

CADENCE FINANCIAL CORP  
Form DEF 14A  
November 19, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE

SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Under Rule 14a-12

**Cadence Financial Corporation**

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

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(1) Title of each class of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount previously paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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November 19, 2008

Dear Fellow Shareholders:

We cordially invite you to attend a special meeting of shareholders of Cadence Financial Corporation. The special meeting will be held beginning at 10:00 a.m., local time, on December 18, 2008, at Cadence Bank, Starkville Banking Center, 301 East Main Street, Starkville, Mississippi. The formal notice of the special meeting appears on the next page.

The special meeting has been called for the purpose of approving an amendment to our Restated Articles of Incorporation to authorize a class of preferred stock, consisting of 10,000,000 authorized shares, which may be issued in connection with our participation in the Capital Purchase Program of the U.S. Department of the Treasury or which otherwise may be issued for general corporate purposes in one or more series, with such rights, preferences, privileges and restrictions as shall be fixed by our board of directors.

We hope that you will be able to attend the special meeting. Whether or not you plan to attend, please submit a proxy by mail, telephone or the Internet. You may submit a proxy by mail by completing, signing and dating the enclosed proxy card and returning it promptly in the enclosed envelope. You may also submit a proxy by telephone or via the Internet, should you prefer. Your board of directors recommends a vote **FOR** the amendment to the Restated Articles of Incorporation to authorize the issuance of preferred stock.

The Capital Purchase Program is designed to provide banks with a source of new capital on favorable terms and without being overly dilutive to shareholders. It is being widely used by banks of all sizes throughout the country.

The Capital Purchase Program is a unique opportunity to strengthen our balance sheet at a time when the traditional markets for capital have contracted significantly due to the turmoil in the financial markets. The Capital Purchase Program provides a very attractive interest rate of 5% for the first five years. If we do not redeem the preferred stock at the end of five years, the rate goes to 9%. Both of these rates are currently less than the market rate for similar transactions. The program also permits us to redeem the stock at a future date without significant penalties, providing us with increased flexibility in terms of replacing the preferred stock with other securities in the future.

The addition of new capital through the Capital Purchase Program would further strengthen our capital base and solidify our position as a well-capitalized bank for regulatory purposes. We believe this is particularly important during this period of a softening economy. Also, when the economy regains its footing and resumes its growth, we will be fortified with a strong capital position to support loan growth.

The ability for banks to raise capital in today's equity markets is very limited and dilutive. This program provides a ready source of new capital on favorable terms and is why our board of directors is recommending that we take advantage of this program. Further, we believe the addition of new capital under this plan will be in the best interest of building long-term shareholder value.

We are gratified by your continued interest in Cadence Financial Corporation and are pleased that so many of you have voted your shares in the past. We look forward to seeing you at the special meeting.

Sincerely yours,

Lewis F. Mallory, Jr.

Chairman of the Board and

Chief Executive Officer

**CADENCE FINANCIAL CORPORATION**

**301 East Main Street**

**Starkville, Mississippi 39759**

**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS**

**December 18, 2008**

Notice is hereby given that a special meeting of shareholders of Cadence Financial Corporation will be held beginning at 10:00 a.m., local time, on December 18, 2008, at Cadence Bank, Starkville Banking Center, 301 East Main Street, Starkville, Mississippi. The special meeting has been called for the purpose of approving an amendment to our Restated Articles of Incorporation to authorize a class of preferred stock, consisting of 10,000,000 authorized shares, which may be issued in connection with our participation in the Capital Purchase Program of the U.S. Department of the Treasury or which otherwise may be issued for general corporate purposes in one or more series, with such rights, preferences, privileges and restrictions as shall be fixed by our board of directors.

The board of directors has fixed the close of business on November 10, 2008 as the record date for the determination of the shareholders entitled to notice of, and to vote at, the special meeting.

Your vote is important. Regardless of whether or not you plan to attend the special meeting, please submit a proxy by mail, telephone or the Internet. You may submit a proxy by mail by completing, signing and dating the enclosed proxy card and returning it in the envelope provided as promptly as possible. You may also submit a proxy by telephone or via the Internet by following the instructions attached to the proxy card. You may revoke your proxy at any time before it is voted at the special meeting by sending in a replacement proxy or by voting in person at the meeting.

By Order of the Board of Directors,

Richard Haston

Secretary

November 19, 2008

**CADENCE FINANCIAL CORPORATION**

**PROXY STATEMENT**

**SPECIAL MEETING OF SHAREHOLDERS**

**TO BE HELD ON DECEMBER 18, 2008**

**Introduction**

This proxy statement is furnished to the shareholders of Cadence Financial Corporation in connection with the solicitation of proxies on behalf of the company's board of directors for use at a special meeting of shareholders to be held at 10:00 a.m., local time, on December 18, 2008, at Cadence Bank, Starkville Banking Center, 301 East Main Street, Starkville, Mississippi. The company's telephone number is (662) 323-1341.

This proxy statement, the accompanying proxy card and the notice of special meeting are first being distributed to shareholders on or about November 19, 2008.

At the meeting, shareholders will have the opportunity to consider and vote upon a proposal to approve an amendment to the company's Restated Articles of Incorporation to authorize a class of preferred stock, consisting of 10,000,000 authorized shares, which may be issued in connection with our participation in the Capital Purchase Program of the U.S. Department of the Treasury or which may otherwise be issued for general corporate purposes in one or more series, with such rights, preferences, privileges and restrictions as shall be fixed by the company's board of directors.

The Capital Purchase Program is designed to provide banks with a source of new capital on favorable terms and without being overly dilutive to shareholders. It is widely being used by banks of all sizes throughout the country.

The Capital Purchase Program is a unique opportunity to strengthen the company's balance sheet at a time when the traditional markets for capital have contracted significantly due to the turmoil in the financial markets. The Capital Purchase Program provides a very attractive interest rate of 5% for the first five years. If the company does not redeem the preferred stock at the end of five years, the rate goes to 9%. Both of these rates are currently less than the market rate for similar transactions. The program also permits the company to redeem the stock at a future date without significant penalties, providing it with increased flexibility in terms of replacing the preferred stock with other securities in the future.

The addition of new capital through the Capital Purchase Program would further strengthen the company's capital base and solidify its position as a well-capitalized bank for regulatory purposes. The company believes this is particularly important during this period of a softening economy. Also, when the economy regains its footing and resumes its growth, the company will be fortified with a strong capital position to support loan growth.

The ability for banks to raise capital in today's equity markets is very limited and dilutive. This program provides a ready source of new capital on favorable terms and is why the company's board of directors is recommending that it take advantage of this program. Further, the company believes that the addition of new capital under this plan will be in the best interest of building long-term shareholder value.

The board of directors has fixed the close of business on November 10, 2008 as the record date for the special meeting. Only shareholders of record at the close of business on that date are entitled to notice of, and to vote at, the special meeting. As of November 10, 2008, there were 11,908,914 shares of the company's common stock outstanding. The company has no other outstanding class of securities. The deadline for proxies to be received is 11:59 P.M., eastern daylight time, on December 17, 2008.

