CADENCE FINANCIAL CORP
Form 10-Q
May 09, 2007

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D. C. 20549**

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended March 31, 2007**

**OR**

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

**Commission File Number: 1-15773**

# CADENCE FINANCIAL CORPORATION

**(Exact name of registrant as specified in its charter.)**

| | |
|---|---|
| **Mississippi** | **64-0694775** |
| **(State or other jurisdiction of incorporation or organization)** | **(I. R. S. Employer Identification No.)** |
| **301 East Main Street, P. O. Box 1187, Starkville, Mississippi** | **39760** |
| **(Address of principal executive offices)** | **(Zip Code)** |

**Registrant s telephone number, including area code: (662) 323-1341**

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 x No ¨

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, $1 Par Value 11,894,932 shares as of March 31, 2007.

**PART I - FINANCIAL INFORMATION**

**CADENCE FINANCIAL CORPORATION**

**CONSOLIDATED STATEMENTS OF INCOME**

**FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006**

**(Unaudited)**

| **(Amounts in thousands, except per share data)** | **2007** | **2006** |
|---|---|---|
| ***INTEREST INCOME*** | | |
| Interest and fees on loans | $ 23,972 | $ 15,423 |
| Interest and dividends on securities | 5,178 | 5,019 |
| Other interest income | 315 | 169 |
| Total interest income | 29,465 | 20,611 |
| ***INTEREST EXPENSE*** | | |
| Interest on deposits | 12,735 | 6,613 |
| Interest on borrowed funds | 3,031 | 2,256 |
| Total interest expense | 15,766 | 8,869 |
| Net interest income | 13,699 | 11,742 |
| Provision for loan losses | 1,229 | 401 |
| Net interest income after provision for loan losses | 12,470 | 11,341 |
| ***OTHER INCOME*** | | |
| Service charges on deposit accounts | 2,153 | 1,985 |
| Insurance commissions, fees and premiums | 1,501 | 1,125 |
| Trust Department income | 612 | 526 |
| Mortgage loan fees | 343 | 140 |
| Other income | 925 | 967 |
| Securities gains (losses), net | 734 | 2 |
| Total other income | 6,268 | 4,745 |
| ***OTHER EXPENSE*** | | |
| Salaries and employee benefits | 7,776 | 6,792 |
| Premises and fixed asset expense | 2,048 | 1,576 |
| Other expense | 3,634 | 3,266 |
| Total other expense | 13,458 | 11,634 |
| Income before income taxes | 5,280 | 4,452 |
| Income taxes | 1,597 | 1,202 |
| Net income | $ 3,683 | $ 3,250 |
| Net income per share: | | |
| Basic | $ 0.31 | $ 0.40 |

| | | | | |
|---|---|---|---|---|
| Diluted | $ | 0.31 | $ | 0.40 |
| Dividends per common share | $ | 0.25 | $ | 0.25 |

2

**CADENCE FINANCIAL CORPORATION**

**CONSOLIDATED BALANCE SHEETS**

| **(In thousands)** | **March 31, 2007 (Unaudited)** | **Dec. 31, 2006** |
|---|---|---|
| ***ASSETS*** | | |
| Cash and due from banks | $ 41,484 | $ 41,124 |
| Interest-bearing deposits with banks | 9,362 | 17,576 |
| Federal funds sold and securities purchased under agreements to resell | 15,963 | 24,804 |
| Total cash and cash equivalents | 66,809 | 83,504 |
| Securities held for trading | 163,223 | |
| Securities available-for-sale | 228,315 | 413,812 |
| Securities held-to-maturity (estimated fair value of $24,919 at March 31, 2007 and $25,057 at December 31, 2006) | 23,493 | 23,478 |
| Other securities | 11,892 | 11,290 |
| Total securities | 426,923 | 448,580 |
| Loans | 1,246,612 | 1,222,946 |
| Less: allowance for loan losses | (12,909) | (12,236) |
| Net loans | 1,233,703 | 1,210,710 |
| Interest receivable | 11,156 | 12,345 |
| Premises and equipment, net | 32,897 | 32,535 |
| Goodwill and other intangible assets | 71,035 | 71,342 |
| Other assets | 39,045 | 40,932 |
| Total Assets | $ 1,881,568 | $ 1,899,948 |
| ***LIABILITIES AND SHAREHOLDERS' EQUITY*** | | |
| Liabilities: | | |
| Noninterest-bearing deposits | $ 185,661 | $ 178,018 |
| Interest-bearing deposits | 1,269,621 | 1,282,505 |
| Total deposits | 1,455,282 | 1,460,523 |
| Interest payable | 5,873 | 6,880 |
| Federal funds purchased and securities sold under agreements to repurchase | 86,478 | 80,838 |
| Subordinated debentures | 37,114 | 37,114 |
| Other borrowed funds | 97,511 | 112,664 |
| Other liabilities | 9,684 | 10,664 |
| Total liabilities | 1,691,942 | 1,708,683 |
| Shareholders' Equity: | | |
| Common stock - $1 par value, authorized 50,000,000 shares in 2007 and 2006; issued 11,894,932 shares in 2007 and 11,888,932 shares in 2006 | 11,895 | 11,889 |
| Surplus | 93,142 | 93,122 |
| Retained earnings | 87,834 | 92,947 |
| Accumulated other comprehensive income (loss) | (3,245) | (6,693) |
| Total shareholders' equity | 189,626 | 191,265 |

| | | |
|---|---|---|
| Total Liabilities and Shareholders' Equity | $ 1,881,568 | $ 1,899,948 |

