and cash equivalents at end of year	\$ 9,638	\$ 7,669	\$ 8,309

**Table of Contents****NOTE V - SUMMARY OF QUARTERLY RESULTS OF OPERATIONS AND PER SHARE AMOUNTS (UNAUDITED)**

<i>(In thousands, except per share data)</i>	<b>Mar. 31</b>	<b>Three Months Ended</b>		<b>Dec. 31</b>
		<b>June 30</b>	<b>Sept. 30</b>	
<b>2008</b>				
Total interest income	\$ 28,609	\$ 25,730	\$ 24,899	\$ 23,619
Total interest expense	14,090	11,688	11,360	10,192
Net interest income	14,519	14,042	13,539	13,427
Provision for loan losses	3,000	3,300	11,703	10,596
Net interest income after provision for loan losses	11,519	10,742	1,836	2,831
Total noninterest income, excluding securities gains (losses)	5,800	5,166	6,157	5,479
Securities gains (losses)	203	(48)	70	165
Total noninterest expenses	13,831	13,590	17,233	13,641
Income tax expense (benefit)	930	392	(3,891)	(2,450)
Net income (loss)	\$ 2,761	\$ 1,878	\$ (5,279)	\$ (2,716)
Per share:				
Net income (loss)	\$ 0.23	\$ 0.16	\$ (0.44)	\$ (0.23)
Net income (loss), diluted	0.23	0.16	(0.44)	(0.23)
Cash dividends declared	0.25	0.25	0.05	0.05
<b>2007</b>				
Total interest income	\$ 29,465	\$ 30,433	\$ 31,276	\$ 30,939
Total interest expense	15,766	16,093	16,636	16,350
Net interest income	13,699	14,340	14,640	14,589
Provision for loan losses	1,229	900	3,150	2,851
Net interest income after provision for loan losses	12,470	13,440	11,490	11,738
Total noninterest income, excluding securities gains (losses)	5,534	5,477	5,756	5,832
Securities gains (losses)	8	(140)	43	72
Impairment loss on securities	(5,097)			
Total noninterest expenses	13,458	13,654	13,812	13,118
Income tax expense (benefit)	(646)	1,513	860	1,061
Net income	\$ 103	\$ 3,610	\$ 2,617	\$ 3,463
Per share:				
Net income	\$ 0.01	\$ 0.30	\$ 0.22	\$ 0.29
Net income, diluted	0.01	0.30	0.22	0.29
Cash dividends declared	0.25	0.25	0.25	0.25

**NOTE W - EQUITY OFFERING**

On May 12, 2006, the Corporation closed on a public offering of its common stock. As a result of this offering, 2.76 million shares were sold at a price of \$19.50 per share, with net proceeds of approximately \$50.2 million. Some of these proceeds were used to fund the SunCoast and Seasons acquisitions, and the remainder was used for general corporate purposes.

**NOTE X - SUBSEQUENT EVENTS**

On January 9, 2009, the Corporation completed the sale of \$44 million of non-voting preferred stock to the U.S. Treasury Department under the Capital Purchase Program. These senior preferred shares pay a cumulative annual dividend at a 5% rate for the first five years and will reset to a rate of 9% after five years if not redeemed by the Corporation prior to that time. In connection with the issuance of the senior preferred shares,

Edgar Filing: CADENCE FINANCIAL CORP - Form 10-K

the Corporation also issued to the U.S. Treasury a warrant to purchase the Corporation's common stock up to a maximum of 15% of the senior preferred amount, or \$6.6 million.

## **Table of Contents**

### **ITEM 9 - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

Not applicable.

### **ITEM 9A - CONTROLS AND PROCEDURES**

#### **Disclosure Controls and Procedures**

As required by Rules 13a-15 and 15d-15 of the Exchange Act, the Corporation has evaluated, with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, as of the end of the period covered by this report, the effectiveness of the design and operation of its disclosure controls and procedures. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, such disclosure controls and procedures are effective in ensuring that information required to be disclosed by the Corporation, including its consolidated subsidiaries, is recorded, processed, summarized and reported, including being made known to the certifying officers by others within the Corporation and its consolidated subsidiaries as appropriate to allow timely decisions regarding disclosure, within the time periods specified in the SEC's rules and forms. From time to time, the Corporation reviews the disclosure controls and procedures, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that the Corporation's system evolves with its business.

#### **Changes in Internal Controls over Financial Reporting**

There was no change in the Corporation's internal control over financial reporting during the quarter ended December 31, 2008 that has materially affected, or is likely to materially affect, the Corporation's internal control over financial reporting.