***If you have not already done so, please complete, date and sign the accompanying proxy card and return it promptly in the enclosed, postage-paid envelope. You may also vote by telephone or via the Internet. Please see the instructions attached to the proxy card.***



### **Solicitation and Revocation of Proxies**

The company is soliciting your shareholder proxy. The company intends to solicit proxies by mail, but it may also use telephonic and other electronic means of solicitation. As part of its solicitation, the company encourages its directors, officers and employees to solicit shareholder proxies. However, the company does not engage any of its directors, officers or employees specifically to solicit proxies and pays no additional compensation for solicitation. The company's stock transfer agent, Registrar and Transfer Company, will assist in the solicitation of proxies from brokers and nominees of shareholders.

If a properly signed and dated proxy card is returned with voting instructions in time, the shares represented by the proxy will be voted in accordance with those instructions. If a properly signed and dated proxy card is returned without instructions, the shares represented by that card will be voted **FOR** the amendment to the company's Restated Articles of Incorporation, as recommended by the company's board of directors. The board of directors is not aware of any other matter to be presented at the meeting other than those specifically discussed in this proxy.

If you have delivered a proxy for the special meeting, you may revoke it any time before it is voted by attending the meeting and voting in person, giving written notice revoking your proxy to the corporate secretary prior to the date of the special meeting, or by submitting a new proxy before the meeting.

The company will bear the total cost of soliciting proxies from its shareholders. The company estimates Registrar and Transfer Company's fees for broker and shareholder nominee solicitation will not exceed \$25,000, plus out-of-pocket costs and expenses. The company will also reimburse brokerage firms and other persons representing beneficial owners of shares for their reasonable expenses in forwarding solicitation material to such beneficial owners. The company will make a list of all shareholders as of the record date available at the special meeting.

### **Quorum**

A majority of the votes entitled to be cast at the special meeting constitutes a quorum. A share, once represented for any purpose at the special meeting, is deemed present for purposes of determining a quorum for the remainder of the special meeting. This is true even if the shareholder abstains from voting with respect to any matter brought before the special meeting.

Each share of the company's common stock outstanding on November 10, 2008 entitles its holder to one vote on any proposal that may properly come before the special meeting.

As of October 31, 2008, the directors and executive officers of the company beneficially owned a total of 1,289,289 shares, or approximately 10.8% of the outstanding shares of the company's common stock. These individuals have indicated that they will vote for the amendment to the company's Restated Articles of Incorporation.

Brokers and other nominee holders do not have the power to vote shares held by them on the foregoing proposal unless the beneficial owner of the shares directs them to vote on such matter. Broker non-votes will not be counted as votes cast for purposes of determining the total number of votes cast on the proposal and as such will have no effect on the proposal.



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**PROPOSAL 1: AMENDMENT TO RESTATED ARTICLES OF INCORPORATION**

**General Information on Authorization of Preferred Stock**

The Restated Articles of Incorporation (the "Articles") do not authorize the company to issue preferred stock. In order to participate in the Department of Treasury's Capital Purchase Program described below (the "CPP"), the company would be required to amend the Articles to authorize the issuance of preferred stock. Even if the company is unable to participate in the CPP, it believes that having blank check preferred stock for general corporate purposes as described below would be beneficial to the company. The board of directors has determined that having preferred stock would facilitate corporate financing and the company's other plans which are intended to foster the company's growth and flexibility. If approved, the preferred stock could be issued by the board of directors without further shareholder approval, in one or more series, and with such dividend rates and rights, liquidation preferences, voting rights, conversion rights, rights and terms of redemption and other rights, preferences, and privileges as determined by the board of directors. The board of directors believes that the complexity of modern business financing and possible future transactions require greater flexibility in the company's capital structure than currently exists.

**Issuance of Preferred Stock**

The primary impetus for authorizing the issuance of preferred stock under the Articles is to permit the company to participate in the CPP. Under the CPP, the Department of Treasury will purchase up to an aggregate of \$250 billion of shares of senior preferred stock on standardized terms as described in the term sheet attached hereto as Annex A. Qualifying institutions are required to elect to participate no later than November 14, 2008. In order to participate, the company must meet all qualitative requirements, including having available preferred stock, within 30 days of the date of notification of preliminary approval by the Department of Treasury. The minimum subscription amount available to a participating institution is 1 percent of risk-weighted assets. The maximum subscription amount is the lesser of \$25 billion or 3 percent of risk-weighted assets. The company has applied for an aggregate amount of \$44 million, or approximately 3% of the company's risk-weighted assets.

The senior preferred stock will qualify as Tier 1 capital and will rank senior to the company's common stock. The senior preferred stock will pay a cumulative dividend rate of 5 percent per annum for the first five years and will reset to a rate of 9 percent per annum after year five. The senior preferred stock will be non-voting, other than class voting rights on matters that could adversely affect the shares. The senior preferred stock will be callable at par after three years. Prior to the end of three years, the senior preferred may be redeemed with the proceeds from a qualifying equity offering of any Tier 1 perpetual preferred or common stock. The Department of Treasury may also transfer the senior preferred stock to a third party at any time.

In conjunction with the purchase of senior preferred stock, the Department of Treasury will receive warrants to purchase common stock with an aggregate market price equal to 15 percent of the senior preferred investment. The exercise price on the warrants will be the market price of the company's common stock at the time of issuance, calculated on a 20-trading day trailing average. If the company sells the maximum amount of preferred stock authorized under the CPP, the company estimates that the ownership percentage of its current shareholders would be diluted by approximately 7% if the warrants were exercised, assuming an aggregate of \$44 million in capital is received and assuming an average price of the company's common stock of \$7.55 per share. The amount of dilution will depend on the actual amount of capital received and on the average price of the company's common stock for the 20-day period prior to Department of Treasury approval.

The Department of Treasury will determine eligibility and allocations for interested institutions after consultation with the appropriate federal banking agency. As noted above, since the CPP allows companies to apply for up to an amount equal to 3 percent of the company's total risk-weighted assets, the company applied to purchase up to \$44 million in additional capital through the issuance of senior preferred stock. As of the date of

this proxy statement, the company's management believes that it will be permitted to participate up to the full amount for which it has applied; however, the company's application is pending and it has not been advised as to the Department of Treasury's decision thereon. As of the date of this proxy statement, no assurances can be given that the company will be able to participate in the CPP, the approximate number of shares of senior preferred stock that the company may issue pursuant to the CPP or the approximate amount of consideration the company will receive from the Department of Treasury for any such shares that may be issued under the CPP.

If the company is approved to receive the full amount requested, it would receive up to \$44 million in additional capital at the company level. The company anticipates these proceeds will be used to support the company's capital levels and used by Cadence Bank, N.A. as needed to support its growth through meeting the loan demand of its customer base and assisting in maintaining a strong capital position for Cadence Bank. A portion of those funds may be retained by the company to assure its ability to satisfy the dividend payments on the senior preferred stock.

Should the Department of Treasury deny the application, the company does not anticipate that it will have a material adverse effect on its capital resources, results of operations or liquidity. Without the additional capital, the company anticipates that its growth and ability to satisfy customer loan demand may be slowed, but it is sufficiently capitalized and has implemented policies and procedures which it believes allow it to achieve profitability and adequately maintain its liquidity.