**CADENCE FINANCIAL CORPORATION**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006**

**(Unaudited)**

| **(Amounts in thousands)** | **2007** | **2006** |
|---|---|---|
| ***CASH FLOWS FROM OPERATING ACTIVITIES*** | | |
| Net income | $ 3,683 | $ 3,250 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 1,120 | 866 |
| Deferred income taxes | (787) | 48 |
| Provision for loan losses | 1,229 | 401 |
| Loss (gain) on sale of securities, net | (8) | (2) |
| Loss (gain) on market value adjustment of securities held for trading | (726) | |
| (Increase) decrease in interest receivable | 1,189 | 2 |
| (Increase) decrease in other assets | 1,543 | (1,581) |
| Increase (decrease) in interest payable | (1,007) | 199 |
| Increase (decrease) in other liabilities | (980) | 548 |
| Net cash provided by operating activities | 5,256 | 3,731 |
| ***CASH FLOWS FROM INVESTING ACTIVITIES*** | | |
| Proceeds from maturities and calls of securities | 22,212 | 7,727 |
| Proceeds from sale of securities | 9 | |
| Purchase of securities | (1,163) | (17,026) |
| (Increase) decrease in loans | (24,222) | (1,807) |
| (Additions) disposal of premises and equipment | (1,087) | (2,187) |
| Net cash provided by (used in) investing activities | (4,251) | (13,293) |
| ***CASH FLOWS FROM FINANCING ACTIVITIES*** | | |
| Increase (decrease) in deposits | (5,241) | 22,647 |
| Dividend paid on common stock | (2,974) | (2,043) |
| Increase (decrease) in borrowed funds | (9,513) | 3,404 |
| Other financing activities | 28 | 218 |
| Net cash provided by (used in) financing activities | (17,700) | 24,226 |
| Net increase (decrease) in cash and cash equivalents | (16,695) | 14,664 |
| Cash and cash equivalents at beginning of year | 83,504 | 43,122 |
| Cash and cash equivalents at end of quarter | $ 66,809 | $ 57,786 |
| Cash paid during the period for: | | |
| Interest | $ 16,773 | $ 8,670 |
| Income tax | $ 241 | $ 93 |

**CADENCE FINANCIAL CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The accompanying unaudited consolidated financial statements include the accounts of Cadence Financial Corporation (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. ( Insurance ), a wholly owned subsidiary of Cadence, NBC Service Corporation ( Service ), a wholly owned subsidiary of Cadence, and Commerce National Insurance Company ( CNIC ), a wholly owned subsidiary of Service. All significant intercompany accounts and transactions have been eliminated.

In the normal decision making process, management makes certain estimates and assumptions that affect the reported amounts that appear in these statements. Although management believes that the estimates and assumptions are reasonable and are based on the best information available, actual results could differ.

In the opinion of management, all adjustments necessary for the fair presentation of the financial statements presented in this report have been made. Such adjustments were of a normal recurring nature.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. It is suggested that these financial statements be read in conjunction with the financial statements and notes thereto included in the Corporation s latest annual report on Form 10-K.

Note 1. Recently Issued Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board ( FASB ) issued Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. This Statement allows an irrevocable election to measure certain financial assets and financial liabilities at fair value on an instrument-by-instrument basis, with unrealized gains and losses recognized currently in earnings. Under this Statement, the fair value option may only be elected at the time of initial recognition of a financial asset or financial liability or upon the occurrence of certain specified events. The Statement is effective for fiscal years beginning after November 15, 2007, with early adoption permitted if FASB Statement No. 157, Fair Value Measurements, is adopted concurrently, and if the adoption is made within 120 days of the beginning of the fiscal year and before any periodic financial statements are issued. The Corporation elected early adoption of FASB Statement No. 159 and adopted FASB Statement No. 157, effective January 1, 2007. See Note 10 for additional information.

Note 2. 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. At March 31, 2007, the Corporation had approximately $67.1 million of goodwill on its consolidated balance sheet, which will remain at that level unless it becomes impaired under the definition of impairment in Statement No. 142.

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.

Note 3. Stock Options/Performance Share Grants

The Corporation accounts for stock options in accordance with FASB Statement No. 123(R), Share-Based Payment. This Statement requires that the fair value of equity instruments exchanged for employee services (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).

In 2006, the Corporation s shareholders 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 the fourth quarter of 2006 and the first quarter of 2007, the Committee granted 18,750 and 6,000 performance shares, respectively, to certain officers. These shares vest in equal amounts over a four-year period, once the performance targets have been attained. In the first quarter of 2007, the Committee granted an additional 59,000 performance shares to certain officers. The performance targets for earning these shares have not been met as of March 31, 2007; thus, the shares are not considered issued. For the quarter ended March 31, 2007, compensation expense relating to performance shares totaled $26,000.

Note 4. Variable Interest Entities

Through two business trust subsidiaries, the Corporation has issued $37.1 million in subordinated debentures that were used to support trust preferred securities. These debentures are the sole assets of the trust subsidiaries. In accordance with FASB Interpretation No. 46(R), Consolidation of Variable Interest Entities, neither of the trust subsidiaries is consolidated into the financial statements of the Corporation.