#### **Management's Report on Internal Control Over Financial Reporting**

Management of the Corporation is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) of the Securities and Exchange Act of 1934. The Corporation's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Management has in place an internal accounting control system designed to safeguard corporate assets from material loss or misuse. The internal control system includes an organizational structure that provides appropriate delegation of authority and segregation of duties, establishes policies and procedures, and comprehensive internal audit and loan review programs. Management believes that this system provides assurance that assets are adequately safeguarded and that the accounting records, which are the basis for the preparation of the financial statements, are reliable.

Any system of internal control, no matter how well designed, has inherent limitations, including the possibility that a control can be circumvented, or overridden or misstatements due to error or fraud may occur and not be detected. Also, because of changes in conditions, internal control effectiveness may vary over time. Accordingly, an effective system of control will provide only reasonable assurance with respect to the financial statement preparation.

The Board of Directors, primarily through its audit committee, oversees the adequacy of the Corporation's internal control structure. The audit committee, consisting entirely of independent directors, meets regularly with management, internal auditors and the independent registered public accounting firm, and reviews audit plans and results as well as management's actions taken in discharging responsibilities for accounting, financial reporting and internal control. Both the independent registered public accounting firm and the internal auditors have direct confidential access to the audit committee at all times to discuss the results of their examinations.

Management conducted an evaluation of the effectiveness of the Corporation's internal controls over financial reporting as of December 31, 2008. This evaluation was based on criteria for effective internal control over financial reporting described in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based upon that evaluation, management concluded that the Corporation maintained effective internal control over financial reporting as of December 31, 2008.

The effectiveness of the Corporation's internal control over financial reporting as of December 31, 2008, has been audited by the Corporation's independent registered public accounting firm.

**ITEM 9B - OTHER INFORMATION**

Not applicable.

**Table of Contents****PART III****ITEM 10 - DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE**

Reference is made to the material under the captions, "Election of Directors," in the Corporation's proxy statement for its 2009 annual meeting, which is incorporated herein by reference, and "Executive Officers," included in Part I, Item 1, of this report.

The Corporation has a Code of Ethics for its directors, officers and employees. Section IV of the Code of Ethics specifically addresses the special code of ethics adopted for the Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer and the Chief Accounting Officer. This Code of Ethics is posted on the Corporation's website at [www.cadencebanking.com](http://www.cadencebanking.com) under the "Investor Relations" tab and under the "Corporate Governance" heading.

**ITEM 11 - EXECUTIVE COMPENSATION**

Reference is made to the caption, "Executive Compensation," in the Corporation's proxy statement for its 2009 annual meeting, which is incorporated herein by reference.

**ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Reference is made to the caption, "Stock Ownership of Directors, Officers, and Principal Shareholders," in the Corporation's proxy statement for its 2009 annual meeting, which is incorporated herein by reference.

The following table gives information about the common stock that may be issued upon the exercise of options under the Corporation's existing equity compensation plans as of December 31, 2008.

**Equity Compensation Plan Information**

<b>Plan Category</b>	<b>Number of Securities to Be Issued Upon Exercise of Outstanding Options (a)</b>	<b>Weighted-Average Price of Outstanding Options (b)</b>	<b>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (c)</b>
Equity compensation plans approved by security holders	47,260	\$ 25.21	705,368
Equity compensation plans not approved by security holders	280,026	\$ 22.64	

Note L to the Corporation's Notes to Consolidated Financial Statements and the information contained under the caption, "Executive Compensation," in the Corporation's proxy statement to be mailed to shareholders in connection with the Corporation's 2009 annual meeting of shareholders should also be read in connection with this item.

**ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE**

Reference is made to the caption, "Certain Relationships, Related Transactions and Indebtedness," in the Corporation's proxy statement for its 2009 annual meeting, which is incorporated herein by reference.

**ITEM 14 - PRINCIPAL ACCOUNTING FEES AND SERVICES**



Edgar Filing: CADENCE FINANCIAL CORP - Form 10-K

Reference is made to the caption, Independent Public Accountant Fees, in the Corporation's proxy statement for its 2009 annual meeting, which is incorporated herein by reference.