The following are some of the expected effects on holders of common stock from the issuance of the senior preferred stock to the Department of Treasury under the CPP:

*Restrictions on Dividends.* As long as any senior preferred stock is outstanding, the company may pay dividends on its common stock, provided that all dividend payments have been made on the senior preferred stock as required by the CPP. Notwithstanding this, the consent of the Department of Treasury will be required for any increase in the per share dividends on common stock until the third anniversary of the date of the senior preferred stock investment unless prior to such third anniversary, the senior preferred stock is redeemed in whole or the Department of Treasury has transferred all of the senior preferred stock to third parties. In addition, no dividends may be declared or paid on junior preferred shares or preferred shares ranking pari passu with the senior preferred stock, nor may the company repurchase or redeem any junior preferred shares, preferred shares ranking pari passu with the senior preferred or common stock, unless (i) in the case of cumulative senior preferred stock, all accrued and unpaid dividends for all past dividend periods on the senior preferred stock are fully paid; or (ii) in the case of non-cumulative senior preferred stock, the full dividend for the latest completed dividend period has been declared and paid in full.

*Dilution.* The company's reported net tangible common book value as of September 30, 2008 was approximately \$116.8 million, or \$9.81 per share of common stock, based upon 11,908,914 shares outstanding as of that date. Net tangible common book value per share is determined by dividing such number of outstanding shares of common stock into the company's net tangible common book value, which is the company's total tangible assets less total liabilities and preferred equity. Assuming the issuance by the company of warrants to acquire 874,000 shares of common stock (assuming an aggregate of \$44 million in capital is received and assuming an average price of the company's common stock of \$7.55 per share), the company's net tangible book value as of September 30, 2008 would have been approximately \$119.2 million, or \$9.32 per share, after giving pro forma effect to this transaction. This would represent dilution of \$0.49 per share to the company's existing common stockholders.

*Repurchases.* The consent of the Department of Treasury shall be required for any share repurchases (other than (i) repurchases of the senior preferred stock and (ii) repurchases of junior preferred shares or common stock in connection with any benefit plan in the ordinary course of business consistent with past practice) until the third anniversary of the date of this investment unless prior to such third anniversary the senior preferred stock is redeemed in whole or the Department of Treasury has transferred all of the senior preferred stock to third parties.

In addition, there shall be no share repurchases of junior preferred shares, preferred shares ranking pari passu with the senior preferred stock, or common stock if prohibited as described under *Restrictions on Dividends* above.

*Voting Rights.* The senior preferred stock shall be non-voting, other than class voting rights on (i) any authorization or issuance of shares ranking senior to the senior preferred stock, (ii) any amendment to the rights of senior preferred stock, or (iii) any merger, exchange or similar transaction which would adversely affect the rights of the senior preferred stock. If dividends on the senior preferred stock are not paid in full for six dividend periods, whether or not consecutive, the senior preferred stock will have the right to elect two directors. The right to elect directors will end when full dividends have been paid for four consecutive dividend periods.

In order to participate in the CPP, the company will also be required to adopt the Department of Treasury standards for executive compensation and corporate governance for the period during which the Department of Treasury holds equity in the company issued under the CPP. The company must meet certain standards, including: (1) ensuring that incentive compensation for certain senior executives does not encourage unnecessary and excessive risks that threaten the value of the company; (2) requiring a return to the company of any bonus or incentive compensation paid to certain senior executives based on financial statements or other performance metric criteria that are later proven to be materially inaccurate; (3) prohibiting the company from making certain excess payments to certain senior executives made on account of involuntary separations from service or in connection with a bankruptcy, insolvency or receivership of the company; and (4) agreeing not to deduct for tax purposes executive compensation in excess of \$500,000 for each applicable senior executive. These standards could change based on subsequent guidance issued by the Department of Treasury or the Internal Revenue Service. Both prior to its participation in the CPP, and for so long as the Department of Treasury continues to hold equity interests in the company issued under the CPP, the company will monitor its compensation arrangements and modify such compensation arrangements, agree to limit and limit its compensation deductions, and take such other actions as may be necessary to comply with the standards discussed above, as they may be modified from time to time. The company does not anticipate any material changes to its existing executive compensation structure will be required to comply with the executive compensation standards included in the CPP.

The company will also be required to file a shelf registration statement covering the senior preferred stock, as well as the warrants and the common stock underlying the warrants, as promptly as practicable after the date of this investment and shall be required to take all action required to cause such shelf registration statement to be declared effective as soon as possible. The company will also be required to grant to the Department of Treasury piggyback registration rights for the senior preferred stock, as well as the warrants and the common stock underlying the warrants, and will take such other steps as may be reasonably requested to facilitate the transfer of the senior preferred stock, as well as the warrants and the common stock underlying the warrants. The company may, if requested by the Department of Treasury, be required to apply for the listing on the NASDAQ Stock Market of the senior preferred stock and the warrants.

The company believes that participation in the CPP would be beneficial because it would provide low cost access to capital which can be used to support and expand its business. If the company is approved to receive the full amount of \$44 million requested as anticipated, the pro forma effect of the transaction would be to increase significantly the total assets and shareholders' equity at September 30, 2008 as set forth in more detail below under *Pro Forma Financial Information*. The company anticipates these proceeds will be used to support the company's capital levels and used by Cadence Bank, N.A. as needed to support its growth through meeting the loan demand of its customer base and assisting in maintaining a strong capital position for Cadence Bank. A portion of those funds may be retained by the company to assure its ability to satisfy the dividend payments on the senior preferred stock. The company has not yet determined any specific allocation for the capital, as it is unsure of the amount, if any, that will be received from the Department of Treasury.

Assuming that participation in the CPP is not completed, the board of directors would be permitted to issue preferred stock from time to time for any proper corporate purpose, including acquisitions of other businesses or

properties and the raising of additional capital. Shares of preferred stock could be issued publicly or privately, in one or more series that could rank senior to the company's common stock with respect to dividends and liquidation rights. There are no present plans, understandings or agreements for, and the company is not engaged in any negotiations that will involve, the issuance of preferred stock.

#### **Effects of Issuing Preferred Stock**

The issuance of shares of preferred stock will generally dilute the ownership interests of the current common shareholders, and the mere ability of the board of directors of the company to issue preferred stock may discourage hostile tender offers for the company's common stock or be viewed as an anti-takeover device. The amendment is not presently intended for that purpose and is not proposed in response to any specific takeover threat known to the board of directors. Furthermore, this proposal is not part of any plan by the board of directors to adopt anti-takeover devices, and the board of directors currently has no present intention of proposing anti-takeover measures in the near future. In addition, any such issuance of preferred stock in the takeover context would be subject to compliance by the board of directors with applicable principles of fiduciary duty. Additionally, the issuance of shares of preferred stock with certain rights, preferences and privileges senior to those held by the company's common shareholders could diminish their rights to receive dividends, if declared by the board of directors, and to receive payments upon the company's liquidation.

The board of directors believes that the financial flexibility offered by the preferred stock outweighs any of its disadvantages. To the extent the proposal may have anti-takeover effects, the proposal may encourage persons seeking to acquire the company to negotiate directly with the board of directors, enabling the board of directors to consider the proposed transaction in a non-disruptive atmosphere and to discharge effectively its obligation to act on the proposed transaction in a manner that best serves all the shareholders' interests. It is also the view of the board of directors that the existence of preferred stock should not discourage anyone from proposing a merger or other transaction at a price reflective of the company's true value and which is in the interests of its shareholders.

A copy of the term sheet for the CPP is attached to this proxy as Annex A and a copy of the amendment is attached to this proxy as Annex B. The amendment to the Articles is being submitted for your approval pursuant to the Mississippi Code of 1972, as amended, and SEC rules.