Note 5. Comprehensive Income

The following table discloses comprehensive income for the periods reported in the Consolidated Statements of Income:

| | Three Months Ended March 31, | |
|---|---|---|
| | **2007** | **2006** |
| **(In thousands)** | | |
| Net income | $ 3,683 | $ 3,250 |
| Net change in other comprehensive income (loss): | | |
| Realized gains (losses) included in net income | 5 | 2 |
| Unrealized gains (losses) on securities | (169) | (136) |
| Unrealized gains (losses) on interest rate swaps | 16 | (33) |
| Net change in other comprehensive income (loss) | (148) | (167) |
| Comprehensive income | $ 3,535 | $ 3,083 |
| Accumulated other comprehensive income (loss) at beginning of period | $ (6,693) | $ (8,160) |
| Net change in other comprehensive income (loss) | (148) | (167) |
| Cumulative-effect adjustment for adoption of FASB Statement No. 159 | 3,596 | |
| Accumulated other comprehensive income (loss) at end of period | $ (3,245) | $ (8,327) |

Note 6. Defined Benefit Pension Plan

The following table contains the components of the net periodic benefit cost of the Corporation s defined benefit pension plan for the periods indicated:

| | Three Months Ended March 31, | |
|---|---|---|
| | **2007** | **2006** |
| **(In thousands)** | | |
| Service cost | $ 147 | $ 155 |
| Interest cost | 170 | 175 |
| Expected return on assets | (210) | (205) |
| Net (gain)/loss recognition | 77 | 97 |
| Prior service cost amortization | (32) | (32) |
| Preliminary net periodic benefit cost/(income) | 152 | 190 |
| Immediate recognition due to settlements | | 215 |

| | | |
|---|---|---|
| Net periodic benefit cost/(income) | $ 152 | $ 405 |

The expected rate of return for 2007 and 2006 was 7.5%.

Note 7. Investment Securities

In accordance with FASB Staff Position Nos. FAS 115-1 and FAS 124-1, The Meaning of Other-than-Temporary Impairment and Its Application to Certain Investments, for the quarter ended March 31, 2007, management reviewed the securities portfolio for securities that had unrealized losses for more than twelve months and that could be considered other-than-temporary. As of March 31, 2007, approximately 61% of the number of securities in the portfolio reflected an unrealized loss.

In conducting its review for other-than-temporary impairment, management evaluated a number of factors including, but not limited to the following: the amount of the unrealized loss; the length of time in which the unrealized loss has existed; the financial condition of the issuer; rating agency changes on the issuer; and management's intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value. Based on this review, management does not believe any individual security with an unrealized loss as of March 31, 2007, is other-than-temporarily impaired.

Note 8. 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. The acquisition will allow the Corporation to expand its business into the rapidly growing north Atlanta, Georgia market. The acquisition was an all-cash transaction valued at approximately $17.6 million. As part of this total, option and warrant holders received the difference between the cash price and the exercise price of the options or warrants. Seasons assets and liabilities were recorded on the balance sheet at their respective fair values as of the closing date.

The following table summarizes the preliminary allocation of the purchase price to the assets and liabilities acquired on November 14, 2006. The Corporation is in the process of obtaining income tax basis information on certain assets; thus, the allocation of the purchase price is subject to refinement.

| **(In thousands)** | |
|---|---|
| Cash and cash equivalents | $ 2,712 |
| Securities | 5,783 |
| Loans | 77,430 |
| Less allowance for loan losses | (1,735) |
| Net loans | 75,695 |
| Premises and equipment | 3,765 |
| Goodwill | 10,305 |
| Core deposit intangible | 424 |
| Other assets | 2,067 |
| Total assets acquired | 100,751 |
| Deposits | 82,089 |
| Other liabilities | 1,100 |
| Total liabilities assumed | 83,189 |
| Net assets acquired | $ 17,562 |

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 acquisition will allow the Corporation to expand further into the rapidly growing markets of Tampa, Sarasota, and Naples, Florida. The acquisition was valued at approximately $35.9 million, of which 45% was paid in cash and 55% was paid in shares of the Corporation s common stock. Option holders received the difference between the cash election price and the option price of their options, or an aggregate of approximately $1.0 million. SunCoast s assets and liabilities were recorded on the balance sheet at their respective fair values as of the closing date.

The following table summarizes the preliminary allocation of the purchase price to the assets and liabilities acquired on August 17, 2006. The Corporation is in the process of obtaining income tax basis information on certain assets; thus, the allocation of the purchase price is subject to refinement.

| **(In thousands)** | |
|---|---|
| Cash and cash equivalents | $ 3,563 |
| Securities | 9,217 |
| Loans | 125,584 |
| Less allowance for loan losses | (1,382) |
| Net loans | 124,202 |
| Premises and equipment | 4,278 |
| Goodwill | 20,559 |
| Core deposit intangible | 1,631 |
| Other assets | 1,004 |
| Total assets acquired | 164,454 |
| Deposits | 128,085 |
| Other liabilities | 433 |
| Total liabilities assumed | 128,518 |
| Net assets acquired | $ 35,936 |

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. Goodwill resulting from these acquisitions is not deductible for income tax reporting purposes.

Note 9. Derivative Instruments

In 2006, the Corporation hedged a portion of its floating rate prime based lending portfolio by entering into floating to fixed interest rate swaps. As of March 31, 2007, the total notional amount of the outstanding swaps is $30 million. Original maturities on these swaps range from fifteen to twenty-four months, and rates range from 7.72% to 8.02%. The transactions are cash flow hedges as defined by FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, and they are accounted for under the provisions of that Statement.