**Table of Contents**

**PART IV**

**ITEM 15 - EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

(a) Documents filed as part of this report:

1. Financial Statements

The following consolidated financial statements and report of independent registered public accounting firm of Cadence Financial Corporation and subsidiaries are included in this Form 10-K (Item 8) of the registrant for the year ended December 31, 2008:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets December 31, 2008 and 2007

Consolidated Statements of Income Years Ended December 31, 2008, 2007, and 2006

Consolidated Statements of Shareholders Equity Years Ended December 31, 2008, 2007, and 2006

Consolidated Statements of Cash Flows Years Ended December 31, 2008, 2007, and 2006

Notes to Consolidated Financial Statements

2. Financial Statement Schedules

Schedules not included have been omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

3. Exhibits:

- 3.1 Articles of Incorporation of Cadence Financial Corporation (included as Exhibit 3.1 of Form 10-K filed March 13, 2008 and incorporated herein by reference).
- \* 3.2 Amended and Restated Bylaws of Cadence Financial Corporation.
- 3.3 Articles of Amendment to Articles of Incorporation of Cadence Financial Corporation (included as Annex B of the Company's Definitive Proxy Statement on Schedule 14A filed on November 18, 2008 and incorporated herein by reference).
- 4.1 Indenture Agreement of NBC Capital Corporation dated as of December 30, 2003, for \$30,928,000 of Floating Rate Junior Subordinated Deferrable Interest Debentures, due 2033, with U. S. Bank National Association, as Trustee (included as Exhibit 4 of Form 10-K filed March 11, 2004 and incorporated herein by reference).
- \*\* 10.1 Employment Agreement Dated March 14, 2007, by and between Cadence Financial Corporation and Lewis F. Mallory, Jr. (included as Exhibit 10.2 of Form 10-K filed March 14, 2007 and incorporated herein by reference).
- \*\* 10.2 Employment Agreement Dated March 14, 2007, by and between Cadence Financial Corporation and Mark A. Abernathy (included as Exhibit 10.3 of Form 10-K filed March 14, 2007 and incorporated herein by reference).
- \*\* 10.3 Employment Agreement Dated March 14, 2007, by and between Cadence Financial Corporation and Richard T. Haston (included as Exhibit 10.4 of Form 10-K filed March 14, 2007 and incorporated herein by reference).
- \*\* 10.4

## Edgar Filing: CADENCE FINANCIAL CORP - Form 10-K

NBC Capital Corporation 2005 Deferred Compensation Plan (included as Exhibit 10.1 of Form 8-K filed December 7, 2004 and incorporated herein by reference).

- \*\* 10.5 NBC Capital Corporation Long-Term Incentive Compensation Plan (included as Exhibit 10.1 of Form 10-Q filed August 8, 2007 and incorporated herein by reference).

**Table of Contents**

- 14 Cadence Financial Corporation's Code of Ethics is posted on the Corporation's website.
- \* 21.1 Subsidiaries of the Corporation
- \* 23.1 Consent of Independent Registered Public Accounting Firm
- \* 31.1 Certificate pursuant to Rule 13a-14(a) or 15d-14(a) of Securities Exchange Act of 1934 as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002 Chief Executive Officer.
- \* 31.2 Certificate pursuant to Rule 13a-14(a) or 15d-14(a) of Securities Exchange Act of 1934 as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002 Chief Financial Officer.
- \* 32.1 Certificate pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 Chief Executive Officer.
- \* 32.2 Certificate pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 Chief Financial Officer.
- \* Filed herewith.
- \*\* Indicates management contracts and compensatory plans and arrangements.

(b) Exhibits

See exhibit index included in Item 15(a)(3) of this Form 10-K.

(c) Financial Statement Schedules

See Item 15(a)(2) of this Form 10-K.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CADENCE FINANCIAL CORPORATION  
(Registrant)

By /s/ L. F. Mallory, Jr.  
L. F. Mallory, Jr.  
Chairman of Board and Chief Executive Officer

By /s/ Mark A. Abernathy  
Mark A. Abernathy  
President and Chief Operating Officer

By /s/ Richard T. Haston  
Richard T. Haston  
Executive Vice President and Chief Financial Officer

By /s/ J. Aubrey Adair  
J. Aubrey Adair  
Chief Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacity and on the dates indicated.

/s/ Robert L. Calvert, III  
Robert L. Calvert, III

Director

/s/ Harry Stokes Smith  
Harry Stokes Smith

Director

/s/ James D. Graham  
James D. Graham

Director

/s/ James C. Galloway, Jr.  
James C. Galloway, Jr.

Director

Date: March 12, 2009

/s/ Sammy J. Smith  
Sammy J. Smith

Director

/s/ Robert S. Caldwell, Jr.  
Robert S. Caldwell, Jr.

Director

/s/ Robert A. Cunningham  
Robert A. Cunningham

Director

/s/ Clifton S. Hunt  
Clifton S. Hunt

Director