#### **No Appraisal Rights**

Under Mississippi law, the company's shareholders are not entitled to appraisal rights with respect to the company's authorization or issuance of preferred stock.

#### **Vote Required**

The approval of the amendment to the Articles requires the affirmative vote of the holders of a majority of the shares represented at the special meeting, in person or by proxy, and entitled to vote. For the approval of the amendment to the Articles, you may vote FOR or AGAINST or abstain from voting. If you hold your shares in your own name and abstain from voting on this matter, your abstention will have the effect of a negative vote. If you hold your shares through a broker, bank, trustee or other nominee and you do not instruct them on how to vote on this proposal, your broker or other nominee will not have authority to vote your shares. Broker non-votes will have no effect on the approval of this proposal.

#### **Board Recommendation**

The board of directors recommends a vote FOR the amendment to the Articles.

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**PRO FORMA FINANCIAL INFORMATION**

The unaudited pro forma condensed consolidated financial data set forth below has been derived by the application of pro forma adjustments to the company's historical financial statements for the year ended December 31, 2007 and the nine months ended September 30, 2008. The unaudited pro forma consolidated financial data gives effect to the events discussed below as if they had occurred on January 1, 2007 in the case of the statement of income data and September 30, 2008 in the case of the balance sheet data.

The issuance of \$15 million (minimum estimated proceeds) or \$44 million (maximum estimated proceeds) of preferred stock to the Department of Treasury under the CPP.

The issuance of warrants to purchase 298,000 shares of the company's common stock (minimum estimated warrants to be issued) or warrants to purchase 874,000 shares of the company's common stock (maximum estimated warrants to be issued) assuming a purchase price of \$7.55 per share (trailing 20-day average share price as of November 14, 2008).

The proceeds of the CPP are assumed to be initially invested in federal funds sold, earning a rate of 1.00%. Subsequent redeployment of the funds is anticipated, but the timing of such redeployment is uncertain.

The company presents two sets of unaudited pro forma consolidated balance sheet data, including selected line items from its balance sheet and selected capital ratios, as of September 30, 2008. The company also presents two sets of unaudited pro forma condensed consolidated income statements for the year ended December 31, 2007 and the nine months ended September 30, 2008. In each presentation, the company assumes, in one case, that the company receives the minimum estimated proceeds from the sale of preferred stock and issues the minimum number of warrants under the CPP and, in the other, that the company receives the maximum estimated proceeds from the sale of preferred stock and issues the maximum number of warrants under the CPP. The pro forma financial data may change materially in both cases based on the actual proceeds received under the CPP if the company's application is approved by the Department of Treasury, the timing and utilization of the proceeds as well as certain other factors including the strike price of the warrants, any subsequent changes in the company's common stock price, and the discount rate used to determine the fair value of the preferred stock.

The information should be read in conjunction with the company's audited financial statements and the related notes as filed as part of its Annual Report on Form 10-K for the year ended December 31, 2007, and its unaudited consolidated financial statements and the related notes filed as part of its Quarterly Report on Form 10-Q for the quarter ended September 30, 2008.

The following unaudited pro forma consolidated financial data is not necessarily indicative of the company's financial position or results of operations that actually would have been attained had proceeds from the CPP been received, or the issuance of the warrants pursuant to the CPP been made, at the dates indicated, and is not necessarily indicative of the company's financial position or results of operations that will be achieved in the future. In addition, as noted above, the company's application to participate in the CPP has not been approved by the Department of Treasury. Accordingly, the company can provide no assurance that the minimum or maximum estimated proceeds included in the following unaudited pro forma financial data will ever be received.

The company has included the following unaudited pro forma consolidated financial data solely for the purpose of providing shareholders with information that may be useful for purposes of considering and evaluating the proposals to amend the Articles. The company's future results are subject to prevailing economic and industry specific conditions and financial, business and other known and unknown risks and uncertainties, certain of which are beyond its control. These factors include, without limitation, those described in this Proxy Statement and those described under Part I, Item 1A of the company's Annual Report on Form 10-K for the year ended December 31, 2007, in Part II, Item 1A of the company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 and in the company's other reports filed with the SEC, which are specifically incorporated by reference in this Proxy Statement.

## Cadence Financial Corporation

## Pro Forma Consolidated Balance Sheet Data and Capital Ratios

(amounts in thousands)

	Historical	September 30, 2008	
		Minimum(1)	As Adjusted Maximum(2) (unaudited)
<b>Balance Sheet:</b>			
Total assets(3)	\$ 1,985,081	\$ 2,000,081	\$ 2,029,081
Total liabilities	\$ 1,799,195	\$ 1,799,195	\$ 1,799,195
Total shareholders equity	\$ 185,886	\$ 200,886	\$ 229,886
<b>Capital Ratios:</b>			
Total risk-based capital to risk-weighted assets ratio	11.40%	12.39%	14.31%
Tier 1 capital ratio	10.16%	11.16%	13.08%
Leverage ratio	7.76%	8.48%	9.83%
Equity to assets ratio	9.36%	10.04%	11.33%
Tangible equity to tangible assets ratio	6.10%	6.83%	8.21%

- (1) Pro forma impact assuming minimum estimated proceeds from the issuance of preferred stock (\$15 million).  
(2) Pro forma impact assuming maximum estimated proceeds from the issuance of preferred stock (\$44 million).  
(3) Assumes that proceeds are initially invested in federal funds sold.

## Cadence Financial Corporation

## Pro Forma Condensed Consolidated Statements of Income

## Pro Forma Impact of Minimum Estimated Proceeds (\$15 million)/Warrants (for 298,000 shares)

(amounts in thousands, except per share data)

	Historical Twelve Months Ended December 31, 2007	Adjustments (unaudited)	Pro Forma Twelve Months Ended December 31, 2007
Net interest income	\$ 57,268	\$ 150(1)	\$ 57,418
Provision for loan losses	8,130		8,130
Net interest income after provision for loan losses	49,138	150	49,288
Noninterest income	17,485		17,485
Noninterest expense	54,042		54,042
Income before income taxes	12,581	150	12,731
Income tax expense	2,788	57(2)	2,845
Net income	9,793	93	9,886
Less: preferred dividends		890(3)	890
Net income available to common shareholders	9,793	(797)	8,996
Earnings per share available to common shareholders			
Basic	\$ 0.82	\$ (0.06)	\$ 0.76
Diluted	\$ 0.82	\$ (0.07)	\$ 0.75
Weighted average shares outstanding			
Basic	11,895,557		11,895,557
Diluted	11,914,499	109,720(4)	12,024,219