The effectiveness of the transactions described above was tested as of March 31, 2007, in accordance with Statement No. 133, and management determined that as of that date, the transactions remained highly effective, as defined by the Statement. For the quarter ended March 31, 2007, $16,000 in unrealized gains (net of tax) was recorded as an adjustment to accumulated other comprehensive income for the increase in fair value of these transactions. For the quarter ended March 31, 2006, $33,000 in unrealized losses (net of tax) was recorded as an adjustment to accumulated other comprehensive income for the decline in fair value of these transactions.

Note 10. Fair Value

Effective January 1, 2007, the Corporation elected early adoption of FASB Statement No. 159. See Note 1 for a detailed description of the Statement s provisions. The Corporation elected the fair value option for its fixed rate collateralized mortgage obligations ( CMOs ) and floating rate mortgage-backed securities. These segments of the Corporation s investment portfolio were selected because of their long duration and less predictable cash flows. In

accordance with the provisions of Statement No. 159, these securities were reclassified from available-for-sale to trading, effective January 1, 2007. These securities represent the entire balance of the Securities Held for Trading caption on the Corporation s Consolidated Balance Sheet as of March 31, 2007. The unrealized loss on these securities as of January 1, 2007, which was previously included in accumulated other comprehensive income, was recorded as a cumulative-effect adjustment to the Corporation s retained earnings. This adjustment totaled $5.8 million ($3.6 million net of tax).

The Corporation sold these securities in early April and reinvested the proceeds into callable agency securities with shorter terms and more predictable yields.

In summary, the Corporation elected early adoption of Statement No. 159 because it provided the opportunity to 1) decrease the duration of the investment securities portfolio; 2) reduce the negative convexity inherent in mortgage-backed securities and CMOs and improve the Corporation s balance sheet from an asset/liability management perspective; 3) improve cash flow predictability; and 4) increase the average yield on investment securities.

Because the Corporation elected early adoption of Statement No. 159, it was also required to adopt FASB Statement No. 157, Fair Value Measurements, concurrently. The adoption of Statement No. 157 had no significant impact on the financial position of the Corporation.

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

| | Fair Value at March 31, 2007 |
|---|---|
| Securities held for trading (accounted for under FASB Statement No. 159) | $ 163,223 |
| Available-for-sale securities (accounted for under FASB Statement No. 115) | 228,315 |

Fair value for these assets was determined by reference to quoted market prices in active markets for identical assets. The change in fair value of securities held for trading is included in the Securities Gains (Losses) line item on the Consolidated Statements of Income and totaled $726,000 for the quarter ended March 31, 2007. Interest and dividends on securities held for trading are recognized in interest income as they are earned.

## ITEM 2 MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Forward-Looking Information

The following provides a narrative discussion and analysis of significant changes in our results of operations and financial condition for the quarter ended March 31, 2007. Certain information included in this discussion contains forward-looking statements and information that are based on management s beliefs 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 Securities Exchange Act of 1934, as amended. Although we believe that the expectations 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. When used in our documents, the words anticipate, estimate, expect, objective, projection, forecast, goal and similar expressions are intended 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, employee workforce factors, cost 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 our Annual Report on Form 10-K for the year ended December 31, 2006 and that may be discussed from time to time in our reports filed with the Securities and Exchange Commission subsequent to this report. 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.

**Introduction and Management Overview**

Cadence Financial Corporation is a financial holding company that owns Cadence Bank, N.A. ( Cadence or the Bank ), which operates in Mississippi, Alabama, Tennessee, Florida and Georgia. We provide full financial services, including banking, 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.

For purposes of the following discussion, the words the Corporation, we, us and our refer to the combined entities of Cadence Financial Corporation and its wholly owned subsidiary, Cadence, unless the context suggests otherwise.

For the first quarter of 2007, our net interest margin was 3.26%, compared to 3.61% for the same period of 2006. Our loan yields increased by 58 basis points as compared to the first quarter of 2006, as the loan portfolio, which is composed of approximately 62% variable rate loans and 38% fixed rate loans, repriced upward. In addition, our average loan balances increased by approximately $378.5 million. However, our net interest margin was negatively impacted by the increase in our overall cost of funds (115 basis points as compared to the first quarter of 2006), as the rate environment continued to put pressure on deposit and other borrowing rates.

We have maintained our underwriting standards and believe that the overall credit quality of the loan portfolio was very good at the end of the first quarter. Our provision for loan losses was substantially higher in the first quarter of 2007 as compared to the first quarter of 2006, due primarily to credit downgrades related to a Mississippi commercial customer and a Memphis customer. However, we believe these are isolated credit issues.

Noninterest income, exclusive of gains on securities, increased from $4.7 million for the first quarter of 2006 to $5.5 million for the first quarter of 2007, an increase of 16.7%. During the first quarter of 2007, noninterest income accounted for 17.5% of gross income. The growth of noninterest income continues to be one of our major strategic goals.

Another goal of management in 2007 is to continue to control the level of noninterest expenses. During the first quarter of 2007, total noninterest expenses increased by $1.8 million, or 15.7%, from the same period of 2006, primarily resulting from increased salaries, employee benefits, premises and fixed asset costs relating to our newly opened and acquired locations in Tennessee, Florida, and Georgia.