- (1) Assumes that the minimum estimated CPP proceeds are assumed to be initially invested in federal funds sold, earning at a rate of 1.00%. An incremental tax rate of 38% was assumed. The actual impact to net interest income is expected to be different as the company plans to utilize a portion of the proceeds to fund loan growth. However, such impact cannot be estimated at this time as the impact would vary based on the timing of when the loans are funded and the actual pricing of any such loans.
- (2) Additional income tax expense is attributable to additional net interest income as described in Note 1.
- (3) Consists of dividends on preferred stock at a 5% annual rate as well as accretion on discount on preferred stock upon issuance. The discount is determined based on the value that is allocated to the warrants upon issuance. The discount is accreted back to par value on a constant effective yield method (approximately 6.27%) over a five year term, which is the expected life of the preferred stock upon issuance. The estimated accretion is based on a number of assumptions which are subject to change. These assumptions include the discount (market rate at issuance) rate on the preferred stock, and assumptions underlying the value of the warrants. The estimated proceeds are allocated based on the relative fair value of the warrants as compared to the fair value of the preferred stock. The fair value of the warrants is determined under a Black-Scholes model. The model includes assumptions regarding the company's common stock price, dividend yield, stock price volatility, as well as assumptions regarding the risk-free interest rate. The lower the value of the warrants, the less negative impact on net income and earnings per share available to common shareholders. The fair value of the preferred stock is determined based on assumptions regarding the discount rate (market rate) on the preferred stock (currently estimated at 14%). The lower the discount rate, the less negative impact on net income and earnings per share available to common shareholders.
- (4) As described under Proposal One, if the company is approved to participate in the CPP, the Department of Treasury would receive warrants to purchase a number of shares of the company's common stock having an aggregate market price equal to 15% of the proceeds on the date of issuance with a strike price equal to the trailing twenty day trading average leading up to the closing date. This pro forma assumes that the warrants would give the Department of Treasury the option to purchase 298,000 shares of the company's common stock.

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The pro forma adjustment shows the increase in diluted common shares outstanding assuming that the warrants had been issued on January 1, 2007 at a strike price of \$7.55 (based on the company's trailing 20-day average share price as of November 14, 2008) and remained outstanding for the entire period presented. The treasury stock method was utilized to determine dilution of the warrants for the period presented. The strike price of \$7.55 was compared to the company's average common stock price during 2007.



## Cadence Financial Corporation

## Pro Forma Condensed Consolidated Statements of Income

## Pro Forma Impact of Maximum Estimated Proceeds (\$44 million)/Warrants (for 874,000 shares)

(amounts in thousands, except per share data)

	Historical Twelve Months Ended December 31, 2007	Adjustments (unaudited)	Pro Forma Twelve Months Ended December 31, 2007
Net interest income	\$ 57,268	\$ 440(1)	\$ 57,708
Provision for loan losses	8,130		8,130
Net interest income after provision for loan losses	49,138	440	49,578
Noninterest income	17,485		17,485
Noninterest expense	54,042		54,042
Income before income taxes	12,581	440	13,021
Income tax expense	2,788	167(2)	2,955
Net income	9,793	273	10,066
Less: preferred dividends		2,611(3)	2,611
Net income available to common shareholders	9,793	(2,338)	7,455
Earnings per share available to common shareholders			
Basic	\$ 0.82	\$ (0.19)	\$ 0.63
Diluted	\$ 0.82	\$ (0.23)	\$ 0.59
Weighted average shares outstanding			
Basic	11,895,557		11,895,557
Diluted	11,914,499	674,668(4)	12,589,167

- (1) Assumes that the maximum estimated CPP proceeds are assumed to be initially invested in federal funds sold, earning at a rate of 1.00%. An incremental tax rate of 38% was assumed. The actual impact to net interest income is expected to be different as the company plans to utilize a portion of the proceeds to fund loan growth. However, such impact cannot be estimated at this time as the impact would vary based on the timing of when the loans are funded and the actual pricing of any such loans.
- (2) Additional income tax expense is attributable to additional net interest income as described in Note 1.
- (3) Consists of dividends on preferred stock at a 5% annual rate as well as accretion on discount on preferred stock upon issuance. The discount is determined based on the value that is allocated to the warrants upon issuance. The discount is accreted back to par value on a constant effective yield method (approximately 6.27%) over a five year term, which is the expected life of the preferred stock upon issuance. The estimated accretion is based on a number of assumptions which are subject to change. These assumptions include the discount (market rate at issuance) rate on the preferred stock, and assumptions underlying the value of the warrants. The estimated proceeds are allocated based on the relative fair value of the warrants as compared to the fair value of the preferred stock. The fair value of the warrants is determined under a Black-Scholes model. The model includes assumptions regarding the company's common stock price, dividend yield, stock price volatility, as well as assumptions regarding the risk-free interest rate. The lower the value of the warrants, the less negative impact on net income and earnings per share available to common shareholders. The fair value of the preferred stock is determined based on assumptions regarding the discount rate (market rate) on the preferred stock (currently estimated at 14%). The lower the discount rate, the less negative impact on net income and earnings per share available to common shareholders.
- (4) As described under Proposal One, if the company is approved to participate in the CPP, the Department of Treasury would receive warrants to purchase a number of shares of the company's common stock having an aggregate market price equal to 15% of the proceeds on the date of issuance with a strike price equal to the trailing twenty day trading average leading up to the closing date. This pro forma assumes that the warrants would give the Department of Treasury the option to purchase 874,000 million shares of the company's common

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stock. The pro forma adjustment shows the increase in diluted common shares outstanding assuming that the warrants had been issued on January 1, 2007 at a strike price of \$7.55 (based on the company's trailing 20-day average common share price as of November 14, 2008) and remained outstanding for the entire period presented. The treasury stock method was utilized to determine dilution of the warrants for the period presented.

## Cadence Financial Corporation

## Pro Forma Condensed Consolidated Statements of Income

## Pro Forma Impact of Minimum Estimated Proceeds (\$15 million)/Warrants (for 298,000 shares)

(amounts in thousands, except per share data)

	Historical Nine Months Ended September 30, 2008	Adjustments (unaudited)	Pro Forma Nine Months Ended September 30, 2008
Net interest income	\$ 42,100	\$ 112(1)	\$ 42,212
Provision for loan losses	18,003		18,003
Net interest income after provision for loan losses	24,097	112	24,209
Noninterest income	17,348		17,348
Noninterest expense	44,654		44,654
Income (loss) before income taxes	(3,209)	112	(3,097)
Income tax expense (benefit)	(2,569)	43(2)	(2,526)
Net income (loss)	(640)	69	(571)
Less: preferred dividends		667(3)	667
Net income (loss) available to common shareholders	(640)	(598)	(1,238)
Earnings (loss) per share available to common shareholders			
Basic	\$ (0.05)	\$ (0.05)	\$ (0.10)
Diluted	\$ (0.05)	\$ (0.05)	\$ (0.10)
Weighted average shares outstanding			
Basic	11,906,488		11,906,488
Diluted	11,929,823	77,880(4)	12,007,703

- (1) Assumes that the minimum estimated CPP proceeds are assumed to be initially invested in federal funds sold, earning at a rate of 1.00%. An incremental tax rate of 38% was assumed. The actual impact to net interest income is expected to be different as the company plans to utilize a portion of the proceeds to fund loan growth. However, such impact cannot be estimated at this time as the impact would vary based on the timing of when the loans are funded and the actual pricing of any such loans.
- (2) Additional income tax expense is attributable to additional net interest income as described in Note 1.
- (3) Consists of dividends on preferred stock at a 5% annual rate as well as accretion on discount on preferred stock upon issuance. The discount is determined based on the value that is allocated to the warrants upon issuance. The discount is accreted back to par value on a constant effective yield method (approximately 6.27%) over a five year term, which is the expected life of the preferred stock upon issuance. The estimated accretion is based on a number of assumptions which are subject to change. These assumptions include the discount (market rate at issuance) rate on the preferred stock, and assumptions underlying the value of the warrants. The estimated proceeds are allocated based on the relative fair value of the warrants as compared to the fair value of the preferred stock. The fair value of the warrants is determined under a Black-Scholes model. The model includes assumptions regarding the company's common stock price, dividend yield, stock price volatility, as well as assumptions regarding the risk-free interest rate. The lower the value of the warrants, the less negative impact on net income and earnings per share available to common shareholders. The fair value of the preferred stock is determined based on assumptions regarding the discount rate (market rate) on the preferred stock (currently estimated at 14%). The lower the discount rate, the less negative impact on net income and earnings per share available to common shareholders.
- (4) As described under Proposal One, if the company is approved to participate in the CPP, the Department of Treasury would receive warrants to purchase a number of shares of the company's common stock having an aggregate market price equal to 15% of the proceeds on the date of issuance with a strike price equal to the trailing twenty day trading average leading up to the closing date. This pro forma