For the first quarter of 2007, we reported net income of $3.7 million, or $.31 per share, compared to $3.3 million, or $.40 per share, for the first quarter of 2006. Even though net income increased 13.3%, earnings per share decreased due to the 45.3% increase in average weighted shares outstanding arising from the $50.2 million stock offering and shares issued in the SunCoast acquisition during 2006.

We are continuing our efforts to grow loans and improve our margin. With potential improvement in the Mississippi market, the continued strong growth in Tennessee and Alabama and the addition of the Florida and Georgia markets, management believes that we will be able to achieve solid loan growth in 2007. The expansion or even maintenance of the margin, however, will be a more difficult objective to attain in the current interest rate environment. The inverted yield curve, an environment in which short-term rates are higher than long-term rates, presents a significant obstacle. Additionally, our need for funding has increased as our loan demand has increased, requiring us to pay higher rates to grow deposits.

Currently, management expects, based on available information, that interest rates will be flat to slightly down in 2007. We expect strong growth to continue in the Memphis and Tuscaloosa markets and anticipate that our recent entries into the Birmingham and Nashville MSAs and Florida will continue to provide us with additional strong growth markets. We based our 2007 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 continue to look for ways to grow noninterest income. The continued growth in the Memphis market, the expansion into the Birmingham and Nashville MSAs and the acquisitions of SunCoast and Seasons should provide new customer bases for our other banking products and services.

In the areas of noninterest income, our primary objective for 2007 is to expand our mortgage origination efforts into our new markets in Alabama and Tennessee. This process began in late 2006, with the reorganization of our mortgage division to take advantage of these opportunities. We also continue our efforts to control noninterest expenses. In the area of noninterest expenses, our efforts will be focused on controlling these expense categories as we continue our efforts to achieve maximum efficiencies within our new expanded footprint. Reducing our efficiency ratio remains a key objective.

Our primary objective for 2007 is to grow net income. The previously mentioned growth in assets, expansion of noninterest income, and control of noninterest expenses will all contribute to this net income growth. Other areas of focus to accomplish this goal will be controlling the cost of funding that will be needed to both support our current asset levels and our expected growth and maintaining our level of credit quality. Funding is a challenging issue, due to the inverted yield curve. This situation makes it very difficult to obtain the desired spread between loan yields and cost of funds. Also, there is increased competition for core deposits as all banks struggle to maintain this very important component of their funding. If the economy slows or the real estate market continues to soften, credit quality will become an issue. Currently our credit quality is good, and we will continue our policy of not lowering our credit underwriting standards to obtain loan growth.

Even though we believe that we will have net income growth in 2007, that growth will not translate into growth in earnings per share. The average shares outstanding for 2006 were 10,323,000. In 2007, we estimate that average shares outstanding will be at least 11,895,000, an increase of 1,572,000, or 15.2%.

**Critical Accounting Policies**

Our accounting and financial reporting policies conform to United States generally accepted accounting principles and 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 our annual report, including management s letter to shareholders and 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.

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 and the Board of Directors 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. 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 list of factors (this list is not all-inclusive and the factors reviewed may change as circumstances change):

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 period ended March 31, 2007, we identified the following five external risk factors: (1) stagnant to negative employment reports for the northeast Mississippi area; (2) the current higher rate environment resulting in higher borrowing costs and lower debt service coverages; (3) increased risk associated with commercial real estate credits; (4) slowdown trend in the real estate market; and (5) lack of familiarity with the north Georgia market. These external risk factors will be 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. 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. In selecting the appropriate discount rate, management, with the assistance of actuarial consultants, performs 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).

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.

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.

Goodwill and Other Intangible Assets

FASB Statement No. 142, Goodwill and Other Intangible Assets, eliminated the requirement to amortize goodwill; however, it does require periodic testing for impairment. We completed our impairment test in accordance with Statement No. 142 in October 2006 and concluded that no impairment writedown was warranted. At March 31, 2007, we had approximately $67.1 million of goodwill on our balance sheet, which will remain at that level unless it becomes impaired under the definition of impairment in Statement No. 142.

Other Accounting/Regulatory Issues

In the normal course of business, our wholly owned subsidiary bank, 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 of 2002 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.

We own two business trusts, 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.

Effective January 1, 2007, we elected early adoption of FASB Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. This Statement allows an irrevocable election to measure certain financial assets and financial liabilities at fair value on an instrument-by-instrument basis, with unrealized gains and losses recognized currently in earnings. Under this Statement, the fair value option may only be elected at the time of initial recognition of a financial asset or financial liability or upon the occurrence of certain specified events. We elected the fair value option for our fixed rate collateralized mortgage obligations and floating rate mortgage-backed securities. These segments of our investment portfolio were selected because of their long duration and less predictable cash flows. In accordance with the provisions of Statement No. 159, these securities were reclassified from available-for-sale to trading, effective January 1, 2007. The unrealized loss on these securities as of January 1, 2007, which was previously included in accumulated other comprehensive income, was recorded as a cumulative-effect adjustment to the Corporation s retained earnings. We sold these securities in early April and reinvested the proceeds into callable agency securities with shorter terms and more predictable yields.

We elected early adoption of Statement No. 159 because it provided the opportunity to 1) decrease the duration of the investment securities portfolio; 2) reduce the negative convexity inherent in mortgage-backed securities and CMOs and improve the Corporation s balance sheet from an asset/liability management perspective; 3) improve cash flow predictability; and 4) increase the average yield on investment securities.