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assumes that the warrants would give the Department of Treasury the option to purchase 298,000 million shares of the company's common stock. The pro forma adjustment shows the increase in diluted common shares outstanding assuming that the warrants had been issued on January 1, 2008 at a strike price of \$7.55 (based on the company's trailing 20-day average common share price as of November 14, 2008) and remained outstanding for the entire period presented. The treasury stock method was utilized to determine dilution of the warrants for the period presented.

## Cadence Financial Corporation

## Pro Forma Condensed Consolidated Statements of Income

## Pro Forma Impact of Maximum Estimated Proceeds (\$44 million)/Warrants (for 874,000 shares)

(amounts in thousands, except per share data)

	Historical Nine Months Ended September 30, 2008	Adjustments (unaudited)	Pro Forma Nine Months Ended September 30, 2008
Net interest income	\$ 42,100	\$ 330(1)	\$ 42,430
Provision for loan losses	18,003		18,003
Net interest income after provision for loan losses	24,097	330	24,427
Noninterest income	17,348		17,348
Noninterest expense	44,654		44,654
Income (loss) before income taxes	(3,209)	330	(2,879)
Income tax expense (benefit)	(2,569)	125(2)	(2,444)
Net income (loss)	(640)	205	(435)
Less: preferred dividends		1,958(3)	1,958
Net income (loss) available to common shareholders	(640)	(1,753)	(2,393)
Earnings (loss) per share available to common shareholders			
Basic	\$ (0.05)	\$ (0.15)	\$ (0.20)
Diluted	\$ (0.05)	\$ (0.15)	\$ (0.20)
Weighted average shares outstanding			
Basic	11,906,488		11,906,488
Diluted	11,929,823	228,412(4)	12,158,235

- (1) Assumes that the maximum estimated CPP proceeds are assumed to be initially invested in federal funds sold, earning at a rate of 1.00%. An incremental tax rate of 38% was assumed. The actual impact to net interest income is expected to be different as the company plans to utilize a portion of the proceeds to fund loan growth. However, such impact cannot be estimated at this time as the impact would vary based on the timing of when the loans are funded and the actual pricing of any such loans.
- (2) Additional income tax expense is attributable to additional net interest income as described in Note 1.
- (3) Consists of dividends on preferred stock at a 5% annual rate as well as accretion on discount on preferred stock upon issuance. The discount is determined based on the value that is allocated to the warrants upon issuance. The discount is accreted back to par value on a constant effective yield method (approximately 6.27%) over a five year term, which is the expected life of the preferred stock upon issuance. The estimated accretion is based on a number of assumptions which are subject to change. These assumptions include the discount (market rate at issuance) rate on the preferred stock, and assumptions underlying the value of the warrants. The estimated proceeds are allocated based on the relative fair value of the warrants as compared to the fair value of the preferred stock. The fair value of the warrants is determined under a Black-Scholes model. The model includes assumptions regarding the company's common stock price, dividend yield, stock price volatility, as well as assumptions regarding the risk-free interest rate. The lower the value of the warrants, the less negative impact on net income and earnings per share available to common shareholders. The fair value of the preferred stock is determined based on assumptions regarding the discount rate (market rate) on the preferred stock (currently estimated at 14%). The lower the discount rate, the less negative impact on net income and earnings per share available to common shareholders.
- (4) As described under Proposal One, if the company is approved to participate in the CPP, the Department of Treasury would receive warrants to purchase a number of shares of the company's common stock having an aggregate market price equal to 15% of the proceeds on the date of issuance with a strike price equal to the trailing twenty day trading average leading up to the closing date. This pro forma

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assumes that the warrants would give the Department of Treasury the option to purchase 874,000 million shares of the company's common stock. The pro forma adjustment shows the increase in diluted common shares outstanding assuming that the warrants had been issued on January 1, 2008 at a strike price of \$7.55 (based on the company's trailing 20-day average common share price as of November 14, 2008) and remained outstanding for the entire period presented. The treasury stock method was utilized to determine dilution of the warrants for the period presented.

**INCORPORATION BY REFERENCE**

The Securities and Exchange Commission allows the company to incorporate by reference information into this proxy statement, which means that the company can disclose important information to you by referring you to another document the company has filed separately with the Securities and Exchange Commission. The information incorporated by reference is deemed to be part of this proxy statement.

This proxy statement incorporates by reference the following items of Part II of the company's annual report on Form 10-K for the fiscal year ended December 31, 2007:

Item 6. Selected Financial Data;

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations;

Item 7A. Quantitative Disclosures About Market Risk; and

Item 8. Financial Statements and Supplementary Data.

This proxy statement also incorporates by reference the following items of Part I of the company's quarterly reports on Form 10-Q filed with the Securities and Exchange Commission for the periods ended March 31, 2008, June 30, 2008 and September 30, 2008:

Item 1. Unaudited Consolidated Financial Statements; and

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

**PROPOSALS OF SHAREHOLDERS**

In order to have a proposal included in the proxy materials for this special meeting, shareholders needed to submit such proposal a reasonable time before the company began to print and mail the proxy materials.

**AVAILABILITY OF ANNUAL REPORT ON FORM 10-K**

Upon the written request of any record holder or beneficial owner of the shares entitled to vote at the special meeting, the company, without charge, will provide a copy of its annual report on Form 10-K for the year ended December 31, 2007, which was filed with the Securities and Exchange Commission on March 13, 2008. Requests should be mailed to Richard T. Haston, Executive Vice President and Chief Financial Officer, at P.O. Box 1187, Starkville, Mississippi, 39760.

BY ORDER OF THE BOARD OF DIRECTORS

**Lewis F. Mallory, Jr.**

**Chairman and Chief Executive Officer**

Starkville, Mississippi

November 19, 2008





**Terms of TARP Capital Purchase Program****Senior Preferred Stock and Warrants****Summary of Senior Preferred Terms**

**Issuer:** Qualifying Financial Institution ( QFI ) means (i) any U.S. bank or U.S. savings association not controlled by a Bank Holding Company ( BHC ) or Savings and Loan Holding Company ( SLHC ); (ii) any U.S. BHC, or any U.S. SLHC which engages only in activities permitted for financial holdings companies under Section 4(k) of the Bank Holding Company Act, and any U.S. bank or U.S. savings association controlled by such a qualifying U.S. BHC or U.S. SLHC; and (iii) any U.S. BHC or U.S. SLHC whose U.S. depository institution subsidiaries are the subject of an application under Section 4(c)(8) of the Bank Holding Company Act; except that QFI shall not mean any BHC, SLHC, bank or savings association that is controlled by a foreign bank or company. For purposes of this program, U.S. bank , U.S. savings association , U.S. BHC and U.S. SLHC means a bank, savings association, BHC or SLHC organized under the laws of the United States or any State of the United States, the District of Columbia, any territory or possession of the United States, Puerto Rico, Northern Mariana Islands, Guam, American Samoa, or the Virgin Islands. **The United States Department of the Treasury will determine eligibility and allocation for QFIs after consultation with the appropriate Federal banking agency.**

**Initial Holder:** United States Department of the Treasury (the UST ).

**Size:** QFIs may sell preferred to the UST subject to the limits and terms described below. Each QFI may issue an amount of Senior Preferred equal to not less than 1% of its risk-weighted assets and not more than the lesser of (i) \$25 billion and (ii) 3% of its risk-weighted assets.