Because we elected early adoption of Statement No. 159, we were also required to adopt FASB Statement No. 157, Fair Value Measurements, concurrently. The adoption of Statement No. 157 had no significant impact on our financial position.

**Results of Operations**

Earnings for the first quarter of 2007 were $3.7 million, or $.31 per share, compared to $3.3 million, or $.40 per share, for the first quarter of 2006. On an annualized basis, these 2007 totals equate to a 0.8% return on average assets and a 7.7% return on average equity. For this same period in 2006, the annualized return on average assets was 0.9% and the annualized return on average equity was 11.1%.

Net interest income for the first quarter of 2007 was $13.7 million, compared to $11.7 million for the first quarter of 2006. This represents an increase of 16.7%. During this period, the net interest margin was 3.26%, compared to

3.61% for the same period of 2006. In comparing the first quarter of 2007 to the same quarter of 2006, we gained 68 basis points of yield on our average earning assets. However, during the same period, the cost of funds increased by 115 basis points. Our average earning assets increased by $383.7 million from the first quarter of 2006 to the first quarter of 2007. This increase is mostly due to the increase in our average loan balance, from $859.9 million during the first quarter of 2006 to $1.2 billion during the first quarter of 2007. From the first quarter of 2006 to the first quarter of 2007, the yield on loans increased from 7.27% to 7.85%, the yield on federal funds sold increased from 4.44% to 4.93% and the yield on the investment securities portfolio increased from 4.60% to 4.80%. Our average interest-bearing liabilities increased by $344.4 million from the first quarter of 2006 to the first quarter of 2007, mostly due to the increase in our average deposit balance, from $953.0 million during the first quarter of 2006 to $1.3 billion during the first quarter of 2007. From the first quarter of 2006 to the first quarter of 2007, the cost of deposits increased from 2.81% to 4.07%, and the cost of our other interest-bearing liabilities increased from 4.48% to 5.27%. For additional information, please see the table entitled Analysis of Net Interest Earnings at the end of this section.

The provision for loan losses increased from $401,000 for the first quarter of 2006 to $1.2 million for the same quarter of 2007. This increase is due mostly to two credit downgrades, one of which is a bankruptcy.

Noninterest income includes various service charges, fees and commissions, including insurance commissions earned by GCM. It has been, and continues to be, one of our strategic focuses to diversify our other income sources so that we can be less dependent on net interest income. Noninterest income, exclusive of securities gains and losses, increased by $791,000, or 16.7%, from the first quarter of 2006 to the first quarter of 2007. The following table reflects the details of this change:

| | **Quarter Ended March 31,** | | |
|---|---|---|---|
| **(In thousands)** | **2007** | **2006** | **Change** |
| Service charges on deposit accounts | $ 2,153 | $ 1,985 | $ 168 |
| Insurance commissions, fees and premiums | 1,501 | 1,125 | 376 |
| Trust Department income | 612 | 526 | 86 |
| Mortgage loan fees | 343 | 140 | 203 |
| Other income | 925 | 967 | (42) |
| Total other income | $ 5,534 | $ 4,743 | $ 791 |

The increase in noninterest income resulted primarily from increases in service charges on deposit accounts, insurance commissions, fees and premiums, and mortgage loan fees. Service charges on deposit accounts increased by $168,000, or 8.5%, due mostly to improved management and oversight of our noninterest-bearing accounts. Insurance commissions, fees and premiums increased by $376,000, or 33.4%, because of increased profit-sharing levels from insurance carriers. Mortgage loan fee income increased by $203,000 or 145.0%, due primarily to our recent restructuring of the division and our objective of expanding mortgage operations into our newer markets.

We recognized $734,000 in securities gains during the first quarter of 2007, compared to $2,000 in gains during the first quarter of 2006. Of the $734,000 recognized in 2007, $726,000 represents the increase in fair value of our securities held for trading.

Noninterest expense represents ordinary overhead expenses. These expenses increased $1.8 million, or 15.7%, during the first quarter of 2007, compared with the first quarter of 2006. The following table reflects the details of this change:

| | **Quarter Ended March 31,** | | |
|---|---|---|---|
| **(In thousands)** | **2007** | **2006** | **Change** |
| Salaries and employee benefits | $ 7,776 | $ 6,792 | $ 984 |
| Premises and fixed asset expense | 2,048 | 1,576 | 472 |
| Other expense | 3,634 | 3,266 | 368 |
| Total other expense | $ 13,458 | $ 11,634 | $ 1,824 |

Salaries and employee benefits increased by $984,000, or 14.5%, and expenses associated with premises and fixed assets increased by $472,000, or 29.9%. Both of these increases are due primarily to the de novo branch expansion in Brentwood, Tennessee, the SunCoast and Seasons acquisitions, and the addition of new branches in Memphis, Tennessee. Other noninterest expenses increased by $368,000, or 11.3%, due to slight increases in several accounts, including accounting and professional fees, computer service expense, director fees, and intangible asset amortization.

Changes in our income tax expense have generally paralleled changes in income. Our effective tax rate increased from 27.0% for the first quarter of 2006 to 30.2% for the first quarter of 2007. This increase in the effective tax rate for the quarter resulted primarily from the mix of income from tax-free investments and the percentage relationship of tax-free income to total pre-tax income.