**Security:** Senior Preferred, liquidation preference \$1,000 per share. (Depending upon the QFI s available authorized preferred shares, the UST may agree to purchase Senior Preferred with a higher liquidation preference per share, in which case the UST may require the QFI to appoint a depository to hold the Senior Preferred and issue depository receipts.)

**Ranking:** Senior to common stock and pari passu with existing preferred shares other than preferred shares which by their terms rank junior to any existing preferred shares.

**Regulatory Capital Status:** Tier 1.

**Term:** Perpetual life.

**Dividend:** The Senior Preferred will pay cumulative dividends at a rate of 5% per annum until the fifth anniversary of the date of this investment and thereafter at a rate of 9% per annum. For Senior Preferred issued by banks which are not subsidiaries of holding companies, the Senior Preferred will pay non-cumulative dividends at a rate of 5% per annum until the fifth anniversary of the date of this investment and thereafter at a rate of 9% per annum. Dividends will be payable quarterly in arrears on February 15, May 15, August 15 and November 15 of each year.

**Redemption:** Senior Preferred may not be redeemed for a period of three years from the date of this investment, except with the proceeds from a Qualified Equity Offering (as defined below) which results in aggregate gross proceeds to the QFI of not less than 25% of the issue price of the Senior Preferred. After the third anniversary of the date of this investment, the Senior Preferred may be redeemed, in whole or in part, at any time and from time to time, at the option of the QFI. All redemptions of the Senior Preferred shall be at 100% of its issue price, plus (i) in the case of cumulative Senior Preferred, any accrued and unpaid dividends and (ii) in the case of noncumulative Senior Preferred, accrued and unpaid dividends for the then current dividend period (regardless of whether any dividends are actually declared for such dividend period), and shall be subject to the approval of the QFI s primary

federal bank regulator. **Qualified Equity Offering** shall mean the sale by the QFI after the date of this investment of Tier 1 qualifying perpetual preferred stock or common stock for cash. Following the redemption in whole of the Senior Preferred held by the UST, the QFI shall have the right to repurchase any other equity security of the QFI held by the UST at fair market value.

**Restrictions on Dividends:** For as long as any Senior Preferred is outstanding, no dividends may be declared or paid on junior preferred shares, preferred shares ranking pari passu with the Senior Preferred, or common shares (other than in the case of pari passu preferred shares, dividends on a pro rata basis with the Senior Preferred), nor may the QFI repurchase or redeem any junior preferred shares, preferred shares ranking pari passu with the Senior Preferred or common shares, unless (i) in the case of cumulative Senior Preferred all accrued and unpaid dividends for all past dividend periods on the Senior Preferred are fully paid or (ii) in the case of non-cumulative Senior Preferred the full dividend for the latest completed dividend period has been declared and paid in full.

**Common dividends:** The UST's consent shall be required for any increase in common dividends per share until the third anniversary of the date of this investment unless prior to such third anniversary the Senior Preferred is redeemed in whole or the UST has transferred all of the Senior Preferred to third parties.

**Repurchases:** The UST's consent shall be required for any share repurchases (other than (i) repurchases of the Senior Preferred and (ii) repurchases of junior preferred shares or common shares in connection with any benefit plan in the ordinary course of business consistent with past practice) until the third anniversary of the date of this investment unless prior to such third anniversary the Senior Preferred is redeemed in whole or the UST has transferred all of the Senior Preferred to third parties. In addition, there shall be no share repurchases of junior preferred shares, preferred shares ranking pari passu with the Senior Preferred, or common shares if prohibited as described above under **Restrictions on Dividends**.

**Voting rights:** The Senior Preferred shall be non-voting, other than class voting rights on (i) any authorization or issuance of shares ranking senior to the Senior Preferred, (ii) any amendment to the rights of Senior Preferred, or (iii) any merger, exchange or similar transaction which would adversely affect the rights of the Senior Preferred. If dividends on the Senior Preferred are not paid in full for six dividend periods, whether or not consecutive, the Senior Preferred will have the right to elect 2 directors. The right to elect directors will end when full dividends have been paid for four consecutive dividend periods.

**Transferability:** The Senior Preferred will not be subject to any contractual restrictions on transfer. The QFI will file a shelf registration statement covering the Senior Preferred as promptly as practicable after the date of this investment and, if necessary, shall take all action required to cause such shelf registration statement to be declared effective as soon as possible. The QFI will also grant to the UST piggyback registration rights for the Senior Preferred and will take such other steps as may be reasonably requested to facilitate the transfer of the Senior Preferred including, if requested by the UST, using reasonable efforts to list the Senior Preferred on a national securities exchange. If requested by the UST, the QFI will appoint a depositary to hold the Senior Preferred and issue depositary receipts.

**Executive Compensation:** As a condition to the closing of this investment, the QFI and its senior executive officers covered by the EESA shall modify or terminate all benefit plans, arrangements and agreements (including golden parachute agreements) to the extent necessary to be in compliance with, and following the closing and for so long as UST holds any equity or debt securities of the QFI, the QFI shall agree to be bound by, the executive compensation and corporate governance requirements of Section 111 of the EESA and any guidance or regulations issued by the Secretary of the Treasury on or prior to the date of this investment to carry out the provisions of such subsection. As an additional condition to closing, the QFI and its senior executive officers covered by the EESA shall grant to the UST a waiver releasing the UST from any claims that the QFI and such senior executive officers may otherwise have as a result of the issuance of any regulations which modify the terms of benefits plans, arrangements and agreements to eliminate any provisions that would not be in compliance with the executive compensation and corporate governance requirements of Section 111 of the EESA.

and any guidance or regulations issued by the Secretary of the Treasury on or prior to the date of this investment to carry out the provisions of such subsection.

### Summary of Warrant Terms

**Warrant:** The UST will receive warrants to purchase a number of shares of common stock of the QFI having an aggregate market price equal to 15% of the Senior Preferred amount on the date of investment, subject to reduction as set forth below under **Reduction**. The initial exercise price for the warrants, and the market price for determining the number of shares of common stock subject to the warrants, shall be the market price for the common stock on the date of the Senior Preferred investment (calculated on a 20-trading day trailing average), subject to customary anti-dilution adjustments. The exercise price shall be reduced by 15% of the original exercise price on each six-month anniversary of the issue date of the warrants if the consent of the QFI shareholders described below has not been received, subject to a maximum reduction of 45% of the original exercise price.

**Term:** 10 years

**Exercisability:** Immediately exercisable, in whole or in part

**Transferability:** The warrants will not be subject to any contractual restrictions on transfer; provided that the UST may only transfer or exercise an aggregate of one half of the warrants prior to the earlier of (i) the date on which the QFI has received aggregate gross proceeds of not less than 100% of the issue price of the Senior Preferred from one or more Qualified Equity Offerings and (ii) December 31, 2009. The QFI will file a shelf registration statement covering the warrants and the common stock underlying the warrants as promptly as practicable after the date of this investment and, if necessary, shall take all action required to cause such shelf registration statement to be declared effective as soon as possible. The QFI will also grant to the UST piggyback registration rights for the warrants and the common stock underlying the warrants and will take such other steps as may be reasonably requested to facilitate the transfer of the warrants and the common stock underlying the warrants. The QFI will apply for the listing on the national exchange on which the QFI's common stock is traded of the common stock underlying the warrants and will take such other steps as may be reasonably requested to facilitate the transfer of the warrants or the common stock.

**Voting:** The UST will agree not to exercise voting power with respect to any shares of common stock of the QFI issued to it upon exercise of the warrants.

**Reduction:** In the event that the QFI has received aggregate gross proceeds of not less than 100% of the issue price of the Senior Preferred from one or more Qualified Equity Offerings on or prior to December 31, 2009, the number of shares of common stock underlying the warrants then held by the UST shall be reduced by a number of shares equal to the product of (i) the number of shares originally underlying the warrants (taking into account all adjustments) and (ii) 0.5.

**Consent:** In the event that the QFI does not have sufficient available authorized shares of common stock to reserve for issuance upon exercise of the warrants and/or shareholder approval is required for such issuance under applicable stock exchange rules, the QFI will call a meeting of its shareholders as soon as practicable after the date of this investment to increase the number of authorized shares of common stock and/or comply with such exchange rules, and to take any other measures deemed by the UST to be necessary to allow the exercise of warrants into common stock.

**Substitution:** In the event the QFI is no longer listed or traded on a national securities exchange or securities association, or the consent of the QFI shareholders described above has not been received within 18 months after the issuance date of the warrants, the warrants will be exchangeable, at the option of the UST, for senior term debt or another economic instrument or security of the QFI such that the UST is appropriately compensated for the value of the warrant, as determined by the UST.

**ARTICLES OF AMENDMENT**  
**TO**  
**ARTICLES OF INCORPORATION**  
**OF**  
**CADENCE FINANCIAL CORPORATION**

Pursuant to the provisions of Section 79-4-103 of the Mississippi Code of 1972, as amended (the *Code* ), CADENCE FINANCIAL CORPORATION, a Mississippi corporation (the *Corporation* ), hereby certifies as follows:

**ARTICLE ONE**

The name of the Corporation is CADENCE FINANCIAL CORPORATION.

**ARTICLE TWO**

This amendment to the Corporation's Articles of Incorporation (the *Articles of Incorporation* ) was duly adopted in accordance with Section 79-4-103 of the Code by the board of directors on October 16, 2008 and by the shareholders of the Corporation at a meeting of the shareholders held on December 18, 2008.

**ARTICLE THREE**

Section 5 of the Articles of Incorporation is deleted and replaced in its entirety as follows:

5. (a) The maximum number of shares, which the Corporation shall have authority to issue, is 60,000,000 shares consisting of (i) 50,000,000 shares of common stock, par value \$1.00 per share (the *Common Stock* ), and (ii) 10,000,000 shares of preferred stock, par value \$10.00 per share (the *Preferred Stock* ).

(b) (i) Preferred Stock may be issued from time to time either as a class without series or as a class having one or more series. All shares of Preferred Stock, if issued as a class without series, or all shares of Preferred Stock of any one series, if issued in series, shall be identical to each other in all respects and shall entitle the holders thereof to the same rights and privileges, except that shares of any one series issued at different times may differ as to the dates from which dividends thereon, if cumulative, shall be cumulative.

(ii) The Board of Directors is hereby expressly vested with the authority to adopt a resolution or resolutions providing for the issuance of authorized but unissued shares of Preferred Stock and to fix in any such resolution or resolutions the designations, rights, voting rights, and relative, participating, optional or other special rights, if any, of such class or series of Preferred Stock and the qualifications, limitations or restrictions of any such class or series of Preferred Stock (a *Preferred Stock Resolution* ). The authority of the Board of Directors to issue Preferred Stock shall include, without limitation, the power and authority to determine and establish by a Preferred Stock Resolution the following:

(1) Voting rights, if any, including, without limitation, the authority to confer multiple votes per share, voting rights as to specified matters or issues or, subject to the provisions hereof, voting rights to be exercised either together with the holders of Common Stock as a single class, or independently as a separate class;

- (2) The rate per annum and the times at and conditions upon which the holders of shares of such class or series shall be entitled to receive dividends, the conditions and dates upon which such dividends shall be payable and whether such dividends shall be cumulative or noncumulative, and, if cumulative, the terms upon which such dividends shall be cumulative;
- (3) Redemption, repurchase, retirement and sinking fund rights, preferences and limitations, if any, the amount payable on shares of such class or series in the event of such redemption, repurchase or retirement, the terms and conditions of any sinking fund, the manner of creating such fund or funds and whether any of the foregoing shall be cumulative or noncumulative;
- (4) The rights to which the holders of the shares of such class or series shall be entitled upon any voluntary or involuntary liquidation, dissolution or winding up of the Corporation;
- (5) The terms, if any, upon which the shares of such class or series shall be convertible into or exchangeable for shares of stock of any other class or classes or of any other series of the same or any other class or classes, including the price or prices or the rate or rates of conversion or exchange and the terms of adjustment, if any;
- (6) The conditions or restrictions upon the creation of indebtedness of the Corporation or upon the issuance of additional Preferred Stock or other stock ranking on a parity therewith, or senior thereto, with respect to dividends or distribution of assets upon liquidation; and
- (7) The conditions or restrictions with respect to the issuance of, payment of dividends upon, or the making of other distributions to, or the acquisition or redemption of, shares ranking junior to the Preferred Stock or to any series thereof with respect to dividends or distribution of assets upon liquidation.
- (iii) Except as otherwise provided in a Preferred Stock Resolution, the number of shares constituting a series of Preferred Stock may be increased (but not above the total number of authorized shares of the class) or decreased (but not below the number of shares thereof then outstanding) to the fullest extent permitted by law by like action of the Board of Directors.
- (iv) Shares of any series of any Preferred Stock that have been redeemed (whether through the operation of a sinking fund or otherwise), purchased by the Corporation, or which, if convertible or exchangeable, have been converted into, or exchanged for, shares of stock of any other class or classes or any evidences of indebtedness shall resume the status which they had before being designated as part of a class of Preferred Stock and may be redesignated and reissued, all subject to the conditions or restrictions on issuance set forth in the Preferred Stock Resolution relating to any class or series of Preferred Stock and to any filing required by law.

*[Signature page follows]*

IN WITNESS WHEREOF, the undersigned, being the duly authorized Chairman & Chief Executive Officer of the Corporation, for the purpose of amending the Articles of Incorporation pursuant to Section 79-4-103 of the Code, does make and file these Articles of Amendment this 18th day of December, 2008.

**CADENCE FINANCIAL CORPORATION**

By: /s/ Lewis F. Mallory, Jr.

Lewis F. Mallory, Jr.  
Chairman and Chief Executive Officer