**Financial Condition**

During the first quarter of 2007, our balance sheet reflected a slight decrease of $18.4 million, or 1.0%, in total assets. Cash and cash equivalents decreased by approximately $16.7 million, or 20.0%, from $83.5 million to $66.8 million. This decrease resulted primarily from repayments of Federal Home Loan Bank ( FHLB ) advances. During the first quarter, the investment securities portfolio decreased slightly from $448.6 million to $426.9 million, a decrease of $21.7 million, or 4.8%. The loan portfolio increased by $23.7 million, or 1.9%, during the quarter. Our Tennessee markets accounted for most of this growth.

During the first quarter of 2007, the allowance for loan losses was $12.9 million. This amount represents a $0.7 million, or 5.5%, increase from December 31, 2006, and a $3.4 million, or 35.9%, increase from March 31, 2006. We believe that the quality of our loan portfolio remains strong. In management s opinion, the current level of the allowance should be sufficient to protect us from any unforeseen deterioration in the quality of the loan portfolio.

The following table reflects some of the statistics we use to evaluate the quality and potential exposure within our loan portfolio:

| | **Quarter Ended 3/31/07** | **Year Ended 12/31/06** | **Quarter Ended 3/31/06** |
|---|---|---|---|
| Net charge-offs as a percentage of average net loans outstanding | 0.04% | 0.19% | 0.02% |
| Non-performing loans as a percentage of total loans | 0.91% | 0.22% | 0.33% |
| Classified assets as a percentage of average capital | 18.69% | 16.67% | 13.50% |
| Allowance for loan losses as a percentage of total loans | 1.04% | 1.00% | 1.10% |

The increase in non-performing loans as a percentage of total loans occurred as a result of the two credit downgrades mentioned previously. Based on the evaluations described earlier and the information above, the allowance for loan losses at March 31, 2007 was deemed adequate to cover exposure within our loan portfolio.

The liability side of the balance sheet decreased slightly from $1.71 billion at December 31, 2006 to $1.69 billion at March 31, 2007, a decrease of $16.7 million, or 1.0%. During the first quarter of 2007, deposits declined by $5.2

million, or 0.4%. Federal funds purchased and securities sold under agreements to repurchase increased by $5.6 million, or 7.0%, from $80.8 million to $86.5 million. Also during the quarter, FHLB advances decreased by $15.2 million, or 13.4%, due to several repayments.

In summary, during the first quarter of 2007, we allowed our cash and investments balances to decrease in order to fund our loan growth, to offset the effect of a slight decline in deposits, and to repay FHLB borrowings.

Shareholders equity decreased from $191.3 million to $189.6 million during the first three months of 2007. We earned $3.7 million in net income during this period. Also, we recorded a $5.8 million ($3.6 million net of tax) cumulative effect adjustment to retained earnings as a result of our adopting FASB Statement No. 159. (See Note 10 of the Notes to Consolidated Financial Statements for more information.) Because of that adjustment, as well as an increase in the market value of our available-for-sale investment securities, accumulated other comprehensive income changed from an unrealized loss of $6.7 million at December 31, 2006 to an unrealized loss of $3.2 million at March 31, 2007. Also, during the first quarter of 2007, we declared dividends of approximately $3.0 million.

Cadence is required to maintain a minimum amount of capital to total risk-weighted assets as defined by the banking regulators. At March 31, 2007, the Bank s Tier 1, Tier 2 and total risk-based capital ratios exceeded the well-capitalized standards developed under applicable regulatory guidelines.

Dividends paid by the Corporation are provided from dividends received from the Bank. 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 March 31, 2007, without approval from the Comptroller of the Currency, Cadence s ability to pay dividends was limited to approximately $12.9 million.

Also, under regulations controlling national banks, the Bank is limited in the amount it can lend to the Corporation or any of its non-banking subsidiaries, and such loans are required to be on a fully secured basis. At March 31, 2007, there were no formal borrowings between the Corporation (or its non-banking subsidiaries) and the Bank.

**Off-Balance Sheet Arrangements**

In the ordinary course of our business, we enter into agreements with customers to loan money. When a loan agreement is executed, the customer can either borrow the money immediately or draw against the loan over a predetermined time period. If an unfunded commitment is drawn against, the Bank charges the customer the interest rate established in the original agreement for the amount of the draw for the time period outstanding. As of March 31, 2007, the amount of unfunded commitments outstanding was $357.4 million.

We also provide letters of credit to our customers. A letter of credit is a contingent obligation to make a loan to the customer for up to the amount of the letter of credit and at a predetermined rate of interest. The Bank charges the customer approximately 1.5% of the face amount of a letter of credit as a fee for issuance. As of March 31, 2007, the amount of outstanding letters of credit was $17.0 million.

The issuance of a letter of credit or a loan commitment is subject to the same credit and underwriting standards as any other loan agreement.

At any point in time, we do not know when or if these commitments will be funded. Generally, if they are funded, they are funded at various times over the commitment period. As a result, we are able to fund them out of normal cash flow. If all outstanding commitments were funded at the same time, we have the ability to fund them through our short-term borrowing lines, the brokered certificate of deposit market and additional FHLB borrowings.

It would be in our best interest for all outstanding commitments to be funded.

**Market Risk**

During the first quarter of 2007, we maintained a consistent and disciplined asset/liability management policy focusing on interest rate risk and sensitivity.

In 2006, we hedged a portion of our floating rate prime based lending portfolio using floating to fixed interest rate swaps. These transactions were initiated to protect us from future unanticipated downward fluctuations in the prime rate and to help ensure a more constant cash flow from interest earned by our prime based lending portfolio. Original maturities on these swaps range from fifteen to twenty-four months, and rates range from 7.72% to 8.02%. The total notional amount on these swaps is $30 million as of March 31, 2007. 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 Statement No. 133, we measured the effectiveness of these transactions as of March 31, 2007 and determined that they remained highly effective, as defined by the Statement. See Note 9 of the Notes to Consolidated Financial Statements for more information.

In September 2005, we entered into a $25.0 million structured repurchase transaction in the secondary market. This term repurchase transaction has a 4% embedded floor and a three-year term. It was priced at three-month LIBOR plus 24 basis points and reprices every three months. This transaction is in line with our asset/liability strategy and was entered into to help protect us against an unexpected downturn in short-term interest rates. This derivative instrument was accounted for as an embedded derivative under FASB Statement No. 133.

The primary objective of rate sensitivity management is to maintain net interest income growth while reducing exposure to adverse fluctuations in rates. We utilize an Asset/Liability Management Committee to evaluate and analyze 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 neutral rate sensitive position. At March 31, 2007, our balance sheet reflected approximately $11.9 million more in rate sensitive liabilities than assets that were scheduled to reprice within one year. This represents approximately 0.6% of total assets and indicates that we have achieved a basically neutral rate sensitive position. This computation results from a static gap analysis that weights assets and liabilities equally. Management believes that interest rates will be flat to slightly down in 2007 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, they could also be put at significant risk if interest rates move against predictions.

**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)** | |
|---|---|---|
| | **Average Balances** | |
| | **Quarter Ended 3/31/07** | **Year Ended 12/31/06** |
| EARNING ASSETS: | | |
| Net loans | $ 1,238,349 | $ 973,466 |
| Federal funds sold and other interest-bearing assets | 25,927 | 25,893 |
| Securities: | | |
| Taxable | 332,131 | 343,515 |
| Tax-exempt | 105,478 | 116,328 |
| Totals | 1,701,885 | 1,459,202 |
| INTEREST-BEARING LIABILITIES: | | |
| Interest-bearing deposits | 1,268,359 | 1,061,250 |

| | | |
|---|---|---|
| Borrowed funds, federal funds purchased and securities sold under agreements to repurchase and other interest-bearing liabilities | 233,185 | 207,927 |
| Totals | 1,501,544 | 1,269,177 |
| Net amounts | $ 200,341 | $ 190,025 |

| | ($ In Thousands) Interest For | | Yields Earned And Rates Paid (%) | |
|---|---|---|---|---|
| | Quarter Ended 3/31/07 | Year Ended 12/31/06 | Quarter Ended 3/31/07 | Year Ended 12/31/06 |
| EARNING ASSETS: | | | | |
| Net loans | $ 23,972 | $ 74,182 | 7.85 | 7.62 |
| Federal funds sold and other interest-bearing assets | 315 | 1,312 | 4.93 | 5.07 |
| Securities: | | | | |
| Taxable | 4,090 | 16,641 | 4.99 | 4.84 |
| Tax-exempt | 1,088 | 4,859 | 4.19 | 4.18 |
| Totals | 29,465 | 96,994 | 7.02 | 6.65 |
| INTEREST-BEARING LIABILITIES: | | | | |
| Interest-bearing deposits | 12,735 | 35,992 | 4.07 | 3.39 |
| Borrowed funds, federal funds purchased and securities sold under agreements to repurchase and other interest-bearing liabilities | 3,031 | 10,520 | 5.27 | 5.06 |
| Totals | 15,766 | 46,512 | 4.26 | 3.66 |
| Net amounts | $ 13,699 | $ 50,482 | 3.26 | 3.46 |
| **Note: Yields on a tax equivalent basis would be:** | | | | |
| Tax-exempt securities | | | 6.44 | 6.43 |
| Total earning assets | | | 7.16 | 6.83 |
| Net yield on earning assets | | | 3.40 | 3.64 |

**ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Reference is made to Management s Discussion and Analysis (Item 2 of this Part I), particularly to the section entitled Market Risk.

**ITEM 4 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 March 31, 2007 that has materially affected, or is likely to materially affect, the Corporation s internal control over financial reporting.

**PART II. OTHER INFORMATION**

**ITEM 1 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.

**ITEM 1A RISK FACTORS**

Please see Item 1A Risk Factors, in the Corporation s annual report on Form 10-K.

**ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

Not applicable

**ITEM 3 DEFAULTS UPON SENIOR SECURITIES**

Not applicable

**ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

Not applicable

**ITEM 5 OTHER INFORMATION**

Not applicable

**ITEM 6 EXHIBITS**

| | |
|---|---|
| 11 | Statement re computation of per-share earnings |
| 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 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 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 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 Sarbanes-Oxley Act of 2002 Chief Financial Officer |

All other exhibits required by Section 601 of Regulation S-K were included or included by reference in Form 10-K for the year ended December 31, 2006, filed with the Commission on March 14, 2007.

The financial information furnished herein has not been audited by independent accountants; however, in the opinion of management, all adjustments necessary for a fair presentation of the results of operations for the three-month period ended March 31, 2007, have been included.

Pursuant to the requirements of the Securities and 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

Date: May 9, 2007

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

EXHIBIT INDEX: