CADENCE FINANCIAL CORP
Form PRE 14A
July 27, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

x Preliminary Proxy Statement
¨ Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to §240.14a-12

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

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):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(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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¨ Fee paid previously with preliminary materials.

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(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

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[•], 2009

Dear 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 [•], 2009 at Cadence Bank, Starkville Banking Center, 301 East Main Street, Starkville, Mississippi 39759.

On April 17, 2009, our wholly-owned subsidiary, Cadence Bank, N.A. (the Bank), entered into a written agreement with the Office of the Comptroller of the Currency (the OCC), our primary federal regulator, to improve the Bank s performance. The OCC has required the Bank to achieve by September 30, 2009, and maintain on an ongoing basis, a Tier 1 leverage ratio of 8.0% and a total risk-based capital ratio of 12.0%. To address this need for capital, on [•], 2009, we completed a public offering of [•] shares of our common stock pursuant to a registration statement with the U.S. Securities and Exchange Commission (the SEC). In addition, on [•], 2009, we sold [•] shares of Series B Convertible Perpetual Cumulative Preferred Stock, which we refer to as our Series B preferred stock, at a price of $100,000 per share, to a limited number of investors who qualify as accredited investors as defined in Rule 501 under the Securities Act of 1933, as amended (the Securities Act), and to non-U.S. persons in transactions exempt from registration pursuant to Regulation S under the Securities Act. The shares of Series B preferred stock are mandatorily convertible into shares of our common stock on the business day after we obtain approval from our shareholders to increase the authorized number of shares of common stock and to convert the Series B preferred stock into common stock under applicable NASDAQ listing rules. We raised approximately $[•] million in these offerings. Approximately [•]% of the net proceeds of these offerings qualify as Tier 1 capital for regulatory purposes and become part of our general funds. We expect to use the net proceeds from the offerings to fund the Bank so it will meet the OCC s requirements, to support continued growth in the Bank s loans and deposits and for general corporate purposes.

We currently do not have enough authorized and unissued shares of common stock to permit us to issue the [•] shares of our common stock into which the Series B preferred stock is convertible. We are seeking your approval of a proposal to amend our restated articles of incorporation, as amended, to increase the number of authorized shares of common stock to 150.0 million shares and to approve the conversion of the Series B preferred stock into common stock. If our shareholders do not approve these proposals, we will be unable to convert our Series B preferred stock into common stock. In that event, holders of the Series B preferred stock will be entitled to receive, when, as and if declared by our board of directors, cumulative cash dividends at a rate that increases monthly from 13% per annum on October 1, 2009 to the maximum rate of 18% per annum on March 1, 2010, which will apply thereafter.

In addition, we are submitting for your approval a proposal to further amend our restated articles to effect a one-for-five reverse stock split of our common stock. On the effective date of the reverse stock split, you will receive one share of our common stock for every five shares you held immediately before the effectiveness of the reverse stock split.

We hope that you will be able to attend this very important 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.

We look forward to seeing you at the special meeting.

Sincerely yours,

Lewis F. Mallory, Jr.

Chairman of the Board and

Chief Executive Officer

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CADENCE FINANCIAL CORPORATION

301 East Main Street

Starkville, Mississippi 39759

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

[•], 2009

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 [•], 2009, at Cadence Bank, Starkville Banking Center, 301 East Main Street, Starkville, Mississippi, for the following purpose:

(1) To approve a proposal to amend our restated articles of incorporation, as amended, to increase the number of authorized shares of common stock from 50.0 million to 150.0 million;

(2) To approve the conversion of the Series B preferred stock into common stock in accordance with the terms of the Series B preferred stock;

(3) To approve a proposal to amend our restated articles of incorporation, as amended, to effect a one-for-five reverse stock split of our common stock; and

(4) To approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes at the time of the special meeting to approve the above proposals.

Our Board recommends that you vote FOR all of the proposals.

Any action may be taken on the above proposals at the special meeting on the date specified above or on any date or dates to which the special meeting may be postponed or adjourned.

Our board of directors has fixed the close of business on [•], 2009 as the record date for the determination of the shareholders entitled to notice of and to vote at the special meeting and any adjournment of it.

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 if you are a holder of record.

By Order of the Board of Directors,

Richard Haston

Secretary

[•], 2009

Important Notice Regarding the Availability of Proxy Materials

for the Shareholder Meeting to Be Held on [•], 2009.

This Proxy Statement is available at www.cadencebanking.com.

If you have any questions or need assistance in voting, please contact us by calling our proxy solicitor, [•], toll free at [•].

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CADENCE FINANCIAL CORPORATION

PROXY STATEMENT

SPECIAL MEETING OF SHAREHOLDERS

TO BE HELD ON [•], 2009

Our board of directors is soliciting proxies to be voted at the Special Meeting of Shareholders on [•], 2009, at 10:00 a.m., and at any adjournments or postponements of it, for the purposes described in the attached Notice of Special Meeting of Shareholders. The notice, this proxy statement and the form of proxy enclosed are first being sent to shareholders on or about [•], 2009. As used in this proxy statement, the terms the Corporation, we, us and our re to Cadence Financial Corporation.

QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING

What am I voting on?

You are voting on the following proposals:

Proposal 1. To approve an amendment to our restated articles of incorporation, as amended, to increase the number of authorized shares of common stock from 50.0 million to 150.0 million (the Common Stock Proposal).

Proposal 2. To approve the conversion of the Series B preferred stock into common stock in accordance with the terms of the Series B preferred stock (the Conversion Proposal).

Proposal 3. To approve an amendment to our restated articles of incorporation, as amended, to effect a one-for-five reverse stock split of our common stock (the Reverse Stock Split Proposal).

Proposal 4. To approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies, if there are not sufficient votes at the time of the special meeting to approve the above proposals (the Adjournment Proposal).

Why do we need to hold the special meeting of shareholders?

On April 17, 2009, our wholly-owned subsidiary, Cadence Bank, N.A. (the Bank) entered into a written agreement with the Office of the Comptroller of the Currency (the OCC), our primary federal regulator, to improve the Bank s performance. The OCC has required the Bank to achieve by September 30, 2009, and maintain on an ongoing basis, a

Tier 1 leverage ratio of 8.0% and a total risk-based capital ratio of 12.0%. These ratios are higher than the regulatory capital ratios required to meet well-capitalized standards. As of March 31, 2009, the Bank had a Tier 1 leverage ratio of 7.2% and a total risk-based capital ratio of 11.7%. If the Bank fails to comply with these required capital levels, the Bank may be subject to further administrative actions or sanctions.

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To address this need for capital, on [•], 2009, we sold [•] shares of our common stock in a public offering pursuant to a registration statement with the SEC. In addition, on [•], 2009, we sold in a concurrent private offering [•] shares of Series B Convertible Perpetual Cumulative Preferred Stock, liquidation preference $100,000 per share, which we refer to as our Series B preferred stock, at a price of $100,000 per share, to a limited number of investors who qualify as accredited investors as defined in Rule 501 under the Securities Act of 1933, as amended (the Securities Act), and to non-U.S. persons in transactions exempt from registration pursuant to Regulation S under the Securities Act. The shares of Series B preferred stock are mandatorily convertible into shares of our common stock on the business day after we obtain approval from our shareholders to increase the authorized number of shares of common stock and to convert the Series B preferred stock into common stock under applicable NASDAQ listing rules. We raised approximately $[•] million in these offerings. Approximately [•]% of the net proceeds of the offerings qualify as Tier 1 capital for regulatory purposes and are part of our general funds. We expect to use the net proceeds from the offerings to fund the Bank so it will meet the OCC s requirements, to support continued growth in the Bank s loans and deposits and for general corporate purposes.

We currently do not have enough authorized and unissued shares of common stock to permit us to issue all of the [•] shares of our common stock into which the Series B preferred stock is convertible. We are seeking your approval of a proposal to amend our restated articles to increase the number of authorized shares of common stock to [•] shares in substantially the form attached as Annex A and to approve the conversion of the Series B preferred stock in to common stock. If our shareholders do not approve these proposals, we will be unable to convert our Series B preferred stock into common stock. In that event, holders of the Series B preferred stock will be entitled to receive, when, as and if declared by our board of directors, cumulative cash dividends at a rate that increases monthly from 13% per annum on October 1, 2009 to the maximum rate of 18% per annum on March 1, 2010, which will apply thereafter. For more information, see Proposal 1 Approval of Amendment of Our Restated Articles of Incorporation to Increase Authorized Shares of Common Stock Introduction and Material Terms of the Series B Preferred Stock.

In addition, our board of directors has approved, and recommended that our shareholders approve, an amendment to our restated articles to effect a reverse stock split of the outstanding shares of our common stock. Under the reverse stock split, the existing shares of our common stock would be combined into new shares of our common stock at an exchange ratio of one-to-five. This means that you would receive one new share of our common stock for each five shares of common stock that you currently hold. We are asking you to approve an amendment to our restated articles in substantially the form attached as Annex B to effect the reverse stock split. For more information see Proposal 3 Approval of Amendment of Our Restated Articles of Incorporation to Effect One-For-Five Reverse Split.

What is the objective of the reverse stock split?

We believe that the increased market price of our common stock expected as a result of implementing the reverse stock split may improve the marketability and liquidity of our common stock and encourage interest and trading in our common stock. Because of the trading volatility often associated with low-priced stocks, many brokerage houses and institutional investors have internal policies and practices that either prohibit them from investing in low-priced stocks or tend

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to discourage individual brokers from recommending low-priced stocks to their customers. Some of those policies and practices may make the processing of trades in low-priced stocks economically unattractive to brokers. Moreover, because brokers commissions on low-priced stocks generally represent a higher percentage of the stock price than commissions on higher-priced stocks, the current average price per share of common stock can result in individual shareholders paying transaction costs representing a higher percentage of their total share value than would be the case if the share price were substantially higher. Our board of directors is hopeful that the anticipated higher market price will reduce, to some extent, the negative effects on the liquidity and marketability of our common stock inherent in some of the policies and practices of institutional investors and brokerage houses described above.

How will the reverse stock split affect me?

On the date we file with the Secretary of State of the State of Mississippi the amendment to our restated articles to effect the reverse stock split, the existing outstanding shares of our common stock would be combined into new shares of our common stock at an exchange ratio of one-for-five. This means that you would receive one new share of our common stock for each five shares of common stock that you currently hold. The reverse stock split would affect all shareholders uniformly and would not affect any shareholder s percentage ownership interest in us, except to the extent that the reverse stock split would result in some of our shareholders owning a fractional share. You would receive cash in lieu of any fractional share that would otherwise be issuable.

What are the U.S. federal income tax consequences of the reverse stock split?

We expect that our shareholders generally will not recognize taxable gain or loss as a result of the reverse stock split. However, gain or loss will be recognized on cash received in lieu of fractional shares. Moreover, the tax consequences to each shareholder will depend on his or her particular situation. For further information about tax consequences, see the discussion on page **[•]** under the heading Proposal 3 Approval of Amendment of Our Restated Articles of Incorporation to Effect One-For-Five Reverse Split Material U.S. Federal Income Tax Consequences of the Reverse Stock Split.

Should I send my stock certificates in now with respect to the reverse stock split?

No, do not send in your stock certificates now. After the reverse stock split is approved and effected, we will send you instructions for submitting your pre-split stock certificate(s) in exchange for your post-split stock certificate and cash, if any, in lieu of fractional shares.

After the reverse stock split, I will have an odd lot of fewer than 100 shares. Will I be able to sell the odd lot ?

The reverse stock split may result in some shareholders owning odd lots of fewer than 100 shares on a post-split basis. You will be able to sell the odd lots, but odd lot sales may result in higher transaction costs per share than board lot sales, which are sales of even multiples of 100 shares.

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Who is entitled to vote?

[•], 2009 is the record date for the special meeting. On that date, there were [•] shares of our common stock, 44,000 shares of our Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the Series A preferred stock) and [•] shares of our Series B preferred stock outstanding. If you owned our common stock at the close of business on [•], 2009, you are entitled to vote at the special meeting. We will begin making this proxy statement available at the Investor Relations section of our website, http://www.cadencebanking.com, on [•], 2009 to all shareholders entitled to vote at the special meeting.

How many votes do I have?

You have one vote for each share of our common stock that you owned at the close of business on [•], 2009.

May I vote by telephone or via the Internet?

Yes. Instead of submitting your vote by mail on the enclosed proxy card, you may be able to vote via the Internet or by telephone. Please note that there are separate Internet and telephone arrangements depending on whether you are a shareholder of record (that is, if you hold your stock in your own name), or whether you hold your shares in street name (that is, if your stock is held in the name of your broker or bank).

If you are a shareholder of record, you may vote by telephone, or electronically through the Internet, by following the instructions provided on your proxy card. If you hold your shares in street name, you should refer to the instructions provided by your bank or broker to determine whether you will be able to vote by telephone or electronically.

The telephone and Internet voting procedures are designed to authenticate shareholders identities, to allow shareholders to give their voting instructions and to confirm that shareholders instructions have been recorded properly. If you vote by telephone or via the Internet, you may incur costs, such as usage charges from Internet access providers and telephone companies. You will be responsible for those costs.

Whether or not you plan to attend the special meeting, we urge you to vote. Returning the proxy card or voting by telephone or over the Internet will not affect your right to attend the special meeting and vote.

If you need assistance, please contact our proxy solicitor, [•], toll free at [•].

May I revoke my proxy?

Yes. If you change your mind after you send in your proxy card, you may revoke your proxy by following any of the procedures described below. To revoke your proxy:

- send in another signed proxy with a later date;

- send a letter revoking your proxy to our Corporate Secretary at the address indicated in the attached Notice of Special Meeting of Shareholders; or attend the special meeting and vote in person.

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If you hold your shares in street name through your broker, bank or other nominee, you must contact your brokerage firm to revoke your proxy.

How do I vote in person at the special meeting?

You may vote shares held directly in your name as the shareholder of record in person at the special meeting. If you choose to vote your shares in person at the special meeting, please bring the enclosed proxy card or proof of identification. Even if you plan to attend the special meeting, we recommend that you vote your shares in advance as described above so that your vote will be counted if you later decide not to attend the special meeting.

You may vote shares beneficially owned and held in street name only if you obtain a signed proxy from the shareholder of record giving you the right to vote the shares. If you hold your shares in the name of your broker, bank or other nominee and want to vote at the meeting, you must bring to the special meeting (a) an account statement or letter from the broker, bank or other nominee indicating that you are the owner of the shares and (b) a signed proxy from the shareholder of record giving you the right to vote the shares. The account statement or letter must show that you were beneficial owner of the shares on [•], 2009.

What votes need to be present to hold the special meeting?

We need a majority of the shares of our common stock outstanding on [•], 2009 to be present, in person or by proxy, to hold the special meeting.

Are there any dissenter s rights or appraisal rights?

Pursuant to applicable Mississippi law, there are no dissenter s or appraisal rights relating to any proposal.

Who is soliciting my proxy to vote on these proposals?

Our board of directors is requesting your proxy to vote on these proposals.

What is the voting recommendation of the board?

The board recommends a vote FOR the Common Stock Proposal, the Conversion Proposal, the Reverse Stock Split Proposal and the Adjournment Proposal.

What vote is required to approve the proposals?

Approval of each of the Common Stock Proposal, the Conversion Proposal, the Reverse Stock Split Proposal and the Adjournment Proposal requires the approval of the holders of a majority of the shares of our common stock present and voting at the special meeting.

Where can I find the voting results?

We will publish the voting results in a current report on Form 8-K, which we will file within four business days after the meeting. You will be able to find the Form 8-K at the Investor Relations section of our website at http://www.cadencebanking.com.

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Whom should I contact if I have any questions?

If you have any questions before you vote or if you need information on how to obtain directions to be able to attend the meeting in person, please contact Mr. Richard T. Haston, Investor Relations at (662) 324-4258, or contact our proxy solicitor, [•], toll free at [•].

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GENERAL INFORMATION

Introduction

This proxy statement is furnished to the shareholders of Cadence Financial Corporation in connection with the solicitation of proxies on behalf of our board of directors for use at a Special Meeting of Shareholders to be held at 10:00 a.m., local time, on [•], 2009, at Cadence Bank, Starkville Banking Center, 301 East Main Street, Starkville, Mississippi, 39759. Our 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 [•], 2009.

At the special meeting, holders of our common stock will have the opportunity to consider and vote on the following proposals:

Proposal 1. To approve an amendment to our restated articles of incorporation, as amended, to increase the number of authorized shares of common stock from 50.0 million to 150.0 million (the Common Stock Proposal).

Proposal 2. To approve the conversion of the Series B preferred stock into common stock in accordance with the terms of the Series B preferred stock (the Conversion Proposal).

Proposal 3. To approve a proposal to amend our restated articles of incorporation, as amended, to effect a one-for-five reverse stock split of our common stock (the Reverse Stock Split Proposal).

Proposal 4. To approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies, if there are not sufficient votes at the time of the special meeting to approve the Common Stock Proposal or the Reverse Stock Split Proposal (the Adjournment Proposal).

The board of directors has fixed the close of business on [•], 2009 as the record date for the special meeting. As of [•], 2009, there were [•] shares of our common stock, 44,000 shares of our Series A preferred stock and [•] shares of our Series B preferred stock outstanding. We have no other outstanding class of securities. Only holders of our common stock of record at the close of business on that date are entitled to notice of, and to vote at, the special meeting. The deadline for proxies to be received is 11:59 P.M., eastern daylight time, on [•], 2009.

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 of Proxies

We are soliciting your shareholder proxy. We intend to solicit proxies by mail, but we may also use telephonic and other electronic means of solicitation. As part of our solicitation, we encourage our directors, officers and employees to solicit shareholder proxies. However, we do not engage any of our directors, officers or employees specifically to solicit proxies and we pay

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no additional compensation for solicitation. Our 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 Common Stock Proposal, the Conversion Proposal, the Reverse Stock Split Proposal and the Adjournment Proposal. 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.

We will bear the total cost of soliciting proxies from our shareholders. We have retained [•] to assist in the solicitation of proxies for a fee of $[•] plus out-of-pocket expenses. [•] will employ approximately [•] people to solicit proxies from our shareholders.

Expenses related to the solicitation of proxies from shareholders, in excess of those normally spent for an annual meeting, are expected to aggregate up to approximately $[•], of which approximately none has been spent to date.

We 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. We 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 our common stock outstanding on [•], 2009 entitles its holder to one vote on any proposal that may properly come before the special meeting. The holders of our Series A preferred stock are not entitled to vote at the special meeting.

Our directors and senior officers support the proposals and are expected to vote in favor of them.

Brokers and other nominee holders do not have the power to vote shares held by them on the foregoing proposals unless the beneficial owner of the shares directs them to vote on the 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.

Accountants

We have selected the accounting firm of T.E. Lott & Company to serve as our independent registered public accounting firm for the fiscal year ending December 31, 2009. T.E. Lott & Company has served as our independent registered public accountants since 1974. We do not expect that representatives of T.E. Lott & Company will attend the special meeting, and they will not be available to answer questions from the shareholders.

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Vote Required

Approval of each proposal requires the approval of the holders of a majority of the shares of our common stock present and voting at the special meeting.

Other Matters Related to the Special Meeting

Only matters brought before the special meeting in accordance with our bylaws will be considered. Aside from the proposals listed above in the Notice of Special Meeting, we do not know of any other matters that will be presented at the special meeting. However, if any other matters properly come before the special meeting and any adjournment, the proxy holders will vote them in accordance with their best judgment.

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NOTES REGARDING FORWARD-LOOKING STATEMENTS

Certain information included in this proxy statement and written or oral statements made by or on our behalf may contain forward-looking statements and information that are based on management s beliefs, expectations and conclusions or 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 that information. This proxy statement includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities and Exchange Act of 1934, as amended (the Exchange Act). Although we believe that the expectations and conclusions reflected in those forward-looking statements are reasonable, they are based on numerous assumptions, some of which may prove to be incorrect, and are subject to risks and uncertainties, which could cause the actual results to differ materially from our expectations. The words anticipate, believe, estimate, expect, objective, project, forecast, goal and similar expressions co proxy statement.

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, regulatory factors, economic conditions, changing interest rates, changing market conditions, availability or cost of capital, increased competition, changes in accounting standards and practices, employee workforce factors, ability to achieve cost savings and enhance revenues, the assimilation of acquired operations and establishing credit practices and efficiencies therein, acts of war or acts of terrorism or geopolitical instability and other effects of legal and administrative proceedings, changes in federal, state or local laws and regulations and other factors identified and described in Risk Factors in the prospectus included in the registration statement on Form S-1, as amended, that we have filed with the SEC. You are cautioned not to place undue reliance on any forward-looking statements made by or on behalf of us. You should read these forward-looking statements carefully because they discuss our expectations about our future performance, contain projections of our future operating results or our future financial condition, or state other forward-looking information.

All subsequent written and oral forward-looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by the applicable cautionary statements. We cannot guarantee any future results, levels of activity, performance or achievements. Except as required by law, we undertake no obligation to update any of the forward-looking statements in this proxy statement after the date of this proxy statement.

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PROPOSAL 1

APPROVAL OF AMENDMENT OF OUR RESTATED ARTICLES OF

INCORPORATION TO INCREASE AUTHORIZED SHARES OF COMMON STOCK

Introduction

During the current recession, our earnings have been materially affected by required provisions for loan losses stemming from deterioration in our construction and development portfolio. We entered into the Memphis, Birmingham/Hoover, Alabama and Middle Tennessee markets late in the most recent real estate boom cycle. Consequently, our build-up in our construction and development portfolio and the subsequent lack of demand for residential real estate caused our loan quality to deteriorate. In mid-2008, we established a moratorium on residential construction and development lending. As of March 31, 2009, we have reduced our exposure in total construction and development loans by more than $134 million, or 30.1%, from March 31, 2008.

On April 17, 2009, the Bank entered into a written agreement with the Office of the Comptroller of the Currency (the OCC), our primary federal regulator, to improve the Bank s performance. The agreement seeks to enhance the Bank s existing practices and procedures in several areas, including compliance, strategic planning, credit risk management, other real estate owned, criticized assets, internal loan review, internal audit, commercial real estate concentration risk management, brokered deposits, and financial subsidiaries. While the Bank is under this agreement, it is subject to additional oversight and restrictions in terms of growth and capital. The Bank believes it has made progress in complying with the agreement. The OCC has required the Bank to achieve by September 30, 2009, and maintain on an ongoing basis, a Tier 1 leverage ratio of 8.0% and a total risk-based capital ratio of 12.0%. These ratios are higher than the regulatory capital ratios required to meet well-capitalized standards. As of March 31, 2009, the Bank had a Tier 1 leverage ratio of 7.2% and a total risk-based capital ratio of 11.7%. If the Bank fails to comply with these required capital levels, the Bank may be subject to further administrative actions or sanctions.

To address this need for capital, on [•], 2009, we sold [•] shares of our common stock in a public offering pursuant to a registration statement with the SEC. In addition, on [•], 2009, we sold in a concurrent private offering [•] shares of Series B preferred stock, liquidation preference $100,000 per share, at a price of $100,000 per share, to a limited number of investors who qualify as accredited investors as defined in Rule 501 under the Securities Act, and to non-U.S. persons in transactions exempt from registration pursuant to Regulation S under the Securities Act. The shares of Series B preferred stock are mandatorily convertible into shares of our common stock on the business day after we obtain approval from our shareholders to increase the authorized number of shares of common stock and to convert the Series B preferred stock into common stock under applicable NASDAQ listing rules. We raised approximately $[•] million in these offerings. Approximately [•]% of the net proceeds of the offerings qualify as Tier 1 capital for regulatory purposes and are part of our general funds. We expect to use the net proceeds from the offerings to fund the Bank so it will meet the OCC s requirements, to support continued growth in the Bank s loans and deposits and for general corporate purposes.

As of the record date, 50.0 million shares of common stock were authorized for issuance under our restated articles. Approximately [•] shares were issued and outstanding and

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approximately [•] were reserved for issuance on the exercise of outstanding stock options and for future awards under our stock-based compensation plans. Thus, the maximum number of additional shares of common stock that we could issue as of the record date was approximately [•] million shares, which is substantially less than the [•] shares required to convert all of the Series B preferred stock into common stock. If our shareholders do not approve this proposal and Proposal 2 (the Conversion Proposal), we will be unable to convert our Series B preferred stock into common stock. In that event, holders of the Series B preferred stock will be entitled to receive, when, as and if declared by our board of directors, cumulative cash dividends at a rate that increases monthly from 13% per annum on October 1, 2009 to the maximum rate of 18% per annum on March 1, 2010, which will apply thereafter.

The proposed amendment to our restated articles would increase the number of authorized shares of common stock by 100.0 million shares to 150.0 million shares. If the Common Stock Proposal is approved, we will file the certificate of amendment to our restated articles with the Secretary of State of the State of Mississippi, which will become effective upon filing. The form of the proposed amendment to our restated articles to effect the increase in our authorized shares of common stock is attached as Annex A, and does not take into account the Reverse Stock Split Proposal.

If our shareholders approve this Proposal 1 (the Common Stock Proposal) but not Proposal 2 (the Conversion Proposal), we will not effect this Common Stock Proposal. If our shareholders approve this Common Stock Proposal and the Conversion Proposal but not Proposal 3 (the Reverse Stock Split Proposal), we will effect the Common Stock Proposal by filing with the Secretary of State of the State of Mississippi the amendment to our restated articles in the form of the attached *Annex A*. If our shareholders approve this Common Stock Proposal, the Conversion Proposal and the Reverse Stock Split Proposal, we will effect the Common Stock Proposal and the Reverse Stock Split Proposal by filing with the Secretary of State of the State of Mississippi the amendment to our restated articles in the form of the attached *Annex C*. If our shareholders do not approve this Common Stock Proposal but approve the Reverse Stock Split Proposal, we will effect the Reverse Stock Split Proposal, if our board of directors decides to do so, by filing with the Secretary of State of the State of Mississippi the amendment to our restated articles in the form of the attached *Annex B*.

Certain Material Terms of the Series B Preferred Stock

The Series B Preferred Stock is a single series of preferred stock. The holders of the Series B Preferred Stock have no preemptive rights and the Series B Preferred Stock is not redeemable.

Holders of Series B preferred stock have no voting rights, except as otherwise provided or as required under applicable law. Any amendment, alteration or repeal of the terms of our restated articles of incorporation, as amended, and bylaws or in the certificate of designation relating to the Series B preferred stock that would adversely affect the powers, preferences or rights of the Series B preferred stock requires the approval of holders of at least two-thirds of the issued and outstanding shares of Series B preferred stock, voting as a separate class.

Subject to obtaining the approval of this Common Stock Proposal and the Conversion Proposal, each share of Series B preferred stock will automatically convert on the effective date of

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the amendment to our restated articles. The conversion rate, subject to certain anti-dilution adjustments, is equal to [•] shares of common stock for each share of Series B preferred stock, calculated by dividing (a) $100,000, the offering price per share of the Series B preferred stock, by (b) $[•], the offering price per share of the common stock we issued in the public offering. As a condition to such mandatory conversion of the Series B preferred stock into common stock, we must pay all accrued and unpaid cumulative dividends on all outstanding shares of Series B preferred stock, including, if applicable, any additional accrued dividends. Effective immediately prior to the close of business on the mandatory conversion date, dividends shall no longer be declared on any share of Series B preferred stock, and each share of Series B preferred stock shall cease to be outstanding, in each case, subject to the right of the holder to receive any accrued and unpaid dividends on such share to the extent provided in the dividend payment provisions and any other payments to which the holder is otherwise entitled. Shares of Series B preferred stock that are duly converted in accordance with our restated articles of incorporation, as amended, or that we otherwise reacquire, will resume the status of authorized and unissued preferred stock, undesignated as to series and available for future issuance. If the conversion of any share or shares of the Series B preferred stock results in a fraction of a share of common stock, the holder will receive, in lieu of fractional shares, an amount in cash equal to that fraction multiplied by the closing price for the common stock on The NASDAQ Global Select Market on the last full trading day immediately preceding the mandatory conversion date.

From and after the date on which the Series B preferred stock was issued, holders of the Series B preferred stock are and will be entitled to receive, when, as and if declared by our board of directors, cumulative cash dividends, out of funds legally available therefor. Dividends on the Series B preferred stock began to accrue and accumulate from the date we issued the shares of Series B preferred stock. Under the terms of our Series A preferred stock, we are prohibited from paying dividends on the Series B preferred stock until we pay all accrued and unpaid cumulative dividends on the outstanding Series A preferred stock. The dividend rate on each share of Series B preferred stock is equal to: 12% per annum from the date we issued the Series B preferred stock until September 30, 2009; 13% per annum from October 1, 2009 until October 31, 2009; 14% per annum from November 1, 2009 until November 30, 2009; 15% per annum from December 1, 2009 until December 31, 2009; 16% per annum from January 1, 2010 until January 31, 2010; 17% per annum from February 1, 2010 until February 28, 2010; and 18% per annum thereafter. The amount of dividends payable is computed on the basis of a 360-day year of twelve 30-day months. Dividends are payable quarterly in arrears on the last calendar day of September, December, March and June, commencing after the date on which the Series B preferred stock is issued. The record date for payment of dividends on the Series B preferred stock will be the 15th day of the calendar month immediately preceding the month during which the dividend payment date falls or such other date as may be fixed by the board of directors that is not more than 60 nor less than 10 days prior to the applicable dividend payment date. If we fail to declare and pay any dividend on a dividend payment date, additional dividends will accrue on such unpaid dividends at the current dividend rate until all such dividends, including additional accrued dividends, are paid. We will be unable to pay any dividends on our common stock or any other series or class of preferred stock that is junior to the Series B preferred stock until all such accrued dividends, including additional accrued dividends, are paid on the Series B preferred stock.

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With respect to dividend rights and rights upon our liquidation, winding-up or dissolution, the Series B preferred stock ranks:

- junior to all of our existing and future debt obligations;
- junior to the Series A preferred stock;
- junior to any class or series of our capital stock which by its terms ranks senior to the Series B preferred stock;
- on a parity with any other class or series of our capital stock ranking *pari passu* with the Series B preferred stock as to the payment of dividends or the distribution of assets upon distribution, liquidation or winding up;
- senior to our common stock; and
- senior to any class or series of our capital stock which by its terms ranks junior to the Series B preferred stock.

Holders of outstanding shares of Series B preferred stock are entitled to receive $100,000 per share plus accrued and unpaid dividends in the event of our liquidation, dissolution or winding up, whether voluntary or not, after payment or provision for payment of our debts and other liabilities and payment to securities ranking senior to the Series B preferred stock, out of our assets available to distribution to shareholders, before any distribution of assets is made to the holders of our common stock or any junior shares as to distributions. If, after payment of all obligations ranking senior to the Series B preferred stock, the assets or proceeds of assets available for distribution among the holders of the Series B preferred stock and the holders of shares of all other capital stock ranking pari passu with the Series B preferred stock is insufficient to pay in full the liquidation preference on all those securities, then the assets or proceeds of assets will be distributed among the holders of the Series B preferred stock and the holders of the parity securities on a pro rata basis. After payment of the full amount of the Series B preferred stock liquidation preference and payment of any accrued but unpaid dividends, the holders of the Series B preferred stock will not be entitled to any further participation in any distribution of our assets.

If we at any time subdivide (by any stock split, stock dividend, recapitalization or otherwise) our outstanding shares of common stock into a greater number of shares, the conversion rate in effect immediately prior to such subdivision will be proportionately reduced and the number of shares of common stock obtainable upon conversion of the Series B preferred stock will be proportionately increased. If we combine (by combination, reverse stock split or otherwise) our outstanding shares of common stock into a smaller number of shares, the conversion rate in effect immediately prior to such combination will be proportionately increased and the number of shares of common stock obtainable upon conversion of the Series B preferred stock will be proportionately decreased.

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Certain Material Terms of the Common Stock

All of the outstanding shares of our common stock are fully paid and nonassessable. Subject to the prior rights of the holders of shares of preferred stock that may be issued and outstanding, the holders of common stock are entitled to receive:

- dividends when, as and if declared by our board of directors out of funds legally available for the payment of dividends; and
- in the event of our dissolution, to share ratably in all assets remaining after payment of liabilities and satisfaction of the liquidation preferences, if any, of then outstanding shares of preferred stock, as provided in our restated articles.

On May 5, 2009, our board of directors voted to suspend paying cash dividends until further notice. Furthermore, our ability to pay dividends is restricted by banking policies and regulations and our participation in the Troubled Asset Relief Program Capital Purchase Program (the CPP). Institutions participating in the CPP, like us, must comply with certain restrictions under the terms of the program. For so long as any preferred stock issued under the CPP remains outstanding, including our Series A preferred stock, we are prohibited from increasing dividends on our common stock. We are also prohibited from making certain repurchases of equity securities, including our common stock, without the U.S. Treasury s prior consent until the third anniversary of the U.S. Treasury s investment or until the U.S. Treasury has transferred all of the Series A preferred stock to third parties.

Each holder of common stock is entitled to one vote for each share held of record on all matters presented to a vote at a shareholders meeting, including the election of directors. Holders of common stock have no cumulative voting rights or preemptive rights to purchase or subscribe for any additional shares of common stock or other securities, and there are no conversion rights or redemption or sinking fund provisions with respect to the common stock. Our common stock is traded on the NASDAQ Global Select Market under the symbol CADE.

Effect on Our Common Stock

This amendment to the restated articles will provide additional shares of common stock that we can issue from time to time for corporate purposes without obtaining shareholder approval unless that approval is required by applicable law or regulation. The board of directors believes that it is necessary to increase the number of authorized shares of common stock for our continued growth. The authorization of the additional shares would not, by itself, have any effect on the rights of shareholders. The issuance of shares of common stock upon the conversion of the Series B preferred stock, however, will have an immediate dilutive effect on earnings per share and the voting power of existing shareholders at the time of the issuance. The issuance of additional shares, or the perception that additional shares may be issued, may also adversely affect the market price of our common stock.

Vote Required

Approval of the amendment to our restated articles requires the affirmative vote of the majority of the votes cast on this proposal. Accordingly, the failure to cast a vote on this proposal

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will not affect whether this proposal is approved, and an abstention will not count as a vote in favor of or against this proposal.

No Appraisal or Dissenter s Rights

Under Mississippi law, our shareholders are not entitled to appraisal or dissenter s rights with respect to the Common Stock Proposal.

Recommendation of our Board of Directors

On July 21, 2009, our board of directors unanimously approved a resolution recommending that Section 5(a) of our restated articles be amended to increase the number of shares of our authorized common stock, subject to the approval of our holders of common stock. We are asking you to approve this amendment, which is reflected in *Annex A* to this proxy statement. No change is being proposed to the authorized number of shares of our preferred stock, which will remain at 10.0 million shares. (If our shareholders approve this Common Stock Proposal, the Conversion Proposal and the Reverse Stock Split Proposal, we will file with the Mississippi Secretary of State the amendment to our restated articles in the form attached as *Annex C*.)

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PROPOSAL 2

APPROVAL OF CONVERSION OF SERIES B PREFERRED STOCK

As noted above, we have issued [•] shares of our Series B preferred stock that are convertible into [•] shares of common stock upon approval of the Common Stock Proposal and this Proposal 2 (the Conversion Proposal). Because our common stock is listed on the NASDAQ Global Select Market, we must comply with NASDAQ rules and regulations. Subject to certain exceptions including for a public offering for cash, Section 5635 of the NASDAQ Marketplace Rules requires shareholder approval prior to any issuance or sale of common stock if (i) the common stock to be issued has, or will have upon issuance, voting power equal to or greater than 20% or more of the voting power outstanding before the issuance or (ii) the number of shares of common stock to be issued is, or will be upon issuance, equal to or greater than 20% of the number of shares of common stock outstanding before the issuance, unless the sale or conversion price is greater than the greater of the pre-issuance trading price and book value. The conversion of the Series B preferred stock into common stock will result in the issuance of shares of our common stock exceeding 20% of our common shares outstanding immediately prior to the offerings. Therefore, under Section 5635 of the NASDAQ Marketplace Rules, we are seeking shareholder approval of the conversion of our Series B preferred stock into common stock.

If our shareholders do not approve this Conversion Proposal and we are therefore unable to complete the conversion of the Series B preferred stock into common stock, we will be adversely affected. The Series B preferred stock will pay cumulative dividends, when, if and in the manner declared by the board of directors, at a rate per annum equal to 12%. If the mandatory conversion of the Series B preferred stock is not effected on or before September 30, 2009, the dividend rate on the Series B preferred stock will immediately thereafter increase by an additional 1.0% per annum, and will further increase every month thereafter by an additional 1.0% per annum until the date the mandatory conversion is effected (subject to a maximum dividend rate of 18% per annum). As a condition of the conversion, we must pay all dividends on the Series B preferred stock that have accrued up to the conversion date. If the conversion is effected, we will no longer be obligated to pay dividends on the Series B preferred stock.

Effect on Our Common Stock

The conversion of our Series B preferred stock into common stock will have an immediate dilutive effect on earnings per share and the voting power of existing shareholders at the time of the conversion.

Vote Required

Approval of the conversion of the Series B preferred stock into common stock requires the affirmative vote of the majority of the votes cast on this proposal. Accordingly, the failure to cast a vote on this proposal will not affect whether this proposal is approved, and an abstention will not count as a vote in favor of or against this proposal.

No Appraisal or Dissenter s Rights

Under Mississippi law, our shareholders are not entitled to appraisal or dissenter s rights with respect to this proposal.

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Recommendation of our Board of Directors

On July 21, 2009, our board of directors unanimously approved a resolution declaring it advisable and in the best interests of the Company and its shareholders to approve the conversion terms of the Series B preferred stock.

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PROPOSAL 3

APPROVAL OF AMENDMENT OF OUR RESTATED ARTICLES OF INCORPORATION TO EFFECT ONE-FOR-FIVE REVERSE SPLIT

Introduction

Our board of directors has unanimously adopted and is submitting for shareholder approval an amendment to our restated articles that would effect a one-for-five reverse split of our common stock. The form of the proposed amendment to our restated articles to effect the reverse stock split attached as *Annex B* and does not take into account the effect of the Common Stock Proposal. The form of the proposed amendment to our restated articles to effect both the Common Stock Proposal and the reverse stock split is attached as *Annex C*.

If our shareholders approve this Proposal 3 (the Reverse Stock Split Proposal) but do not approve either Proposal 1 (the Common Stock Proposal) or Proposal 2 (the Conversion Proposal), we will effect this Reverse Stock Split Proposal, if our board of directors decides to do so, by filing with the Secretary of State of the State of Mississippi the amendment to our restated articles in the form of the attached *Annex B*. If our shareholders approve the Common Stock Proposal, the Conversion Proposal and this Reverse Stock Split Proposal, we will effect the Common Stock Proposal and this Reverse Stock Split Proposal by filing with the Secretary of State of the State of Mississippi the amendment to our restated articles in the form of the attached *Annex C*. If our shareholders approve the Common Stock Proposal and the Conversion Proposal but not this Reverse Stock Split Proposal, we will effect the Common Stock Proposal by filing with the Secretary of State of the State of Mississippi the amendment to our restated articles in the form of the attached *Annex A*.

Reasons for the Reverse Stock Split

We believe that the increased market price of our common stock expected as a result of implementing the reverse stock split may improve the marketability and liquidity of our common stock and encourage interest and trading in our common stock. Because of the trading volatility often associated with low-priced stocks, many brokerage houses and institutional investors have internal policies and practices that either prohibit them from investing in low-priced stocks or tend to discourage individual brokers from recommending low-priced stocks to their customers. Some of those policies and practices may make the processing of trades in low-priced stocks economically unattractive to brokers. Our management believes that additional interest by the investment community in our common stock, of which there can be no assurance, is desirable and could result in a better trading market for our common stock.

Moreover, because brokers   commissions on low-priced stocks generally represent a higher percentage of the stock price than commissions on higher-priced stocks, the current average price per share of common stock can result in individual shareholders paying transaction costs representing a higher percentage of their total share value than would be the case if the share price were substantially higher. Our board of directors is hopeful that the anticipated higher market price will reduce, to some extent, the negative effects on the liquidity and marketability of our common stock inherent in some of the policies and practices of institutional investors and brokerage houses described above.

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Risk Factors Associated with the Reverse Stock Split

We cannot assure you that the reverse stock split, if implemented, will have the desired effect of raising the price of our common stock over the long term. The history of similar stock split combinations for companies in like circumstances is varied. There is no assurance that:

the trading price per share of common stock after the reverse stock split would rise in proportion to the reduction in the number of pre-split shares of common stock outstanding before the reverse stock split; and

the reverse stock split would result in a per share price that would attract brokers and investors who do not trade in low-priced stocks.

The market price of our common stock would also be based on our performance and other factors, some of which are unrelated to the number of shares outstanding. If the reverse stock split is consummated and the trading price of our common stock declines, the percentage decline as an absolute number and as a percentage of our overall market capitalization may be greater than would occur in the absence of the reverse stock split.

Effect on Existing Shares of Common Stock

The proposed reverse stock split would affect all of our shareholders uniformly and would not affect any shareholder s percentage ownership interest in us, except to the extent that the reverse stock split results in any of our shareholders owning a fractional share, as described below. Proportionate voting rights and other rights and preferences of the holders of our common stock would not be affected by a reverse stock split, other than as a result of the payment of cash in lieu of fractional shares. For example, a holder of 1.0% of the voting power of the outstanding shares of common stock immediately before the effective date of the reverse stock split would continue to hold 1.0% of the voting power of the outstanding shares of common stock after the reverse stock split. The reverse stock split will not materially affect the number of our shareholders of record because only shareholders who own fewer than five pre-split shares of common stock will no longer be shareholders after the reverse stock split.

Effect on Authorized but Unissued Shares of Common Stock

Without taking into account the effect of the Common Stock Proposal, we are currently authorized to issue up to a total of 50.0 million shares of common stock, of which [•] shares were outstanding on [•], 2009. If our shareholders approve the Common Stock Proposal and the Conversion Proposal, the number of authorized shares of common stock would increase by 100.0 million shares to 150.0 million shares. If our shareholders approve the Common Stock Proposal, the Conversion Proposal and the Reverse Stock Split Proposal, immediately following the effectiveness of the proposed amendment to our restated articles attached as Annex C, the total authorized number of shares of common stock will be 150.0 million shares, as the reverse stock split will not affect the number of shares of authorized common stock.

Effect on Authorized but Unissued Shares of Preferred Stock

Currently, we are authorized to issue up to a total of 10,000,000 shares of preferred stock. We have issued and outstanding 44,000 shares of Series A preferred stock and [•] shares of

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Series B preferred stock. The proposed amendment to our restated articles will not affect the total authorized number of shares of preferred stock.

Effect on Our Stock Plans

As of June 29, 2009, we had approximately 311,286 shares subject to stock options and 42,382 shares subject to performance shares outstanding under our stock incentive plans. Under our 2006 Long-Term Incentive Compensation Plan (the 2006 Plan), in the event of a reorganization, recapitalization, stock split, stock dividend, combination of shares, merger, consolidation, rights offering, or any other change in our corporate structure or shares, the compensation committee of our board of directors shall make such adjustment, if any, as it may deem appropriate in the number and kind of shares authorized by the 2006 Plan; in the number and kind of shares covered by the 2006 Plan.

Accordingly, if the reverse stock split is approved, and upon the filing of the amendment to our restated articles with the Secretary of State of the State of Mississippi, we expect that the number of all outstanding equity awards will be proportionately adjusted by the compensation committee, using the same one-for-five split ratio, pursuant to its existing authority under the 2006 Plan. In connection with the reverse stock split, the compensation committee will also implement certain additional technical, conforming adjustments under the 2006 Plan, including ratably reducing the authorized shares of common stock available for awards under the 2006 Plan. For example, based upon the one-for-five split ratio, the 707,618 shares that remain available for issuance under the 2006 Plan as of [June 29], 2009, would be adjusted to 141,524 shares, subject to increase as and when awards made under the 2006 Plan expire or are forfeited and are returned per the terms of the 2006 Plan. In addition, the exercise price per share under each stock option would be increased by five times, such that upon an exercise, the aggregate exercise price payable by the optionee to us would remain the same. For illustrative purposes only, an outstanding stock option for 3,000 shares of common stock, exercisable at $4.00 per share, would be adjusted as a result of the one-for-five split ratio into an option exercisable for 600 shares of common stock at an exercise price of $20.00 per share.

Effect on Par Value

The proposed amendment to our restated articles will not change the $1.00 per share par value of our common stock.

Effect on Registration

Our common stock is currently registered with the SEC under Section 12(b) of the Exchange Act and we are subject to the periodic reporting and other requirements of the Exchange Act. The proposed reverse stock split will not affect the registration of our common stock under the Exchange Act.

No Going Private Transaction

Notwithstanding the decrease in the number of outstanding shares following the proposed reverse stock split, our board of directors does not intend for this transaction to be the first step in a going private transaction within the meaning of Rule 13e-3 of the Exchange Act.

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Potential Anti-Takeover Effect

Although the increased proportion of unissued authorized shares to issued shares that will result from our shareholders approval of the Common Stock Proposal, the Conversion Proposal and the Reverse Stock Split Proposal could, under certain circumstances, have an anti-takeover effect, the reverse stock split is not in response to any effort of which we are aware to accumulate shares of our common stock or obtain control of us, nor is it part of a plan by management to recommend a series of anti-takeover actions to our board of directors and shareholders.

Effectiveness of Reverse Stock Split

The reverse stock split, if approved by our shareholders, would become effective on the date of filing of a Certificate of Amendment to our restated articles with the Secretary of State of the State of Mississippi. We expect to make that filing on the business day after the date of the special meeting, assuming the shareholders approve the amendment. However, the board of directors will determine the exact timing of the filing of the amendment based on its evaluation as to when that action will be the most advantageous to us and our shareholders, and it is possible that we would file the amendment to effect the Common Stock Proposal but defer until a later date the filing of the amendment to effect the Reverse Stock Split Proposal. In addition, the board of directors reserves the right, notwithstanding shareholder approval and without further action by the shareholders, to elect not to proceed with the reverse stock split if, at any time before filing the amendment, the board of directors determines, in its sole discretion, that it is no longer in our best interests and the best interests of our shareholders.

Treatment of Fractional Shares

No scrip or fractional shares will be issued if, as a result of the reverse stock split, a shareholder will otherwise become entitled to a fractional share. Instead, we will pay to the shareholder, in cash, the value of any fractional share arising from the reverse stock split. The cash payment would equal the closing sale price per share of our common stock as reported on The NASDAQ Global Select Market on the last trading day preceding the Effective Date multiplied by the number of shares of pre-split common stock held by the shareholder that would otherwise have been exchanged for such fractional share. No transaction costs will be assessed to shareholders for the cash payment. Shareholders will not be entitled to receive interest for the period of time between the effective date of the reverse stock split and the date payment is made for their fractional shares.

If you do not hold at least five shares of pre-split common stock and you want to hold our common stock after the reverse stock split, you may do so by taking either of the following actions far enough in advance so that it is completed before the reverse stock split is effected:

- purchase enough shares of our common stock so that you hold at least five shares of common stock in your account; or

- if applicable, consolidate your accounts so that you hold at least five shares of our common stock in one account. Common stock held in registered form (that is, shares you hold in your own name on our share register maintained by our transfer agent) and common stock held in street name (that is, shares you beneficially

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hold through a bank, broker or other nominee) will be considered held in separate accounts and will not be aggregated when implementing the reverse stock split. Also, shares of common stock held in registered form but in separate accounts by the same investor will not be aggregated when implementing the reverse stock split.

After the reverse stock split, then-current shareholders will have no further interest in us with respect to their fractional shares. A person otherwise entitled to a fractional share will not have any voting, dividend or other rights in respect of the person s fractional share except to receive the cash payment described above. Those cash payments would reduce the number of post-split shareholders to the extent that there are shareholders holding fewer than five pre-split shares. Reducing the number of post-split shareholders, however, is not the purpose of this proposal.

Exchange of Stock Certificates and Payment for Fractional Shares

The combination of our outstanding shares of common stock as a result of the reverse stock split will occur automatically on the effective date of the reverse stock split without any further action on the part of our shareholders and without regard to the date that stock certificates representing pre-split shares of common stock are physically surrendered for new stock certificates representing post-split shares of common stock.

As soon as practicable after the effective date, transmittal forms will be mailed to each holder of record of certificates for shares of our common stock to be used in forwarding those certificates for surrender in exchange for any cash payment due for fractional shares and, if so elected by the holder, certificates representing the number of shares of our post-split common stock that the shareholder is entitled to receive as a result of the reverse stock split. Our transfer agent will act as exchange agent for purposes of implementing the cash payment in lieu of fractional shares and the exchange of stock certificates. The transmittal forms will be accompanied by instructions specifying other details of the exchange. Upon receipt of the transmittal form, each shareholder should send to the exchange agent the certificates representing shares of our common stock before the reverse stock split in accordance with the applicable instructions. Each shareholder who surrenders certificates will receive any cash payment due for fractional shares and new certificates representing the whole number of shares of our common stock that the shareholder holds as a result of the reverse stock split. No new certificates and no payments in lieu of fractional shares will be issued to a shareholder until the shareholder has properly delivered to the exchange agent the shareholder s outstanding stock certificate(s) together with the properly completed and executed transmittal form to the exchange agent.

SHAREHOLDERS SHOULD NOT DESTROY ANY PRE-SPLIT STOCK CERTIFICATES AND SHOULD NOT SUBMIT ANY STOCK CERTIFICATES UNTIL THEY ARE ASKED TO DO SO.

Accounting Consequences

The par value per share of common stock would remain unchanged at $1.00 per share after the reverse stock split. As a result, on the effective date of the reverse stock split, the stated capital on our balance sheet attributable to the common stock will be reduced proportionately from its present amount to reflect the one-for-five ratio of the reverse stock split, and the additional paid-in

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capital account will be credited with the amount by which the stated capital is reduced. The per share common stock net income or loss and net book value will be increased because there will be fewer shares of common stock outstanding. We do not anticipate that any other accounting consequences would arise from the reverse stock split.

Material U.S. Federal Income Tax Consequences of the Reverse Stock Split

The following discussion is a summary of certain U.S. federal income tax consequences of the reverse stock split to us and to holders of our common stock that hold such stock as a capital asset for U.S. federal income tax purposes. This discussion is based on the Internal Revenue Code of 1986, as amended (the Code), its legislative history, regulations, rulings and decisions in effect on the date of this proxy statement, all of which are subject to change (possibly with retroactive effect) and to differing interpretations. This discussion applies to holders that are U.S. persons (as defined under the Code) and non-U.S. persons (as used in this section, a non-U.S. holder is a beneficial owner of our common stock that is neither a U.S. person nor a partnership (or other entity treated as a partnership for U.S. federal income tax purposes)). This discussion does not address all aspects of U.S. federal income taxation that may be relevant to holders in light of their particular circumstances or to holders who may be subject to special tax treatment under the Code, including, without limitation, holders who are dealers in securities or foreign currency, insurance companies, tax-exempt organizations, banks, financial institutions, regulated investment companies, real estate investment trusts, broker-dealers, partnerships and other entities treated as partnerships for U.S. federal income tax purposes, holders who hold our common stock as part of a hedge, straddle, conversion or other risk reduction transaction, persons liable for alternative minimum tax, U.S. expatriates, controlled foreign corporations, passive foreign investment companies, or holders who acquired our common stock pursuant to the exercise of compensatory stock options, the vesting of previously restricted shares of stock or otherwise as compensation.

We have not sought, and will not seek, an opinion of counsel or a ruling from the Internal Revenue Service regarding the U.S. federal income tax consequences of the reverse stock split. The following summary does not address any tax consequences of the reverse stock split other than U.S. federal income tax consequences, and specifically does not address potentially applicable foreign, state, or local tax laws. **The income tax treatment of a shareholder may vary depending on the particular facts and circumstances of the shareholder. Accordingly, each holder of common stock is urged to consult the shareholder s independent tax advisor with respect to the tax consequences of the reverse stock split to the shareholder.**

We believe that the U.S. federal income tax consequences for a holder of our common stock pursuant to the reverse stock split will be as follows:

1. the holder should not recognize any gain or loss for U.S. federal income tax purposes (except for cash, if any, received in lieu of a fractional share of common stock, see below for the potential consequences of a non-U.S. holder receiving cash in lieu of a fractional share of common stock);

2. the holder s aggregate tax basis of the common stock received pursuant to the reverse stock split should be equal to the aggregate tax basis of that holder s common stock surrendered in exchange therefor (excluding any portion of the holder s basis allocated to fractional shares);

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3. the holder s holding period for the common stock received pursuant to the reverse stock split should include such holder s holding period for the common stock surrendered in exchange therefor;

4. a U.S. holder who receives a cash payment in respect of a fractional share of common stock generally should be treated as if that fractional share had been issued pursuant to the reverse stock split and then redeemed by us, and the holder generally should recognize capital gain or loss with respect to that payment, measured by the difference between the amount of cash received and the holder s tax basis in such fractional share; and

5. we should not recognize gain or loss as a result of the reverse stock split.

A non-U.S. holder who receives a cash payment in respect of a fractional share of common stock generally should be treated as if such fractional share had been issued pursuant to the reverse stock split and then redeemed by us, and such holder generally will not be subject to U.S. federal income tax on such gain unless: (1) the gain is effectively connected with a trade or business of the non-U.S. holder in the United States (and, if required by an applicable income tax treaty, is attributable to a U.S. permanent establishment of the non-U.S. holder); (2) the non-U.S. holder is an individual who is present in the United States for 183 days or more in the taxable year of the payment, and certain other conditions are met; or (3) we are or have been a United States real property holding corporation for U.S. federal income tax purposes. An individual non-U.S. holder described in (1) will be subject to tax on the net gain (measured by the difference between the amount of cash received and such holder s tax basis in such fractional share) from the payment of cash under regular graduated U.S. federal income tax rates. An individual non-U.S. holder described in (2) will be subject to a flat 30% tax on the gain from the payment of cash, which may be offset by U.S. source capital losses, even though the individual is not considered a resident of the United States. If a non-U.S. holder that is a foreign corporation falls under (1), it will be subject to tax on its net gain in the same manner as if it were a U.S. person as defined under the Code, and, in addition, may be subject to the branch profits tax equal to 30% of its effectively connected earnings and profits or at such lower rate as may be specified by an applicable income tax treaty.

We believe we are not and do not anticipate becoming a United States real property holding corporation for U.S. federal income tax purposes.

The use of our net operating loss carryforwards may be limited if an ownership change of over 50 percentage points occurs during any three-year period. While we have not run estimates on the percentage change from our recent issuance of the Series A preferred stock and our common stock, it appears that we have had a change of ownership of more than 50 percentage points at some point in the last year. As a result, we will not be able to use more than a capped amount of our net operating loss carryforwards on an annual basis. While the determination of such capped amount is inherently complicated, the basic determination of the capped amount under Code section 382 requires multiplying (1) the aggregate value of our shares on the date of the ownership change by (2) the applicable long-term, tax-exempt rate, which is 4.58% in July 2009.

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Vote Required

The approval of the Reverse Stock Split Proposal requires the affirmative vote of the majority of the votes cast on this proposal. Accordingly, the failure to cast a vote on this proposal will not affect whether this proposal is approved, and an abstention will not count as a vote in favor of or against this proposal.

No Appraisal or Dissenter s Rights

Under Mississippi law, our shareholders are not entitled to appraisal or dissenter s rights with respect to the Reverse Stock Split Proposal.

Recommendation of our Board of Directors

On July 21, 2009, our board of directors unanimously approved a resolution recommending that our restated articles be amended to effect the one-for-five reverse stock split, subject to the approval of our holders of common stock. We are asking you to approve this amendment, which is reflected in *Annex B* to this proxy statement. No change is being proposed to the authorized number of shares of our preferred stock, which will remain at 10.0 million shares. (If our shareholders approve the Common Stock Proposal, the Conversion Proposal and the Reverse Stock Split Proposal, we will file with the Mississippi Secretary of State the amendment to our restated articles in the form attached as *Annex C*.)

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PROPOSAL 4

APPROVAL OF THE ADJOURNMENT OF SPECIAL MEETING

If necessary or appropriate in the circumstances at the special meeting, we may ask our shareholders to authorize the named proxies to approve one or more postponements or adjournments of the special meeting if sufficient votes have not yet been cast to approve Proposal 1, Proposal 2 or Proposal 3 at the time of the special meeting, to enable us to solicit additional proxies. This proposal relates only to a postponement or adjournment of the special meeting for purposes of soliciting additional proxies to obtain the requisite shareholders approval to approve Proposal 1, Proposal 2 or Proposal 3. Our board of directors retains full authority to postpone or adjourn the special meeting for any other purpose, including the absence of a quorum, or to postpone the special meeting before it is convened, without the consent of the shareholders.

If the special meeting is postponed or adjourned, we would not be required to give notice of the time and place of the adjourned meeting unless our board of directors fixed a new record date for the special meeting.

Our Board of Directors recommends that you vote FOR Proposal 4.

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SELECTED HISTORICAL OPERATING AND FINANCIAL DATA

The following tables provide our selected historical operating and financial data for the periods and as of the dates indicated. You should read this information in conjunction with our audited consolidated financial statements, including the related notes, and with Management s Discussion and Analysis of Financial Condition and Results of Operations, which are included elsewhere in this proxy statement. Except for the data under Selected Financial Ratios, Selected Performance Ratios, Asset Quality Ratios and Capital Ratios, the summary historical consolidated financial data for the years ended December 31, 2008, December 31, 2007 and December 31, 2006, and the summary historical consolidated financial data as of December 31, 2008 and December 31, 2007, are derived from our audited consolidated financial statements, which are included elsewhere in this proxy statement. The summary historical consolidated financial data for the years ended December 31, 2005 and December 31, 2004, and the summary historical consolidated financial data as of December 31, 2006, December 31, 2005 and December 31, 2004 are derived from our audited consolidated financial statements, which are not included elsewhere in this proxy statement.

The selected historical consolidated financial data as of March 31, 2009 and for the three months ended March 31, 2009 and 2008 are derived from our unaudited consolidated financial statements, which are included elsewhere in this proxy statement. The selected historical consolidated financial data as of March 31, 2008 (balance sheet) are derived from unaudited consolidated financial statements that are not included in this proxy statement. We have prepared our unaudited consolidated financial statements on the same basis as our audited financial statements and have included all adjustments, consisting of normal and recurring adjustments, that we consider necessary for a fair presentation of our financial position and operating results for the unaudited periods. The financial information presented in the table below is not necessarily indicative of our financial condition, results of operations or cash flows of any other period.

	As of and for the Three Months Ended March 31,		As of and for the Year Ended December 31,				
	2009	2008	2008	2007	2006	2005	2004
	(unaudited)		(audited)				
	(Dollars in thousands, except ratios and per share data)						
Summary of Operations:							
Total interest income	$ 21,706	$ 28,609	$ 102,857	$ 122,113	$ 96,994	$ 73,184	$ 62,384
Total interest expense	9,353	14,090	47,330	64,845	46,512	27,970	21,186
Net interest income	12,353	14,519	55,527	57,268	50,482	45,214	41,198
Provision for loan losses	32,761	3,000	28,599	8,130	1,656	2,128	3,522
Net interest (loss) income after provision for loan losses	(20,408)	11,519	26,928	49,138	48,826	43,086	37,676
Securities gains (losses), net	63	203	390	(17)	66	159	223
Total other income	5,807	6,003	22,992	17,485	19,993	19,935	20,107
Noninterest expense	81,543[1]	13,831	58,295	54,042	49,682	44,745	41,727
(Loss) income before income taxes	(96,144)	3,691	(8,375)	12,581	19,137	18,276	16,056
Income taxes (benefit) expense	(11,983)	930	(5,019)	2,788	4,984	4,522	3,757
Net (loss) income	(84,161)	2,761	(3,356)	9,793	14,153	13,754	12,299
Per Share Data:							
Net (loss) income basic	$ (7.06)	$ 0.23	$ (0.28)	$ 0.82	$ 1.37	$ 1.68	$ 1.51
Net (loss) income diluted	(7.06)	0.23	(0.28)	0.82	1.37	1.68	1.50
Net (loss) income per share applicable to common shareholders basic	(7.09)	0.23	(0.28)	0.82	1.37	1.68	1.51
Net (loss) income per share applicable to common shareholders diluted	(7.09)	0.23	(0.28)	0.82	1.37	1.68	1.50

Dividends	0.05	0.25	0.60	1.00	1.00	0.98	0.96
Book value per common share	8.75	16.56	15.57	16.33	16.09	12.17	11.94
Tangible book value per common share	8.60	10.73	9.80	10.47	10.09	8.04	7.71

(1) We recognized a $66.8 million impairment loss on goodwill for the first quarter of 2009, eliminating all goodwill from our balance sheet.

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	As of and for the Three Months Ended March 31,		As of and for the Year Ended December 31,				
	2009	2008	2008	2007	2006	2005	2004
	(unaudited)				(audited)		
	(Dollars in thousands, except for ratios)						
Financial Condition Data:							
Total assets [1]	$ 2,074,926	$ 2,009,850	$ 1,979,269	$ 1,984,155	$ 1,899,948	$ 1,446,117	$ 1,439,573
Net loans	1,253,961	1,348,778	1,307,599	1,322,921	1,210,710	851,332	817,649
Total deposits	1,602,032	1,396,539	1,461,159	1,425,566	1,460,523	1,121,684	1,116,373
Long-term obligations [2]	200,193	161,807	181,437	94,284	110,832	126,779	121,991
Total shareholders equity	146,073	197,157	185,565	194,370	191,265	116,984	114,766
Tangible shareholders equity	144,252	127,695	116,716	124,632	119,923	77,330	74,107
Selected Financial Ratios:							
Net interest margin [3]	2.64%	3.23%	3.07%	3.28%	3.46%	3.55%	3.37%
Selected Performance Ratios:							
Return on average assets	N/A[4]%	0.60%	N/A[4]%	0.50%	0.90%	1.00%	1.00%
Return on average equity	N/A[4]	5.60	N/A[4]	5.10	9.00	11.80	11.00
Return on average tangible equity	N/A[4]	8.80	N/A[4]	8.10	13.30	18.00	13.70
Dividend payout ratio		108.70		122.00	73.00	58.30	63.60
Average equity to average asset ratio	8.18	9.80	9.60	9.90	9.60	8.20	8.70
Efficiency ratio [5]	449.03	67.40	74.20	72.30	70.50	68.70	68.10
Asset Quality Ratios [6] :							
Ratio of nonperforming assets to total assets	3.05%	1.36%	2.54%	1.00%	0.38%	0.53%	0.62%
Ratio of nonperforming loans to total loans	3.41	1.00	2.38	0.68	0.22	0.30	0.56
Ratio of allowance for loan losses to nonperforming loans	88.47	109.91	65.51	163.36	447.88	356.24	241.79
Ratio of allowance for loan losses to total loans	3.02	1.10	1.56	1.12	1.00	1.08	1.32
Capital Ratios:							
Tier 1 leverage ratio [7]	8.39%	8.05%	7.70%	8.00%	9.20%	8.70%	8.20%
Tier 1 risk-based capital	12.26	10.31	10.10	10.20	11.70	12.50	12.20
Total risk-based capital	13.52	11.30	11.40	11.20	12.50	13.40	13.40

(1) We recognized a $66.8 million impairment loss on goodwill for the first quarter of 2009, eliminating all goodwill from our balance sheet.

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

(3) Net interest margin is net interest income divided by average earning assets.

(4) These percentages are negative and therefore not meaningful.

(5) Efficiency ratio is noninterest expense divided by the sum of net interest income and noninterest income (excluding taxes and the provision for loan losses).

(6) Nonperforming loans include loans 90 or more days past due, nonaccrual loans and restructured loans.

(7) Tier 1 leverage ratio is defined as Tier 1 capital (pursuant to risk-based capital guidelines) as a percentage of adjusted average assets.

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GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures

Some of the financial data included in our summary consolidated financial data are not measures of financial performance recognized by GAAP. These non-GAAP financial measures are tangible book value per share, tangible shareholders equity, and return on average tangible equity. Our management uses these non-GAAP measures in its analysis of our performance.

Tangible book value per share is defined as total equity reduced by recorded goodwill and other intangible assets divided by total common shares outstanding. This measure is important to investors interested in changes from period-to-period in book value per share exclusive of changes in intangible assets. Goodwill, an intangible asset that is recorded in a purchase business combination, has the effect of increasing total book value while not increasing the tangible assets of a company. For companies such as ours that have engaged in business combinations, purchase accounting can result in the recording of significant amounts of goodwill related to those transactions.

Tangible shareholders equity is shareholders equity less goodwill and other intangible assets.

Return on average tangible equity is defined as annualized earnings for the period divided by average equity reduced by average goodwill and other intangible assets.

You should not view these disclosures as a substitute for results determined in accordance with GAAP, and they are not necessarily comparable to non-GAAP performance measures that other companies use. The following reconciliation table provides a more detailed analysis of these non-GAAP performance measures:

	As of March 31,		As of December 31,				
	2009	2008	2008	2007	2006	2005	2004
Book value per common share	$ 8.75	$ 16.56	$ 15.57	$ 16.33	$ 16.09	$ 12.16	$ 11.94
Effect of intangible assets per share	(0.15)	(5.83)	(5.77)	(5.86)	(6.00)	(4.12)	(4.23)
Tangible book value per share	8.60	10.73	9.80	10.47	10.09	8.04	7.71
Return on average equity	N/A[(1)]%	5.6%	N/A[(1)]%	5.1%	9.0%	11.8%	11.0%
Effect of intangible assets	N/A[(1)]	3.2	N/A[(1)]	3.0	4.3	6.2	2.7
Return on average tangible equity	N/A[(1)]	8.8	N/A[(1)]	8.1	13.3	18.0	13.7

(1) These percentages are negative and therefore not meaningful.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following provides a narrative discussion and analysis of our results of operations and financial condition and changes in results of operations and financial condition as of and for the periods indicated. You should read this discussion along with the consolidated financial statements, including the notes to them, and the supplemental financial data included elsewhere in this proxy statement.

Introduction and Management Overview

Like most community banks, we derive most of our income from interest we receive on our loans and investments. Our primary source of funds for making these loans and investments is our deposits, on which we pay interest. Consequently, one of the key measures of our success is our amount of net interest income. Another key measure is the spread between the yield we earn on these interest-earning assets and the rate we pay on our interest-bearing liabilities.

Summary of Quarter Ended March 31, 2009

Participation in Capital Purchase Program. In January 2009, we sold 44,000 shares of non-voting Series A preferred stock, for an aggregate purchase price of $44.0 million and issued a warrant to purchase up to 1,145,833 shares of our common stock to the U.S. Treasury under the CPP.

Net Interest Income. Our net interest income was $12.4 million for the first quarter of 2009, compared to $14.5 million for the first quarter of 2008. Our net interest margin was 2.64% for the first quarter of 2009, compared to 3.23% for the first quarter of 2008. Our loan yields declined by 175 basis points for the first quarter of 2009, compared to the first quarter of 2008. This lower yield was partly attributable to the 200 basis point reduction in interest rates by the Federal Reserve between March 31, 2008 and March 31, 2009. Our yield on earning assets declined by 171 basis points for the first quarter of 2009, compared to the first quarter of 2008, but was offset somewhat by a 4.7% increase in average earning assets during this period.

Provision for Loan Losses. Our provision for loan losses was $32.8 million for the first quarter of 2009, compared to $3.0 million for the first quarter of 2008. We incurred $14.4 million in net charge-offs for the first quarter of 2009, compared to $2.9 million for the first quarter of 2008. Most of the increase in net charge-offs is attributable to two real estate development loans to one borrower. Also, we significantly increased our allowance for loan losses during the first quarter of 2009. Our allowance for loan losses was $39.1 million at March 31, 2009, compared to $20.7 million at December 31, 2008. We have experienced an increase in non-performing loans, mostly due to deterioration in our construction and development loan portfolio. During the first quarter of 2009, increased weakness in our Middle Tennessee and Florida markets were reflected in our provision for loan losses in the first quarter.

Other Income (Noninterest Income). Our noninterest income, exclusive of securities gains and losses, was relatively flat between the first quarter of 2008 and the first quarter of 2009.

Other Expense (Noninterest Expense). Our noninterest expense increased to $81.5 million for the first quarter of 2009, compared to $13.8 million for the first quarter of 2008, representing

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an increase of $67.7 million, or 489.6%. This increase was largely the result of a $66.8 million impairment loss on goodwill. The remaining $0.9 million increase resulted primarily from increases in FDIC insurance premiums and expenses relating to OREO.

Net Income/(Loss). We reported a net loss of $84.5 million, or $(7.09) per common share, for the first quarter of 2009, compared to net income of $2.8 million, or $0.23 per common share, for the first quarter of 2008.

Loan Portfolio. As of March 31, 2009, our loan portfolio was $1.293 billion, distributed among commercial real estate loans, commercial and industrial loans, 1-4 family mortgages and consumer loans. As of March 31, 2009, our loan portfolio was composed of approximately 63.0% variable rate loans and 37.0% fixed rate loans. Beginning in the third quarter of 2008, we made a concerted effort to reduce our concentration in commercial real estate loans, particularly residential construction and development loans, which typically have higher yields but also higher risk. Overall, our average loan balances declined by approximately $33.4 million, or 2.53%, to $1.314 billion for the first quarter of 2009, compared to $1.347 billion for the first quarter of 2008.

Investment Portfolio. The average balance of our investment portfolio was $467.8 million for the first quarter of 2009, compared to $443.9 million for the first quarter of 2008, representing an increase of $23.9 million, or 5.4%. However, our yield on securities declined by 54 basis points to 4.39% over this same period.

Deposits. Our overall cost of funds declined by 124 basis points between the first quarter of 2008 and the first quarter of 2009. Average interest-bearing deposits increased 8.3% to $1.34 billion for the first quarter of 2009, compared to $1.24 billion for the first quarter of 2008. This increase was partially offset by a decline of $49.6 million, or 13.5%, in average borrowed funds.

During the first quarter of 2009, we accumulated an additional $166 million in deposits, held at March 31, 2009 in our Federal Reserve account and in short-term U.S. Treasury obligations. Also during the first quarter of 2009, we completed the sale of $44.0 million of non-voting Series A preferred stock and issued a warrant to purchase up to 1,145,833 shares of our common stock to the U.S. Treasury under the CPP.

Summary of Year Ended December 31, 2008

Net Interest Income. Net interest income was $55.5 million for the year ended December 31, 2008, compared to $57.3 million for the year ended December 31, 2007, a decrease of $1.7 million. Our net interest margin was 3.07% for the year ended December 31, 2008, compared to 3.28% for the year ended December 31, 2007. Our loan yields declined by 171 basis points for the year ended December 31, 2008, compared to the year ended December 31, 2007; however, our overall cost of funds only declined by 127 basis points. This reduction is primarily due to a 400 basis point reduction by the Federal Reserve. Pricing for deposits did not decline at the same pace as variable rate loans (which comprised approximately 64.0% of our loan portfolio) because of the strong competition for these funds. Our margins were continually under pressure due to the rate reductions occurring throughout 2008 and the timing differences between the repricing of our interest-bearing assets and liabilities.

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Provision for Loan Losses. Our provision for loan losses was $28.6 million for the year ended December 31, 2008, compared to $8.1 million for the year ended December 31, 2007. This increase was due to a further deterioration in the real estate sectors of some of our markets, overall economic conditions, and internal credit downgrades on some client relationships.

Other Income (Noninterest Income). Noninterest income was $23.0 million for the year ended December 31, 2008, compared to $17.5 million for the year ended December 31, 2007. Noninterest income for 2007 reflects an impairment loss on certain securities in our investment portfolio that related to our decision to rescind the application of Financial Accounting Standards Board (FASB) Statement No. 159 to these securities. Noninterest income accounted for 29.3% and 23.4% of income in 2008 and 2007, respectively.

Other Expense (Noninterest Expense). Total noninterest expense was $58.3 million for the year ended December 31, 2008, compared to $54.0 million for the year ended December 31, 2007. Included in this increase is $3.6 million due to increased costs associated with OREO. The remaining $0.7 million of this increase is attributable to increases in FDIC insurance premiums.

Net Income/(Loss). We reported a net loss of $3.4 million, or $(0.28) per common share, for the year ended December 31, 2008, compared to net income of $9.8 million, or $0.82 per common share, for the year ended December 31, 2007.

Loan Portfolio. As of December 31, 2008, our loan portfolio was $1.328 billion. Our primary lending focus has been distributed among commercial real estate loans, commercial and industrial loans, 1-4 family mortgages and consumer loans. As of December 31, 2008, our loan portfolio was composed of approximately 64% variable rate loans and 36% fixed rate loans. Beginning in the third quarter of 2008, we made a concerted effort to reduce our concentration in commercial real estate loans, particularly real estate development loans, which typically have higher yields but also higher risk. Overall, our average loan balances increased by approximately $66.1 million, or 5.1%, from December 31, 2007 to December 31, 2008.

Investment Portfolio. Our average investment portfolio balance was $436.8 million for the year ended December 31, 2008, compared to $440.6 million for the year ended December 31, 2007. This represents a decrease of $3.8 million, or 0.9%. Our yield on securities declined by 12 basis points to 4.77% over this same period.

Deposits. Our overall cost of funds declined by 127 basis points between the year ended December 31, 2007 and the year ended December 31, 2008. Average interest-bearing deposits decreased 0.9% to $1.238 billion for the year ended December 31, 2008, compared to $1.249 billion for the year ended December 31, 2007, offset by an increase of $77.3 million, or 26.4%, in average borrowed funds. Our deposits averaged $1.416 billion for the year ended December 31, 2008, $1.424 billion for 2007 and $1.227 billion for 2006.

Outlook for Remainder of 2009

We believe our most significant challenge for the remainder of 2009 will be managing credit quality. We have taken an aggressive stance in addressing credit issues in our loan portfolio to minimize future risks, including taking an increased focus on underwriting standards and updating our loan policies. We have a special assets team in place to manage workout situations

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and assist in the timely disposition of defaulted assets. Our management information systems relating to loan concentrations provide us with current and detailed information about the status of the loans in our portfolio. Although we believe that these steps enhance our ability to manage credit quality, credit quality will remain an issue as long as current economic trends, including increasing unemployment rates and declining real estate prices, continue.

We continue to look for ways to grow noninterest income; however, the growth of noninterest income will remain a challenge under current economic conditions. We will also continue our efforts to control noninterest expenses. We expect our costs for FDIC insurance premiums to remain high for 2009, and we expect additional increases in OREO expenses based on recent additions. If rates remain flat as we currently expect, it will be difficult for us to expand our margin. However, we also expect our deposits and wholesale funding balances to decline, as we intend to use our excess liquidity to absorb maturing liabilities to reduce interest expense.

Recently Issued Accounting Standards and Critical Accounting Policies

Our accounting and financial reporting policies conform to GAAP and to general practices within the banking industry. Note A (Summary of Accounting Policies) of the notes to consolidated financial statements (audited) contains a summary of our accounting policies, and Note 1 (Recently Issued Accounting Pronouncements) of the notes to consolidated financial statements (unaudited) contains additional information regarding recently issued accounting standards. We believe that Note A and Note 1, read in conjunction with all other information in this proxy statement, are sufficient to provide the reader with the information needed to understand our financial condition and results of operations.

Critical Accounting Policies. We believe 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 as follows:

- 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 investment portfolio; and
- goodwill and other intangible assets.

Provision/Allowance for Loan Losses. Our allowance for loan losses is a reserve established through charges to earnings in the form of a provision for loan losses. The allowance for loan losses is maintained at a level that we believe is adequate to absorb all probable losses on loans inherent in the loan portfolio. The amount of the allowance is affected by loan charge-offs, which decrease the allowance; recoveries on loans previously charged off, which increase the allowance; and the provision for loan losses charged to earnings, which increases the allowance. In determining the provision for loan losses, we monitor fluctuations in the allowance resulting from actual charge-offs and recoveries and periodically review the size and composition of the loan portfolio in light of current and anticipated economic conditions. If actual losses exceed the amount of the allowance for loan losses, our earnings could be adversely affected.

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The allowance for loan losses represents management s estimate of the amount necessary to provide for losses inherent in the loan portfolio in the normal course of business. Due to the uncertainty of risks in the loan portfolio, management s judgment of the amount of the allowance necessary to absorb loan losses is approximate. The allowance for loan losses is also subject to regulatory examinations and determination by the regulatory agencies as to its adequacy.

The allowance for loan losses is comprised of the following three components: specific reserves, general reserves and unallocated reserves. Generally, all loans that are indentified as impaired are reviewed on a quarterly basis in order to determine whether a specific reserve is required. A loan is considered impaired when, based on current information, it is probable that we will not receive all amounts due in accordance with the contractual terms of the loan agreement. Once a loan has been identified as impaired, management measures impairment in accordance with Statement of Financial Accounting Standards (SFAS) No. 114, Accounting By Creditors for Impairment of a Loan, as amended by SFAS No. 118, Accounting by Creditors for Impairment of a Loan Income Recognition and Disclosures. The measurement of impaired loans is based on the present value of expected future cash flows discounted at the loan s effective interest rate or the loan s observable market price, or based on the fair value of the collateral if the loan is collateral-dependent. When management s measured value of the impaired loan is less than the recorded investment in the loan, the amount of the impairment is recorded as a specific reserve. These specific reserves are determined on an individual loan basis based on our current evaluation of our loss exposure for each credit, given the payment status, financial condition of the borrower and value of any underlying collateral. Loans for which specific reserves are provided are excluded from the general reserve and unallocated reserve calculations described below. Changes in specific reserves from period to period are the result in changes in the circumstances of individual loans such as charge-offs, pay-offs, changes in collateral values or other factors.

We also maintain a general reserve for each loan type in the loan portfolio. In determining the amount of the general reserve portion of our allowance for loan losses, we consider factors such as our historical loan loss experience, the growth, composition and diversification of our loan portfolio, current delinquency levels, adverse situations that may affect the borrower s ability to repay, estimated value of the underlying collateral, the results of recent regulatory examinations and general economic conditions. Established reserves for graded loans represent those criticized and classified loans where no impairment or specific reserve has been established. Reserves for these loans are based upon an average of the prior three-year loss factor. Homogeneous pools represent a pooling of non-criticized retail loan types. These loans are also reserved for based upon a three-year loss factor percentage. Other loan types include all other loans not included in the above commentary (not previously mentioned). These loans are non-criticized and are reserved for based upon the average of the prior three-year loss factor. We use this information to set the general reserve portion of the allowance for loan losses at a level we deem prudent.

Because there are additional risks of losses that cannot be quantified precisely or attributed to particular loans or types of loans, including general economic and business conditions and credit quality trends, we have established an unallocated portion of the allowance for loan losses based on our evaluation of these risks. The unallocated portion of our allowance is determined based on various factors, including general economic conditions of our market area, the growth, composition and diversification of our loan portfolio, types of collateral securing our loans, the experience level of our lending officers and staff, the quality of our credit risk management and the results of independent third party reviews of our classification of credits. The unallocated

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portion of the allowance for loan losses was $4.0 million, or 10.2% of the total allowance, as of March 31, 2009, and $4.0 million, or 19.3% of the total allowance, as of December 31, 2008.

Based on an evaluation of the loan portfolio, management presents a quarterly review of the allowance for loan losses to the Bank s executive committee and our full board of directors, indicating any change in the allowance for loan losses since the last review and any recommendations as to adjustments in the allowance for loan losses. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available or as events change. We used the same methodology and generally similar assumptions in assessing the allowance for both comparison periods. The allowance for loan losses was $39.1 million as of March 31, 2009, compared to $20.7 million as of December 31, 2008. This increase reflects further deterioration in our loan portfolio, due primarily to the lack of demand for residential housing, and the subsequent increase in net charge-offs.

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 they are 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 effect 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). Based on the analysis, management used a discount rate of 5.75% in 2006 and 2007 and a discount rate of 6.0% in 2008. We used an expected rate of return of 7.5% for 2006, 2007 and 2008. From a historical perspective, the rates of return on the plan were 9.5% for 2006, 7.6% for 2007, and (21.7%) for 2008. Additionally, our philosophy has been to fund the plan annually to the maximum amount deductible under the Internal Revenue Service (IRS) rules. As of December 31, 2008, the plan had a current accumulated benefit obligation of approximately $10.7 million, and plan assets with a fair value of approximately $10.7 million.

FASB Statement No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, requires us to recognize the funded status of the plan (defined as the difference between the fair value of plan assets and the projected benefit obligation) on the balance sheet and to recognize in other comprehensive income any gains or losses and prior

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service costs or benefits not included as components of periodic benefit cost. Detailed information on our pension plan and the related impacts of these changes on the amounts recorded in our financial statements can be found in Note M (Employee Benefits) of the notes to consolidated financial statements (audited).

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 investment portfolio for other-than-temporary impairments. Emerging Issue Task Force 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:

- the length of time and extent to which the current market value is less than cost;
- evidence of a forecasted recovery;
- financial condition and the industry environment of the issuer, including whether the issuer is a government or government-backed agency (all of the mortgage-backed securities and collateralized mortgage obligations in our portfolio are issued by government-backed agencies);
- downgrades of the securities by rating agencies;
- whether there has been a reduction or elimination of dividends or interest payments;
- 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
- interest rate trends that may impact recovery and realization.

As of March 31, 2009, our investment portfolio included certain securities that were impaired by definition, but based on our review and consideration of the criteria listed above, we determined that none of the impairments were other-than-temporary.

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 using a two-step approach. The first step is to determine whether impairment could exist. If the results of the first step of testing indicate that impairment does not exist, the test is complete. If the results of the first step indicate that impairment could exist, the second step of testing must be performed. We completed our periodic impairment test in accordance with FASB Statement No. 142 as of September 30, 2008. Based on the results of the first step of testing, we concluded that no impairment writedown was warranted as of September 30, 2008.

FASB Statement No. 142 requires that goodwill be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Several events occurred during the first

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quarter of 2009 that we believed triggered an additional test of goodwill for impairment. These events included our results of operations for the three months ended March 31, 2009, the changes in credit quality of our loan portfolio, and the continued general decline in the economy. We engaged an outside consultant to perform this additional goodwill impairment testing. Due primarily to the decline in the market value of our stock and the decline in prices paid in comparable bank acquisition transactions between September 30, 2008 and March 31, 2009, the first step of the goodwill impairment test indicated that potential impairment existed and the second step of testing should be performed to determine the amount of impairment. In the second step of the test, our consolidated balance sheet was marked to market to determine the current fair value of the goodwill that should be recorded on the balance sheet. As a result of this testing, we concluded that our goodwill was fully impaired as of March 31, 2009, and we recognized a goodwill impairment charge of $66.8 million for the quarter ended March 31, 2009. This charge eliminated all goodwill previously reflected on our balance sheet.

Income Taxes. The calculation of our income tax provision is complex and requires the use of estimates and judgment in its determination. We are subject to the income tax laws of the various jurisdictions where we conduct business, and we estimate income tax expense based on amounts expected to be owed to these various tax jurisdictions. We assess the appropriate tax treatment of transactions and filing positions after considering statutes, regulations, judicial precedent and other pertinent information, and we maintain tax accruals consistent with our evaluation. Changes in the estimate of accrued taxes occur periodically due to changes in tax rates, interpretations of tax laws, the status of examinations by the taxing authorities, and newly enacted statutory, judicial, and regulatory guidance that could affect the relative merits of the tax positions. These changes, when they occur, impact accrued taxes and can materially affect our operating results. On January 1, 2007, we adopted FIN 48 FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109. For additional information, see Note J (Income Taxes) of the notes to consolidated financial statements (audited) included in this proxy statement.

Other Accounting Issues. We own NBC Capital Corporation (MS) Statutory Trust I (the Trust), which was organized under the laws of the State of Connecticut for the purpose of issuing trust preferred securities (TPSs). In accordance with FASB Interpretation No. 46 (revised December 2003), the Trust, which is considered a variable interest entity, is not consolidated into our financial statements because the only activity of the variable interest entity is the issuance of TPSs.

Comparison of Results of Operations for the Three Months Ended March 31, 2009 and 2008

Net Income/(Loss)

For the first quarter of 2009, we reported a net loss of $84.5 million, or $(7.09) per common share, compared to net income of $2.8 million, or $0.23 per common share, for the first quarter of 2008. The net loss for the first quarter of 2009 resulted primarily from the $66.8 million impairment loss on goodwill and a $32.8 million provision for loan losses.

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Net Interest Income

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

Net interest income was $12.4 million for the first quarter of 2009, compared to $14.5 million for the first quarter of 2008, a decrease of 14.9%. Net interest margin was 2.64% for the first quarter of 2009, compared to 3.23% for the first quarter of 2008. This 59 basis point decrease in margin resulted primarily from our loan yields declining at a faster rate than the cost of funds. Our loan yields and margin were also adversely affected by the reversal of interest income on loans that were placed on non-accrual status during the year ended December 31, 2008. During 2008, these reversals of interest income totaled $1.1 million, compared to $461,000 for 2007. This difference amounted to five basis points of yield on our loan portfolio and four basis points on our margin. Also, we generated fewer construction and development loans for the year ended December 31, 2008. These loans typically have higher yields. This reduction in higher yield loans was a result of the softening economy, a reduction in demand for real estate development loans, and our focus on credit quality.

Also, in recent quarters, we have made a concerted effort to reduce our concentration in commercial real estate loans, particularly construction and development loans, which typically have higher yields. When comparing the first quarter of 2009 to the first quarter of 2008, we lost 175 basis points of yield on our loans but only reduced the cost of funds by 124 basis points. Our yield on earning assets declined by 171 basis points for the first quarter of 2009, but was offset somewhat by an increase of $84.8 million, or 4.7%, in our average earning assets due to increases in the taxable securities and federal funds sold categories that were used to invest the additional liquidity accumulated during the first quarter of 2009.

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The following table 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 those amounts, the average yields/rates paid and the net yield on interest-earning assets:

	For the Quarter Ended March 31, 2009			For the Quarter Ended March 31, 2008		
	Average Outstanding Balance	Interest Income/ Expense	Average Yield/ Rate (%)	Average Outstanding Balance	Interest Income/ Expense	Average Yield/ Rate (%)
	(Dollars in thousands)					
Assets:						
Interest-earning assets:						
Loans	$ 1,313,743	$ 16,566	5.13%	$ 1,347,147	$ 23,045	6.88%
Mortgages held for sale	2,180	27	4.95	3,315	42	5.07
Securities:						
Taxable	362,826	4,038	4.51	333,090	4,290	5.18
Tax exempt	104,967	1,020	3.94	110,766	1,150	4.18
Federal funds sold and other	110,406	55	0.20	15,001	82	2.19
Total interest-earning assets	1,894,122	21,706	4.65	1,809,319	28,609	6.36
Less: Allowance for loan losses	(21,903)			(14,534)		
Noninterest-earning assets	154,879			202,218		
Total assets	$ 2,027,098			$ 1,997,003		
Liabilities and shareholders equity						
Interest-bearing liabilities:						
Interest checking	$ 263,091	$ 652	0.99%	$ 219,961	$ 1,057	1.92%
Money market and savings	332,755	987	1.19	322,208	1,771	2.20
Time deposits	744,775	5,520	2.96	695,796	7,837	4.51
Total interest-bearing deposits	1,340,621	7,159	2.17	1,237,965	10,665	3.46
Borrowings and repurchase agreements	286,326	1,871	2.61	335,880	2,844	3.39
Junior subordinated debentures	30,928	323	4.18	30,928	581	7.51
Total interest-bearing liabilities	1,657,875	9,353	2.29	1,604,773	14,090	3.53
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	180,260			175,780		
Other liabilities	23,144			20,686		
Total liabilities	1,861,279			1,801,239		
Shareholders equity	165,819			195,764		
Total liabilities and shareholders equity	$ 2,027,098			$ 1,997,003		
Net interest income		$ 12,353			$ 14,519	
Net interest spread [1]			2.36%			2.83%
Net interest margin [2]			2.64%			3.23%

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(1) Represents the average rate earned on interest-earning assets less the average rate paid on interest-bearing liabilities.

(2) Represents net interest income as a percentage of average interest-earning assets.

Provision for Loan Losses

We use our provision for loan losses to replenish the allowance for loan losses on our balance sheet. Based on our evaluation of the risk exposure contained in the loan portfolio, management believes that the level of the allowance is adequate. The board of directors reviews and approves management s evaluation. This is an ongoing process through which we review and determine the amount of the provision on a quarterly basis. Our provision for loan losses was $32.8 million for the first quarter of 2009, compared to $3.0 million for the first quarter of 2008. We incurred $14.4 million in net charge-offs for the first quarter of 2009, compared to $2.9 million for the first quarter of 2008. Most of the increase in net charge-offs is attributable to two real estate development loans to one borrower. We significantly increased our allowance for loan losses during the first quarter of 2009. Our allowance for loan losses was $39.1 million as of March 31, 2009, compared to $20.7 million as of December 31, 2008. We have experienced an increase in non-performing loans, mostly due to commercial real estate construction and development loans. During the first quarter of 2009, increased weakness in our Middle Tennessee and Florida markets were reflected in our provision for loan losses in the first quarter of 2009. Also contributing to the increase in the provision for loan losses for the first quarter of 2009 was the updating of the three-year average historical loss factors included in our allowance for loan losses methodology. The 2008 losses were significantly higher than the 2005 losses that they replaced, which caused an increase in our estimate of the required allowance for loan losses as of March 31, 2009.

Other Income (Noninterest Income)

Other income refers to our noninterest income, which includes various service charges, fees and commissions, including insurance commissions earned by Galloway-Chandler-McKinney Insurance Agency, Inc. (GCM Insurance), a wholly-owned subsidiary of the Corporation. One of our strategic objectives has been, and continues to be, one of our strategic objectives to diversify our other income sources so that we can be less dependent on net interest income. Our other income, exclusive of securities gains and losses, was $5.7 million for the first quarter of 2009, compared to $5.8 million for the first quarter of 2008, a decrease of $56,000, or 1.0%. The following table presents for the periods indicated the major categories of noninterest income and the changes in the first quarter of 2009 compared to the first quarter of 2008:

	Quarter Ended March 31,		
	2009	2008	Change
	(In thousands)		
Service charges on deposit accounts	$ 2,005	$ 2,137	$ (132)
Insurance commissions, fees and premiums	1,306	1,379	(73)
Trust Department income	466	564	(98)
Mortgage loan fees	210	360	(150)
Other	1,757	1,360	397
Securities gains (losses), net	63	203	(140)
Total noninterest income	$ 5,807	$ 6,003	$ (196)

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The decline in service charges on deposit accounts can be attributed to fewer insufficient funds fees charged during the first quarter of 2009. The insurance commission, fees and premiums declined due to lower profit sharing from the insurance carriers and lower insurance commissions from sales, resulting from the overall economic downturn. Trust Department income was impacted by a decline in the market value of investments under management, and mortgage loan fees were affected by fewer home sales, lower demand for refinancings, and more conservative underwriting requirements. Our other noninterest income increased 29.2% from the first quarter of 2008 to the first quarter of 2009, primarily due to insurance proceeds from a bank owned life insurance policy of approximately $645,000 received in the first quarter of 2009 and $150,000 from the reversal of an accrual established at the time of our most recent acquisition. During the first quarter of 2008, we recognized a $232,000 gain on the sale of an asset and $110,000 in proceeds from the redemption of stock in Visa Inc.

We recognized $63,000 in securities gains during the first quarter of 2009, compared to securities gains of $203,000 during the first quarter of 2008, representing a decrease of $140,000 or 69.0%.

Other Expense (Noninterest Expense)

Noninterest expense represents ordinary overhead expenses and, from time to time, any impairments to goodwill or other intangibles. Our total noninterest expense was $81.5 million for the first quarter of 2009, compared to $13.8 million for the first quarter of 2008, an increase of $67.7 million. The following table presents for the periods indicated the major categories of noninterest expense and the changes in the first quarter of 2009 compared to the first quarter of 2008:

	Quarter Ended March 31, 2009	2008	Change
	(In thousands)		
Salaries and employee benefits	$ 7,900	$ 7,967	$ (67)
Premises and fixed asset expense	1,979	1,996	(17)
Impairment loss on goodwill	66,846		66,846
Other expense	4,818	3,868	950
Total other expense	$ 81,543	$ 13,831	$ 67,712

Salaries and employee benefits and premises and fixed asset expenses declined slightly in the first quarter of 2009, compared to the first quarter of 2008. In accordance with the provisions of FASB Statement No. 142 and based on the results of a third party analysis, we recognized a $66.8 million impairment loss on goodwill for the first quarter of 2009. The goodwill impairment was primarily due to the decline in the market value in our stock and the prices paid in recent comparable bank acquisitions. We recorded this goodwill in connection with a number of acquisitions since 2004. This impairment charge eliminated all goodwill from our balance sheet. However, our other noninterest expenses increased by $950,000, or 24.6%, in the first quarter of 2009, compared to the first quarter of 2008, due primarily to increases in FDIC insurance premiums and expenses relating to OREO. FDIC insurance premiums increased to $915,000 in the first quarter of 2009, compared to $64,000 in the first quarter of 2008. OREO-related expenses increased to $562,000 in the first quarter of 2009, compared to $157,000 for the first quarter of 2008. The 2009 expenses include approximately $320,000 in losses on the sale of OREO.

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Effective June 1, 2009, we suspended our 401(k) matching contributions. Also, we froze salaries for all employees at 2008 levels and reduced the salaries of our chief executive officer and chief operating officer by 10%. The board of directors also agreed to a 10% reduction in their board and committee fees.

Changes in our income tax expense have generally paralleled changes in pre-tax income. Our effective tax rate was 25.2% for the first quarter of 2008. The income tax benefit for the first quarter of 2009 results from the loss recognized for the period, as well as the tax benefits of our tax-exempt income.

Comparison of Results of Operations for the Years Ended December 31, 2008, 2007 and 2006

Net Income/(Loss)

For the year ended December 31, 2008, we reported a net loss of $3.4 million, or $(0.28) per common share, compared to net income of $9.8 million, or $0.82 per common share, for the year ended December 31, 2007 and net income of $14.2 million, or $1.37 per common share, for the year ended December 31, 2006. Return on average equity was (1.8)% for the year ended December 31, 2008, compared to 5.1% for the year ended December 31, 2007 and 9.0% for the year ended December 31, 2006. Return on average assets was (0.2)% for the year ended December 31, 2008, compared to 0.5% for the year ended December 31, 2007 and 0.9% for the year ended December 31, 2006.

The $20.5 million increase in our provision for loan losses for the year ended December 31, 2008 ($12.6 million after tax) equates to approximately $1.06 per share. The $3.6 million increase in OREO-related expenses for the year ended December 31, 2008 ($2.2 million after tax) equates to approximately $0.18 per share.

The reduction in earnings per share for the year ended December 31, 2007 was attributable to the first quarter impairment loss of $5.1 million ($3.1 million after tax), or $0.26 per share, the $6.5 million increase in our provision for loan losses ($4.0 million after tax), or $0.34 per share, and the 15.4% increase in average weighted shares outstanding, resulting from the $50.2 million stock offering and shares issued in our 2006 acquisition of SunCoast Bancorp, Inc. (SunCoast) in Florida.

Net Interest Income

Net interest income was $55.5 million for the year ended December 31, 2008, compared to $57.3 million for the year ended December 31, 2007, a decrease of $1.7 million, or 3.0%. Average earning assets were $1.809 billion for the year ended December 31, 2008, compared to $1.745 billion for the year ended December 31, 2007, an increase of $64.5 million, or 3.7%. Our net interest margin was 3.07% for the year ended December 31, 2008, compared to 3.28% for the year ended December 31, 2007. Our margins were continually under pressure due to the rate reductions occurring throughout 2008 and the timing differences between the repricing of our interest-bearing assets and liabilities.

In analyzing the rate component of net interest income in 2008 compared to 2007, we lost 131 basis points of yield on our earning assets and our loan yields declined by 171 basis points.

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During this period, the cost of funds decreased by 127 basis points. Our loan portfolio, which was comprised of approximately 64.0% variable rate loans, reflected a yield decrease to 6.04% for the year ended December 31, 2008, compared to 7.75% for the year ended December 31, 2007, due to the 400 basis point reduction by the Federal Reserve in interest rates in 2008. The yield on our investment portfolio also declined to 4.77% for the year ended December 31, 2008, compared to 4.89% for the year ended December 31, 2007. Our cost of deposits declined to 2.88% for the year ended December 31, 2008, compared to 4.00% for the year ended December 31, 2007 and our cost of other borrowings declined to 3.15% for the year ended December 31, 2008, compared to 5.08% for the year ended December 31, 2007 due to the decline in interest rates during this period, and our use of short-term, low-cost FHLB borrowing during 2008. Pricing for deposits did not decline at the same pace as variable rate loans because of the strong competition for these funds.

Our loan yields and margin were also adversely affected by the reversal of interest income on loans that were placed on non-accrual status during the year ended December 31, 2008. During 2008, these reversals of interest income totaled $1.1 million, compared to $461,000 for 2007. This difference amounted to five basis points of yield on our loan portfolio and four basis points on our margin. Also, we generated fewer real estate development loans for the year ended December 31, 2008. These loans typically have higher yields. This reduction in higher yield loans was a result of the softening economy, a reduction in demand for real estate development loans, and our focus on credit quality.

Our average earning asset balances increased by $64.5 million for the year ended December 31, 2008, as compared to the year ended December 31, 2007, attributed primarily to a $66.1 million increase in the average loan balance. The average balance of interest-bearing deposits decreased by $10.7 million to $1.238 billion for the year ended December 31, 2008, compared to $1.249 billion for the year ended December 31, 2007, and the average balance of other borrowings increased by $77.3 million to $370.4 million for the year ended December 31, 2008, compared to $293.1 million for the year ended December 31, 2007.

Net interest income was $57.3 million for the year ended December 31, 2007, compared to $50.5 million for the year ended December 31, 2006, an increase of $6.8 million, or 13.5%. Average earning assets were $1.745 billion for the year ended December 31, 2007, compared to $1.459 billion for the year ended December 31, 2006, an increase of $285.5 million, or 19.6%. Our net interest margin was 3.28% for the year ended December 31, 2007, compared to 3.46% for the year ended December 31, 2006.

In analyzing the rate component of net interest income in 2007 compared to 2006, we gained 35 basis points of yield on our earning assets. During this period, the cost of funds increased by 55 basis points. Our loan portfolio, which was comprised of approximately 61.0% variable rate loans, reflected a yield increase to 7.75% for the year ended December 31, 2007, compared to 7.62% for the year ended December 31, 2006. The yield on our investment portfolio also increased to 4.89% for the year ended December 31, 2007, compared to 4.68% for the year ended December 31, 2006. Our cost of deposits increased to 4.00% for the year ended December 31, 2007, compared to 3.39% for the year ended December 31, 2006. The primary reason for our increased net interest income in 2007 compared to 2006 was the increase in average earning asset balances. The increase in average earning assets in 2007 compared to 2006 was composed of the following: average loans increased by $311.3 million; average federal funds sold and other interest-bearing assets decreased by $6.5 million; and average investment securities decreased by $19.3 million. The increases in these balances resulted from the inclusion of the assets acquired in the two acquisitions during 2006 being reflected in the average balances for the full year of 2007. The average balance of interest-bearing deposits increased by $187.6 million in 2007 compared to 2006, and the average balance of other borrowings increased by $85.2 million in 2007 compared to 2006.

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

	For the Year Ended December 31,								
	2008			2007			2006		
	Average Outstanding Balance	Interest Income/ Expense	Average Yield/ Rate (%)	Average Outstanding Balance	Interest Income/ Expense	Average Yield/ Rate (%)	Average Outstanding Balance	Interest Income/ Expense	Average Yield/ Rate (%)
	(Dollars in thousands)								
Assets:									
Interest-earning assets:									
Loans	$ 1,350,870	$ 81,533	6.04%	$ 1,284,762	$ 99,591	7.75%	$ 973,466	$ 74,182	7.62%
Mortgages held for sale (1)	2,818	156	5.54	4,298	249	5.79	*See note 1*	*See note 1*	*See note 1*
Securities:									
Taxable	326,097	16,296	5.00	335,564	17,173	5.12	343,515	16,641	4.84
Tax exempt	110,691	4,536	4.10	104,995	4,379	4.17	116,328	4,859	4.18
Federal funds sold and other	18,763	336	1.79	15,086	721	4.78	25,893	1,312	5.07
Total interest-earning assets	1,809,239	102,857	5.69	1,744,705	122,113	7.00	1,459,202	96,994	6.65
Less: Allowance for loan losses	(15,833)			(12,641)			(10,463)		
Noninterest-earning assets	197,829			196,555			182,869		
Total assets	$ 1,991,235			$ 1,928,619			$ 1,631,608		
Liabilities and shareholders equity									
Interest-bearing liabilities:									
Interest checking	$ 240,817	$ 3,866	1.61%	$ 201,678	$ 4,737	2.35%	$ 208,024	$ 4,421	2.13%
Money market and savings	326,362	5,871	1.80	329,768	10,008	3.03	248,331	6,163	2.48
Time deposits	670,977	25,945	3.87	717,366	35,200	4.91	604,895	25,408	4.20
Total interest-bearing deposits	1,238,156	35,682	2.88	1,248,812	49,945	4.00	1,061,250	35,992	3.39
Borrowings and repurchase agreements	339,430	9,708	2.86	256,488	11,902	4.64	170,813	7,594	4.45
Junior subordinated debentures	30,928	1,940	6.27	36,599	2,998	8.19	37,114	2,926	7.88
Total interest-bearing liabilities	1,608,514	47,330	2.94	1,541,899	64,845	4.21	1,269,177	46,512	3.66
Noninterest-bearing liabilities:									
Noninterest-bearing deposits	177,670			175,196			165,939		
Other liabilities	14,537			19,663			39,701		
Total liabilities	1,800,721			1,736,758			1,474,817		
Shareholders equity	190,514			191,861			156,791		
Total liabilities and shareholders equity	$ 1,991,235			$ 1,928,619			$ 1,631,608		
Net interest income		$ 55,527			$ 57,268			$ 50,482	
Net interest spread (2)			2.75%			2.79%			2.99%
Net interest margin (3)			3.07%			3.28%			3.46%

(1)

This data is not available for 2006, due to our method of originating and selling mortgage loans. All mortgage loans are originated for and underwritten to upstream correspondent specifications on a best efforts basis without recourse. The loans are already sold at origination. The held for sale caption is used to account for the loans from origination until we deliver them to the correspondent and receive payment. Prior to 2007, these balances were included in other assets as receivables from correspondents.

(2) Represents the average rate earned on interest-earning assets less the average rate paid on interest-bearing liabilities.

(3) Represents net interest income as a percentage of average interest-earning assets.

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Provision for Loan Losses

Our provision for loan losses was $28.6 million for the year ended December 31, 2008, compared to $8.1 million for the year ended December 31, 2007. The substantial increase for the year ended December 31, 2008 was due primarily to continued deterioration in the real estate sectors of some of our markets, overall national economic conditions, and internal credit downgrades on certain client relationships. Our underwriting standards have tightened based on recent changes in market conditions. At the time, management believed that the level of the provision for loan losses for the year ended December 31, 2008 was appropriate based on the risk in the loan portfolio. However, during 2009, there have been changes in circumstances, and we believe we have made the necessary adjustments in the provision for loan losses to reflect these changes.

Our provision for loan losses was $8.1 million for the year ended December 31, 2007, compared to $1.7 million for the year ended December 31, 2006. The increase for the year ended December 31, 2007 was due to the deterioration of some large credits, including two commercial loans, a bankruptcy of a client, and an agricultural loan, as well as a softening in certain real estate sectors and a general weakening in the economy.

Other Income (Noninterest Income)

Other income (noninterest income) was $23.0 million for the year ended December 31, 2008, compared to $17.5 million for the year ended December 31, 2007. Noninterest income for the year ended December 31, 2007 reflects an impairment loss on certain investment securities that related to our decision to rescind the application of FASB Statement No. 159 to these securities. Noninterest income accounted for 29.3% of income for the year ended December 31, 2008, compared to 23.4% of income for the year ended December 31, 2007.

The following table presents for the periods indicated the major categories of noninterest income and the changes in 2008 compared to 2007:

	For the Years Ended December 31,		
	2008	2007	Change
	(In thousands)		
Service charges on deposit accounts	$ 9,133	$ 9,295	$ (162)
Insurance commissions, fees, and premiums	5,028	4,999	29
Other service charges and fees	3,294	3,337	(43)
Trust Department income	2,305	2,558	(253)
Mortgage loan fees	1,156	1,690	(534)
Securities gains (losses), net	390	(17)	407
Bank owned life insurance income	683	681	2
Impairment loss on securities		(5,097)	5,097
Other	1,003	39	964
Total other income	$ 22,992	$ 17,485	$ 5,507

Trust Department income declined by 9.9% for the year ended December 31, 2008, as a result of lower asset balances under management, reflecting the downturn of the equity markets during 2008. Mortgage loan fees declined by 31.6% for the year ended December 31, 2008, as a result of reduced home sales and demand for refinancing. The increase in other noninterest

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income for the year ended December 31, 2008 compared to the year ended December 31, 2007 resulted primarily from a $232,000 gain on the sale of an asset, a $443,000 gain on the sale of a previously closed branch property in Mississippi, and $110,000 in proceeds from the redemption of stock in Visa Inc. Changes in other accounts were not individually material.

We recognized $390,000 in net securities gains for the year ended December 31, 2008, compared to $17,000 in net securities losses for the year ended December 31, 2007. During the first quarter of 2007, we recognized a $5.1 million impairment loss on certain collateralized mortgage obligations (CMOs) and mortgage-backed securities. We sold those securities in early April 2007 and reinvested the proceeds in agency securities.

Noninterest income was $17.5 million for the year ended December 31, 2007, compared to $20.0 million for the year ended December 31, 2006. Noninterest income accounted for 23.4% of income for the year ended December 31, 2007, compared to 28.4% of income for the year ended December 31, 2006.

The following table presents for the periods indicated the major categories of noninterest income and the changes in 2007 compared to 2006:

	For the Years Ended December 31,		
	2007	2006	Change
	(In thousands)		
Service charges on deposit accounts	$ 9,295	$ 8,878	$ 417
Insurance commissions, fees, and premiums	4,999	4,441	558
Other service charges and fees	3,337	2,933	404
Trust Department income	2,558	2,341	217
Mortgage loan fees	1,690	876	814
Securities gains (losses), net	(17)	66	(83)
Bank owned life insurance income	681	641	40
Impairment loss on securities	(5,097)	(2,025)	(3,072)
Other	39	1,842	(1,803)
Total other income	$ 17,485	$ 19,993	$ (2,508)

Service charges on deposit accounts increased by 4.7% for the year ended December 31, 2007, mostly due to improved management and oversight of our noninterest-bearing accounts. Insurance commissions, fees, and premiums earned by GCM Insurance increased by 12.6% for the year ended December 31, 2007, because of an increase in profit sharing received from the insurance carriers based on loss experience. Other service charges and fees increased by 13.8% for the year ended December 31, 2007, primarily due to increases in checkcard income and retail investment income. Trust Department income increased by 9.3% for the year ended December 31, 2007 because of higher asset balances under management. Mortgage loan fees increased by 92.9% for the year ended December 31, 2007, as a result of our restructuring of the division and the expansion of our mortgage operations into our newer markets during 2007. Other noninterest income decreased significantly for the year ended December 31, 2007, compared to the year ended December 31, 2006, due to a $488,000 gain on the sale of our credit card portfolio, a $215,000 increase in earnings from our investment in a low income housing partnership, and a $842,000 gain on early extinguishment of debt related to prepayments on certain FHLB borrowings during 2006. Changes in other accounts were not individually material.

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

Other Expense (Noninterest Expense)

Total other expense (noninterest expense) was $58.3 million for the year ended December 31, 2008, compared to $54.0 million for the year ended December 31, 2007. Included in this increase was $3.6 million, due to increased costs associated with OREO. The remaining $0.7 million of this increase is attributable to increased FDIC insurance premiums.

The following table presents for the periods indicated the major categories of noninterest expense and the changes in 2008 compared to 2007:

	For the Years Ended December 31,		
	2008	2007	Change
	(In thousands)		
Salaries	$ 25,461	$ 25,351	$ 110
Employee benefits	5,229	5,356	(127)
Net occupancy	3,923	4,367	(444)
Furniture and equipment	4,070	4,005	65
Communications	1,251	1,272	(21)
Data processing	1,629	1,736	(107)
Advertising	997	820	177
Professional fees	2,417	1,712	705
Intangible amortization	890	1,328	(438)
Loss on sale of assets/OREO	3,413	180	3,233
Other	9,015	7,915	1,100
Total other expense	$ 58,295	$ 54,042	$ 4,253

The 10.2% decrease in net occupancy expense for the year ended December 31, 2008 is mostly due to a decrease in premises rental expense and depreciation. Advertising expenses increased by 21.6% for the year ended December 31, 2008 because of a general brand advertising campaign implemented during the year. Professional fees increased by 41.2% for the year ended December 31, 2008, due to increased legal fees associated with OREO, attorney consultations regarding our participation in the CPP. See Note X (Subsequent Events) of the notes to consolidated financial statements (audited) for additional information about the CPP and the outsourcing of a portion of our credit review function. Other noninterest expenses increased by 13.9% for the year ended December 31, 2008, due primarily to increases in FDIC insurance premiums and expenses related to OREO. Before 2008, we paid the majority of our FDIC insurance premiums using credits with the FDIC; however, these credits were depleted in early 2008. Our FDIC insurance premiums expense totaled $923,000 for the year ended December 31, 2008, compared to $248,000 for the year ended December 31, 2007. Due to the increased number of foreclosed properties, we incurred increased legal fees, appraisal fees and other maintenance and holding expenses, as well as losses on sales of OREO. These expenses

totaled approximately

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$4.1 million for the year ended December 31, 2008, compared to $463,000 for the year ended December 31, 2007. The most significant component of this increase was a $2.7 million writedown representing a decline in market value of OREO property that we held and had not yet sold as of December 31, 2008. This writedown is reflected in the loss on sale of assets/OREO category of noninterest expense. Changes in the other expense categories were not individually material.

The following table presents for the periods indicated the major categories of noninterest expense and the changes in 2007 compared to 2006:

	For the Years Ended December 31,		
	2007	2006	Change
	(In thousands)		
Salaries	$ 25,351	$ 23,010	$ 2,341
Employee benefits	5,356	5,756	(400)
Net occupancy	4,367	3,314	1,053
Furniture and equipment	4,005	3,501	504
Communications	1,272	1,128	144
Data processing	1,736	1,676	60
Advertising	820	969	(149)
Professional fees	1,712	1,476	236
Intangible amortization	1,328	1,144	184
Other	8,095	7,708	387
Total other expense	$ 54,042	$ 49,682	$ 4,360

The 10.2% increase in salaries for the year ended December 31, 2007 was attributable to a full year of salaries related to our branches in Florida and Georgia acquired in 2006 through the acquisitions of SunCoast and Seasons Bancshares, Inc. (Seasons), respectively, a full year of salaries related to branches opened in Memphis and Brentwood, Tennessee in 2006, and salaries related to new branches in Hoover, Alabama and Franklin, Tennessee opened in 2007. For the year ended December 31, 2007, salaries related to our Florida and Georgia branches increased by $1.7 million, salaries related to the new branches in Memphis and Brentwood increased by $275,000, and salaries expense for the new branches in Hoover and Franklin totaled $286,000. Exclusive of these items, our overall salaries expense remained virtually flat, as normal raises were offset by increased staffing efficiencies. However, employee benefits expense decreased by 6.9% for the year ended December 31, 2007, due primarily to pension costs associated with certain retirements in 2006.

The 31.8% increase in net occupancy expense and the 14.4% increase in furniture and equipment expense for the year ended December 31, 2007 were mostly due to increased depreciation, facility rental, and equipment rental expenses associated with the opening of new branches. These branches accounted for $1.4 million of the $1.6 million increase in expense in these two categories for the year ended December 31, 2007, compared to the year ended December 31, 2006. Changes in the other expense categories were not considered individually material.

The tax benefit for the year ended December 31, 2008 reflects the addition of tax free income of approximately $4.5 million to our pre-tax operating loss of $8.4 million, to reflect a tax

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loss of approximately $12.9 million. The tax benefit of $5.0 million reflects a rate of 38.8% for the year ended December 31, 2008, which is approximately the statutory rate.

Changes in our income tax expense for the year ended December 31, 2007, compared to the year ended December 31, 2006 have generally paralleled changes in pre-tax income. Our effective tax rate was 22.2% for the year ended December 31, 2007, compared to 26.0% for the year ended December 31, 2006. These changes resulted primarily from the mix of income from tax-exempt investments and the percentage relationship of tax-exempt income to total pre-tax income. The alternative minimum tax provision, the market supply of acceptable municipal securities, the level of tax-exempt yields and our normal liquidity and balance sheet structure requirements limit our ability to reduce income tax expense by acquiring additional tax-free investments.

Financial Condition as of March 31, 2009 and 2008

Summary

Total assets were $2.075 billion as of March 31, 2009, compared to $1.979 billion as of December 31, 2008, an increase of $95.7 million, or 4.8%. Our loan portfolio balance was $1.293 billion as of March 31, 2009, compared to $1.328 billion as of December 31, 2008, a decrease of $35.3 million, or 2.7%. Our investment portfolio balance was $600.6 million as of March 31, 2009, compared to $436.4 million as of December 31, 2008, an increase of $164.2 million, or 37.6%. Total deposits were $1.602 billion as of March 31, 2009, compared to $1.461 billion as of December 31, 2008. Shareholders equity was $146.1 million as of March 31, 2009, compared to $185.6 million as of December 31, 2008, a decrease of $39.5 million, or 21.3%.

Loan Portfolio

Historically, our lending focus has been distributed among commercial real estate, commercial and industrial loans, 1-4 family mortgages and consumer loans. Total commercial, financial and agricultural loans, which consist primarily of short-term loans for working capital purposes, inventories, seasonal loans, lines of credit and equipment loans, accounted for 15.9% of our loan portfolio as of March 31, 2009, compared to 16.5% as of December 31, 2008. Total real estate loans, which are secured by commercial real estate, one-to-four family residential properties and multi-family dwelling units, accounted for 75.1% of our loan portfolio as of March 31, 2009, compared to 76.0% as of December 31, 2008. Total consumer loans, which consist of home improvement, mobile home, automobile and unsecured personal loans, made up 2.4% of our loan portfolio as of March 31, 2009, compared to 2.3% as of December 31, 2008.

Total loans were $1.293 billion as of March 31, 2009, a decrease of $35.3 million, or 2.7%, compared to total loans of $1.328 billion as of December 31, 2008. The majority of the decline in loans occurred in commercial real estate loans and construction and development loans due primarily to payoffs and workouts.

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The following tables summarize our loan portfolio by type of loan and type of customer as of the dates indicated:

	As of March 31,			
	2009		2008	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Commercial:				
Commercial	$ 205,262	15.9%	$ 232,951	17.1%
Commercial real estate	657,774	50.9	597,140	43.8
Real estate construction	156,525	12.1	275,049	20.2
Total commercial	1,019,561	78.9	1,105,140	81.1
Consumer:				
Residential real estate	88,368	6.8	105,012	7.7
Home equity lines	68,815	5.3	58,552	4.3
Other consumer loans	31,542	2.4	34,121	2.5
Total consumer	188,725	14.5	197,685	14.5
Other	84,733	6.6	60,975	4.4
Total loans	$ 1,293,019	100.0%	$ 1,363,800	100.0%

The contractual maturity ranges of our loan portfolio and the amount of such loans with fixed and variable interest rates in each maturity range classified by borrower type as of March 31, 2009, are summarized in the following table:

	One Year or Less	After One Through Five Years	After Five Years	Total
	(In thousands)			
Commercial:				
Commercial	$ 82,688	$ 116,130	$ 6,444	$ 205,262
Commercial real estate	205,286	339,699	112,789	657,774
Real estate construction	123,764	20,808	11,953	156,525
Total commercial	411,738	476,637	131,186	1,019,561
Consumer:				
Residential real estate	9,223	23,951	55,194	88,368
Home equity lines	520	12,659	55,636	68,815
Other consumer loans	5,205	12,512	13,825	31,542
Total consumer	14,948	49,122	124,655	188,725
Other	69,012	15,301	420	84,733
Total loans	$ 495,698	$ 541,060	$ 256,261	$ 1,293,019
Loans with a fixed interest rate	$ 178,451	$ 194,782	$ 92,254	$ 465,487
Loans with a variable interest rate	317,247	346,278	164,007	827,532

Total loans	$ 495,698	$ 541,060	$ 256,261	$ 1,293,019

As of March 31, 2009, our loan portfolio was composed of approximately 37% fixed interest rate loans and 63% of variable interest rate loans. Scheduled contractual principal repayments do not reflect the actual maturities of loans. The average maturity of our loans is substantially less than their average contractual term because of prepayments. The average life of mortgage loans tends to increase when the current mortgage loan rates are substantially higher than rates on existing mortgage loans and, conversely, decrease when current mortgage loans rates

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are substantially lower than rates on existing mortgages due primarily to refinancings of adjustable rate and fixed rate loans at lower rates.

Delinquent and Nonperforming Assets

We have several procedures that are designed to maintain the overall quality of our loan portfolio. We have established underwriting guidelines followed by our management and delinquency levels are monitored by our executive committee and reviewed by the board of directors for any negative or adverse trends. There can be no assurance, however, that our loan portfolio will not become subject to increasing pressures from deteriorating borrower credit due to general economic conditions.

Trends in delinquency ratios represent an indicator, among other considerations, of credit risk within the loan portfolio. Nonperforming loans include nonaccrual loans, loans past due 90 days or more, and loans renegotiated or restructured because of a debtor s financial difficulties. Loans 90 days past due and still accruing interest totaled $5.8 million as of March 31, 2009, compared to $3.5 million as of December 31, 2008. The ratio of 90 days delinquent loans to total loans was 0.45% as of March 31, 2009, compared to 0.26% as of December 31, 2008.

We generally place loans on nonaccrual status if any of the following events occur:

- the classification of a loan as nonaccrual internally or by regulatory examiners;
- delinquency on principal for 90 days or more unless management is in the process of collection;
- a balance remains after repossession of collateral;
- notification of bankruptcy; or
- management judges that nonaccrual status is appropriate.

Cash payments received while a loan is classified as nonaccrual are recorded as a reduction of principal as long as doubt exists as to collection. We are sometimes required to revise the interest rate or repayment terms in a troubled debt restructuring.

We obtain appraisals on loans secured by real estate with principal amounts in excess of $250,000 and may update those appraisals for loans categorized as nonperforming loans and potential problem loans. In instances where updated appraisals reflect reduced collateral values, we evaluate the borrower s overall financial condition to determine the need, if any, for possible writedowns or appropriate additions to the allowance for loan losses. We record real estate acquired through foreclosure at fair value at the time of acquisition, less estimated costs to sell the property.

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The following table presents information regarding nonperforming assets as of the dates indicated:

	As of March 31, 2009	As of December 31, 2008
	(Dollars in thousands)	
Nonaccrual loans	$ 33,051	$ 23,761
Accruing loans past due 90 days or more	5,774	3,467
Restructured loans	5,325	4,397
Total nonperforming loans	44,150	31,625
Other real estate	19,208	18,691
Total nonperforming assets	$ 63,358	$ 50,316
Nonperforming assets to total loans and other real estate	4.83%	3.74%

Nonperforming assets were $63.4 million as of March 31, 2009, compared to $50.3 million as of December 31, 2008. Our ratio of nonperforming assets to total loans and other real estate was 4.83% as of March 31, 2009, compared to 3.74% as of December 31, 2008. The increase in nonperforming assets in the first quarter of 2009 was due primarily to the continued decline in the economy, resulting in continued deterioration in the construction and development sector of our loan portfolio.

As of March 31, 2009, other real estate was comprised primarily of residential real estate developments in various stages of completion.

We follow a loan review program designed to evaluate the credit risk in our loan portfolio. Through this loan review process, we maintain an internally classified watch list which helps management assess the overall quality of the loan portfolio and the adequacy of the allowance for loan losses. Loans included on the watch list that are not otherwise classified show warning elements where the present status portrays one or more deficiencies that require attention in the short term or where pertinent ratios of the loan account have weakened to a point where more frequent monitoring is warranted. These loans do not have all of the characteristics of a classified loan (substandard or doubtful) but do show weakened elements compared to those of a satisfactory credit.

In establishing the appropriate classification for specific assets, we consider, among other factors, the estimated value of the underlying collateral, the borrower s ability to repay, the borrower s repayment history and the current delinquent status. As a result of this process, loans are classified as substandard, doubtful or loss.

Loans classified as substandard are those loans with clear and defined weaknesses such as a highly leveraged position, unfavorable financial ratios, uncertain repayment sources or poor financial condition which may jeopardize the repayment of the debt as contractually agreed. They are characterized by the distinct possibility that we will sustain some losses if the deficiencies are not corrected. Loans classified as doubtful are those loans which have characteristics similar to substandard loans but with an increased risk that collection or liquidation in full is highly questionable and improbable. Loans classified as loss are those loans that are in the process of being charged off. Once a loan is deemed uncollectible as contractually agreed, the loan is charged off either partially or in-full against the allowance for loan losses.

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As of March 31, 2009, we had $92.3 million of loans classified as substandard, $26.2 million classified as doubtful and $48,000 classified as loss. As of March 31, 2009, our allowance for loan losses included $21.5 million specifically allocated to individual loans in these categories.

Allowance for Loan Losses

The allowance for loan losses was $39.1 million as of March 31, 2009, compared to $20.7 million as of December 31, 2008. This increase reflects further deterioration in our loan portfolio, due primarily to the lack of demand for residential housing, and the subsequent increase in net charge-offs.

The following table summarizes the activity in our allowance for loan losses as of and for the periods indicated:

	As of March 31, 2009	As of December 31, 2008
	(Dollars in thousands)	
Average loans outstanding	$ 1,313,742	$ 1,350,869
Total loans outstanding at end of period	$ 1,293,019	$ 1,328,329
Allowance for loan losses at beginning of period	$ 20,730	$ 14,926
Charge-offs:		
Commercial, financial and agricultural	(581)	(1,582)
Real estate	(13,945)	(21,000)
Installment loans and other	(160)	(1,339)
Total charge-offs	(14,686)	(23,921)
Recoveries:		
Commercial, financial and agricultural	37	379
Real estate	117	322
Installment loans and other	99	425
Total recoveries	253	1,126
Net charge-offs	(14,433)	(22,795)
Provision for loan losses	32,761	28,599
Allowance for loan losses at end of period	$ 39,058	$ 20,730
Ratio of net charge-offs to average loans outstanding	1.10%	1.69%
Ratio of allowance for loan losses to period end loans	3.02%	1.56%
Ratio of allowance for loan losses to nonperforming loans	88.47%	65.55%

Allocated Allowance for Loan Losses. We use a risk rating and specific reserve methodology in the calculation and allocation of our allowance for loan losses. The following tables describe the allocation of the allowance for loan losses among various categories of loans and certain other information for the dates indicated. The allocation is made for analytical purposes and is not necessarily indicative of the categories in which future losses may occur. The total allowance is available to absorb losses from any segment of loans.

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	As of March 31, 2009		As of December 31, 2008	
	Loan Balance	Allowance for Loan Losses	Loan Balance	Allowance for Loan Losses
Allocated component:				
Impaired loans	$ 74,038	$ 21,504	$ 59,664	$ 10,075
Graded loans	122,221	5,498	86,376	1,876
Homogeneous pools	141,107	739	141,318	584
Other loans	955,653	7,317	1,040,971	4,195
Unallocated component		4,000		4,000
Totals	$ 1,293,019	$ 39,058	$ 1,328,329	$ 20,730

Management believes that the allowance for loan losses as of March 31, 2009 is adequate to cover losses inherent in the portfolio as of such date. There can be no assurance, however, that we will not sustain losses in future periods, which could be substantial in relation to the size of the allowance for loan losses as of March 31, 2009.

Investment Portfolio

The investment portfolio serves as a source of liquidity and earnings and is used to manage interest rate risk and to ensure collateral is available for pledging requirements. Our investment portfolio primarily consists of agency mortgage-backed securities, pooled government guaranteed SBA loans and taxable and non-taxable municipal securities. Securities within the portfolio are classified as held-to-maturity or available-for-sale. As of March 31, 2009, we had no securities classified as trading. Fair values of securities are based on quoted market prices where available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable securities.

Securities available-for-sale are carried at fair value with unrealized holding gains and losses reported as a separate component of shareholders equity called accumulated other comprehensive income. Securities that are held as available-for-sale are used as a part of our asset/liability management strategy. Securities may be sold in response to interest rate changes, changes in prepayment risk or changes to underlying bank funding. Available-for-sale securities were $565.6 million as of March 31, 2009, compared to $398.7 million as of December 31, 2008. As of March 31, 2009, $246.7 million, or 43.6%, of the available-for-sale securities were invested in mortgage-backed securities, compared to $220.5 million, or 55.3%, as of December 31, 2008. The remainder of the available-for-sale portfolio was invested primarily in government securities.

Securities held-to-maturity are carried at amortized historical cost. Securities that we have the intent and ability to hold until maturity or on a long-term basis are classified as held-to-maturity. Held-to-maturity securities were $18.6 million as of March 31, 2009, compared to $21.4 million as of December 31, 2008. All of the securities in the held-to-maturity category were issued by state and municipal subdivisions.

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The following tables summarize the amortized cost of securities classified as available-for-sale and held-to-maturity and their approximate fair values as of the dates shown:

	As of March 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Available-for-sale:				
Mortgage-backed securities	$ 237,956	$ 8,715	$ 15	$ 246,656
Other securities	317,805	2,944	1,765	318,984
Total	$ 555,761	$ 11,659	$ 1,780	$ 565,640
Held-to-maturity:				
Mortgage-backed securities	$	$	$	$
Other securities	18,556	769		19,325
Total	$ 18,556	$ 769	$	$ 19,325

	As of December 31, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
Available-for-sale:				
Mortgage-backed securities	$ 213,736	$ 6,736	$ 17	$ 220,455
Other securities	177,528	2,168	1,449	178,247
Total	$ 391,264	$ 8,984	$ 1,466	$ 398,702
Held-to-maturity:				
Mortgage-backed securities	$	$	$	$
Other securities	21,358	757		22,115
Total	$ 21,358	$ 757	$	$ 22,115

Some of our investment securities are valued at less than their historical cost. We believe these declines resulted primarily from increases in market interest rates. Because the declines in market value are due to changes in interest rates and not credit quality, and because we have the ability and intent to hold these securities until a recovery in fair value, management believes the declines in fair value for these securities are temporary. Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net earnings in the period the other than temporary impairment is identified.

As of March 31, 2009, we had net unrealized gains of $10.6 million in the investment portfolio compared to net unrealized gains of $8.2 million as of December 31, 2008. The $2.4 million increase in net unrealized gains is primarily attributable to changes in market interest rates from December 31, 2008 to March 31, 2009.

Mortgage-backed securities (MBSs) are securities that have been developed by pooling a number of real estate mortgages and are principally issued by quasi-federal agencies such as Fannie Mae and Freddie Mac. These securities are deemed to have high credit ratings, and the minimum monthly cash flows of principal and interest are guaranteed by the issuing agencies.

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Although investors generally assume that the federal government will support these agencies, it is under no obligation to do so. Other MBSs are issued by Ginnie Mae, which is a federal agency, and are guaranteed by the U.S. government.

Unlike U.S. government securities, which have a lump sum payment at maturity, MBSs provide cash flows from regular principal and interest payments and principal prepayments throughout the lives of the securities. MBSs that are purchased at a premium will generally suffer decreasing net yields as interest rates drop because homeowners tend to refinance their mortgages. Thus, the premium paid must be amortized over a shorter period. Conversely, MBSs purchased at a discount will obtain higher net yields in a decreasing interest rate environment. As interest rates rise, the opposite will generally be true. During a period of increasing interest rates, fixed rate MBSs do not tend to experience heavy prepayments of principal, and consequently the average life of this security will be lengthened. If interest rates begin to fall, prepayments will increase, thereby shortening the estimated lives of these securities.

The following table summarizes the contractual maturities of investment securities on an amortized cost basis and their weighted average yields as of March 31, 2009. This table shows the contractual maturities of the related investment securities and not the estimated average lives of the securities. The contractual maturity of an MBS is the date at which the last underlying mortgage matures. In the case of a 15-year pool of loans or a 30-year pool of loans, the maturity date of the security will be the date the last payment is due on the underlying mortgages.

	As of March 31, 2009									
	Due in One Year or Less		Due After One Year through Five Years		Due After Five Years through Ten Years		Due After Ten Years		Total (Avg.)	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(Dollars in thousands)									
Available-for-sale:										
Mortgage-backed securities	$ 3	8.38%	$ 9,834	3.38%	$ 27,313	4.64%	$ 209,506	5.12%	$ 246,656	5.00%
Other securities	154,871	0.21	49,918	4.56	35,070	4.86	78,321	4.41	318,180	2.44
Total	154,874	0.21	59,752	4.36	62,383	4.76	287,827	4.93	564,836	3.56
Held-to-maturity:										
Mortgage-backed securities										
Other securities	145	9.73			1,933	9.24	16,478	9.03	18,556	9.06
Total	145	9.73			1,933	9.24	16,478	9.03	18,556	9.06
Equity and other securities			262	7.13			16,925	2.28	17,187	2.35
Total securities	$ 155,019	0.22%	$ 60,014	4.38%	$ 64,316	4.89%	$ 321,230	5.00%	$ 600,579	3.69%

Contractual maturity of an MBS is not a reliable indicator of its expected life because borrowers have the right to prepay their obligations at any time. A third party analysis of our mortgage-backed securities as of March 31, 2009 showed the estimated average lives for fixed MBSs to be 2.8 years. The average life of the total investment portfolio is 2.1 years as of March 31, 2009.

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Goodwill and Other Intangibles

The change in our carrying amount of goodwill and other intangible assets as of March 31, 2009 and as of December 31, 2008 was as follows:

	As of March 31, 2009	As of December 31, 2008
	(In thousands)	
Balance, beginning	$ 68,849	$ 69,738
Intangible asset amortization	(182)	(889)
Goodwill impairment charge	(66,846)	
Balance, ending	$ 1,821	$ 68,849

The change resulted from the decline in the market value of our stock and the decline in prices paid in comparable acquisition transactions.

Deposits

Deposits are our primary source of funds and we rely on our banking centers and branches to attract and retain those deposits. We offer a variety of products, which consist of noninterest-bearing and interest checking accounts, money market and savings accounts and certificates of deposit. Deposits are gathered from individuals, partnerships and corporations in our market areas. From time to time, we also purchase brokered deposits. Our deposits averaged $1.521 billion for the first quarter of 2009, compared to $1.416 billion for the year ended December 31, 2008.

As of March 31, 2009, core deposits (which consist of all deposits other than brokered deposits, 50% of time deposits $100,000 and greater and 50% of public funds) were $1.194 billion, or 74.5%, of total deposits, while non-core deposits, including brokered deposits, made up 25.5% of total deposits. Total deposits increased to $1.602 billion as of March 31, 2009, compared to $1.461 billion as of the year ended December 31, 2008, an increase of $140.9 million, or 9.6%. The increase resulted from a $148.3 million, or 11.6%, increase in interest-bearing deposits, primarily time deposits, partially offset by a $7.4 million, or 4.1%, decrease in noninterest-bearing deposits.

The interest rates we pay are based on the competitive environments in each of our markets. We manage our interest expense through weekly deposit pricing reviews that compare our deposit rates with the competition and wholesale alternatives. The rising cost of our deposits over the past few years reflects the impact of the increase in the Federal Funds rate from 2006 through 2008. In addition, we have at times offered special products or attractive rates so that our deposits will keep up with our loan growth. The average cost of deposits, including noninterest-bearing deposits, for the first quarter of 2009 was 1.88%, compared to 2.52% for the year ended December 31, 2008.

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The following table presents the daily average balances and rates paid on deposits for the periods indicated:

	For the quarter ended March 31, 2009		For the year ended December 31, 2008	
	Average Balance	Average Rate	Average Balance	Average Rate
	(Dollars in thousands)			
Noninterest-bearing deposits	$ 180,260	%	$ 177,670	%
Interest-bearing demand [1]	554,406	1.15	526,918	1.80
Savings	41,440	0.44	40,261	0.58
Time deposits less than $100,000	274,509	2.99	287,987	3.76
Core deposits	1,050,615	1.41	1,032,836	1.99
Time deposits $100,000 and greater	320,910	2.70	287,621	3.79
Brokered deposits	149,356	3.48	95,369	4.41
Total deposits	$ 1,520,881	1.88%	$ 1,415,826	2.52%

(1) Includes money market accounts.

The following table provides the amount of our time deposits as of March 31, 2009 that are $100,000 and greater by time remaining until maturity:

Three months or less	$ 116,853
Over three months through six months	106,197
Over six months through one year	161,522
Over one year	121,863
Total	$ 506,435

While a majority of the time deposits in amounts of $100,000 and greater will mature within one year, we expect that a significant portion of these deposits will be renewed, given that the rates we offer on time deposits are competitive in the market. If a significant portion of the time deposits were not renewed, it would have an adverse effect on our liquidity. We monitor maturities and have other available funding sources such as FHLB advances to mitigate this effect.

Borrowings, Repurchase Agreements and Junior Subordinated Debentures

We use borrowings to supplement deposits in funding our lending and investing activities. These borrowings are typically FHLB advances, which have terms ranging from overnight to several years. All FHLB borrowings are collateralized by investment securities or first mortgage loans. Additionally, we borrow from other financial institutions using investment securities as collateral and have issued junior subordinated debentures to a subsidiary trust.

Our borrowings and repurchase agreements were $281.2 million as of March 31, 2009. The outstanding balance as of March 31, 2009 includes no short-term FHLB advances, $190.0 million in long-term FHLB advances, $50.0 million in repurchase agreements with brokerage firms and $41.2 million in repurchase agreements with clients and treasury tax and loan note payable.

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We decreased our borrowing and repurchase agreements $6.2 million, or 2.2%, to $281.2 million as of March 31, 2009 from $287.5 million as of December 31, 2008. The decrease was primarily a result of rising deposits, which provided us with a less expensive and more stable funding source, than borrowings and repurchase agreements.

The following table summarizes our outstanding borrowings and repurchase agreements of the dates indicated:

	As of March 31, 2009	As of December 31, 2008
	(Dollars in thousands)	
Ending balance	$ 281,228	$ 287,465
Average balance for the period	286,327	339,430
Maximum month-end balance during the period	284,664	389,309
Average interest rate for the period	2.60%	2.85%
Weighted average interest rate at the end of the period	2.66%	2.51%

In addition to the borrowings and repurchase agreements discussed above, as of March 31, 2009, we had one issue of junior subordinated debentures outstanding totaling $30.9 million.

In addition to the borrowings and repurchase agreements discussed above, on December 20, 2003, the Corporation issued $30.9 million of floating rate junior subordinated deferrable interest debentures to the Trust. The debentures are the sole asset of the Trust. The net proceeds received by the Corporation from the issuance of the debentures were used for our acquisition of Enterprise Bancshares, Inc. The Trust issued $30.0 million of TPSs to investors. The Corporation s obligations under the debentures and related documents, taken together, constitute a full and unconditional guarantee by the Corporation of the Trust s obligations under the TPSs. The TPSs are redeemable at the Corporation s option on or after December 30, 2008, on any interest payment date. The TPSs must be redeemed upon maturity of the debentures in 2033. Interest on the debentures and TPSs is the three month London Interbank Offer Rate (LIBOR) plus 2.85% and is payable quarterly.

The Trust is a statutory business trust organized for the sole purpose of issuing trust securities and investing the proceeds in our junior subordinated debentures. The TPSs represent preferred beneficial interests in the assets of the Trust and are subject to mandatory redemption upon payment of the junior subordinated debentures held by the Trust. We own the common securities of the Trust. The Trust s ability to pay amounts due on the TPSs depend solely on our making payment on the related junior subordinated debentures. The debentures, which are the only assets of the Trust, are subordinate and junior in right of payment to all of our present and future senior indebtedness. We have fully and unconditionally guaranteed the Trust s obligations under the Trust securities to the extent not paid or made by the Trust, provided that the Trust has funds available for those obligations.

Under the provisions of the issue of the junior subordinated debentures, we have the right to defer payment of interest on the debentures at any time, or from time to time, for periods not exceeding five years. If interest payments on the junior subordinated debentures are deferred, the distributions on the TPSs will also be deferred. However, the interest due would continue to accrue during any such interest payment deferral period.

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The TPSs issued by the Trust are currently included in our Tier 1 capital for regulatory purposes. On March 1, 2005, the Federal Reserve adopted final rules that continued to allow trust preferred securities to be included in Tier 1 capital, but subject to stricter quantitative and qualitative limits that took effect on March 31, 2009. Prior to March 31, 2009, trust preferred securities and qualifying perpetual preferred stock were limited in the aggregate to no more than 25% of a bank holding company s core capital elements. The new rule amends the existing limit by providing that the aggregate amount of restricted core capital elements (including trust preferred securities and qualifying perpetual preferred stock) that may be included in Tier 1 capital may not exceed 25% of the sum of all core capital elements, including restricted core capital elements, net of goodwill less any associated deferred tax liability. Because the 25% limit was previously calculated without deducting goodwill, the final rule reduced the amount of TPSs that we can include in Tier 1 capital. The rules that became effective on March 31, 2009 did not affect the amount of TPSs that we may include in our Tier 1 capital.

The Trust issuing the TPSs holds junior subordinated debentures we issued with a 30-year maturity. The final rules provide that in the last five years before the junior subordinated debentures mature, the associated TPSs will be excluded from Tier 1 capital and included in Tier 2 capital, subject (together with subordinated debt and certain other investments) to an aggregate limit of 50% of Tier 1 capital. In addition, under the proposal, the TPSs during this five-year period would be amortized out of Tier 2 capital by one-fifth each year and excluded from Tier 2 capital completely during the year prior to maturity of the debentures.

Shareholders Equity

Shareholders equity was $146.1 million as of March 31, 2009, compared to $185.6 million as of December 31, 2008. Our ratio of average shareholders equity to average assets decreased to 8.2% as of March 31, 2009, compared to 9.6% as of December 31, 2008. On January 9, 2009, we sold $44 million of non-voting Series A preferred stock to the U.S. Treasury under the CPP. During the first quarter of 2009, we reported a net loss applicable to common shareholders of $84.5 million. Included in this amount are the payment of $220,000 in preferred dividends and $102,000 of discount accretion related to the Series A preferred stock. Also, we declared common dividends to our shareholders of $595,000. Finally, an increase in the market value of our available-for-sale investment securities caused our accumulated other comprehensive income to increase from $237,000 at December 31, 2008, to $1.7 million at March 31, 2009.

Financial Condition as of December 31, 2008, 2007 and 2006

Summary

Total assets were $1.979 billion as of December 31, 2008, compared to $1.984 billion as of December 31, 2007, a decrease of $4.9 million, or 0.2%. Our loan portfolio was $1.328 billion as of December 31, 2008, compared to $1.338 billion as of December 31, 2007, a decrease of $9.5 million, or 0.7%. Our investment portfolio was $436.4 million as of December 31, 2008, compared to $443.1 million as of December 31, 2007, a decrease of $6.7 million, or 1.5%. Total deposits were $1.461 billion as of December 31, 2008, compared to $1.426 billion as of December 31, 2007. Shareholders equity was $185.6 million as of December 31, 2008, compared to $194.4 million as of December 31, 2007, a decrease of $8.8 million, or 4.5%.

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Total assets were $1.984 billion as of December 31, 2007, compared to $1.900 billion as of December 31, 2006, an increase of $84.2 million, or 4.4%. Our loan portfolio was $1.338 billion as of December 31, 2007, compared to $1.223 billion as of December 31, 2006, an increase of $114.9 million. Our investment portfolio was $443.1 million as of December 31, 2007, compared to $448.6 million as of December 31, 2006, a decrease of $5.5 million, or 1.2%. Total deposits were $1.426 billion as of December 31, 2007, compared to $1.461 billion as of December 31, 2006. Shareholders equity was $194.4 million as of December 31, 2007, compared to $191.3 million as of December 31, 2006, an increase of $3.1 million, or 1.6%.

Loan Portfolio

Total commercial, financial and agricultural loans accounted for 17% of our portfolio as of December 31, 2008. Total real estate loans accounted for 76% of our loan portfolio as of December 31, 2008. Total consumer loans made up 15% of our loan portfolio as of December 31, 2008.

Total loans were $1.328 billion as of December 31, 2008, a decrease of $10.0 million, or 0.7%, compared to loans of $1.338 billion as of December 31, 2007. The majority of the loan decline occurred in real estate construction loans due primarily to the moratorium imposed on this type of lending during 2008.

Total loans increased $114.9 million, or 9.4%, to $1.338 billion as of December 31, 2007, compared to $1.223 billion as of December 31, 2006. As of December 31, 2008, 2007, and 2006, loans comprised 67.1%, 67.4% and 64.4%, respectively, of total assets.

The following table summarizes our loan portfolio by type of loan as of the dates indicated:

	As of December 31,									
	2008		2007		2006		2005		2004	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)									
Commercial:										
Commercial	$ 219,236	16.5%	$ 233,055	17.4%	$ 232,338	19.0%	$ 192,966	22.4%	$ 154,581	18.7%
Commercial real estate	670,595	50.5	573,387	42.9	515,029	42.1	343,320	39.9	321,261	38.9
Real estate construction	179,381	13.5	281,391	21.0	211,220	17.3	95,005	11.0	86,351	10.5
Total commercial	1,069,212	80.5	1,087,833	81.3	958,587	78.4	631,291	73.4	562,193	68.1
Consumer:										
Residential real estate	92,055	6.9	108,378	8.1	130,019	10.6	113,850	13.2	139,630	16.9
Home equity lines	67,708	5.1	57,446	4.3	58,230	4.8	49,148	5.7	44,379	5.4
Other consumer loans	30,921	2.3	34,702	2.6	36,325	3.0	37,209	4.3	53,213	6.4
Total consumer	190,684	14.4	200,526	15.0	224,574	18.4	200,207	23.3	237,222	28.7
Other	68,433	5.2	49,488	3.7	39,785	3.3	29,146	3.4	25,849	3.1
Total loans	$ 1,328,329	100.0%	$ 1,337,847	100.0%	$ 1,222,946	100.0%	$ 860,644	100.0%	$ 825,264	100.0%

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The contractual maturity ranges of our loan portfolio and the amount of such loans with fixed and variable interest rates in each maturity range as of dates indicated, are summarized in the following table:

	As of December 31, 2008			
	One Year or Less	After One Through Five Years	After Five Years	Total
	(In thousands)			
Commercial:				
Commercial	$ 84,255	$ 125,728	$ 9,253	$ 219,236
Commercial real estate	225,606	329,408	115,581	670,595
Real estate construction	132,616	25,611	21,154	179,381
Total commercial	442,477	480,747	145,988	1,069,212
Commercial:				
Residential real estate	10,694	24,129	57,232	92,055
Home equity lines	957	11,694	55,057	67,708
Other consumer loans	4,961	13,801	12,159	30,921
Total consumer	16,612	49,624	124,448	190,684
Other	64,690	2,476	1,267	68,433
Total loans	$ 523,779	$ 532,847	$ 271,703	$ 1,328,329
Loans with a fixed interest rate	$ 188,560	$ 191,825	$ 97,813	$ 478,198
Loans with a variable interest rate	335,219	341,022	173,890	850,131
Total loans	$ 523,779	$ 532,847	$ 271,703	$ 1,328,329

As of December 31, 2008, our loan portfolio was composed of approximately 63.0% fixed rate loans and 37.0% variable rate loans. Scheduled contractual principal repayments do not reflect the actual maturities of loans. The average maturity of our loans is substantially less than their average contractual term because of prepayments. The average life of mortgage loans tends to increase when the current mortgage loan rates are substantially higher than rates on existing mortgage loans and, conversely, decrease when current mortgage loans rates are substantially lower than rates on existing mortgages due primarily to refinancings of adjustable rate and fixed rate loans at lower rates.

Delinquent and Nonperforming Assets

Nonaccrual loans totaled $23.8 million as of December 31, 2008, compared to $3.5 million as of December 31, 2007, and $1.4 million as of December 31, 2006. Loans 90 days past due and still accruing interest totaled $3.5 million as of December 31, 2008, compared to $5.5 million as of December 31, 2007, and $1.1 million as of December 31, 2006. The ratio of 90 days delinquent loans to total loans was 0.26% as of December 31, 2008, compared to 0.41% as of December 31, 2007 and 0.09% as of December 31, 2006.

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The following table presents information regarding nonperforming assets as of the dates indicated:

	As of December 31,				
	2008	2007	2006	2005	2004
	(Dollars in thousands)				
Nonaccrual loans	$ 23,761	$ 3,460	$ 1,435	$ 498	$ 1,918
Accruing loans past due 90 days or more	3,467	5,493	1,146	2,043	1,094
Restructured loans	4,397	180	151	73	1,502
Total nonperforming loans	31,625	9,133	2,732	2,614	4,514
Other real estate	18,691	10,678	4,561	5,131	4,463
Total nonperforming assets	$ 50,316	$ 19,811	$ 7,293	$ 7,745	$ 8,977
Nonperforming assets to total loans and other real estate	3.74%	1.47%	0.59%	0.89%	1.08%

Nonperforming assets were $50.3 million, $19.8 million and $7.3 million as of December 31, 2008, 2007 and 2006, respectively. Our ratio of nonperforming assets to total loans and other real estate was 3.74%, 1.47% and 0.59% as of December 31, 2008, 2007 and 2006, respectively. The increase in nonperforming assets in 2008 was due primarily to the decline in the economy resulting in continued deterioration in the residential, construction and development sector of our loan portfolio.

As of December 31, 2004 through December 31, 2008, other real estate was comprised primarily of residential real estate developments in various stages of completion.

As of December 31, 2008, we had $64.5 million of loans classified as substandard, $17.9 million classified as doubtful and $21,000 classified as loss. As of December 31, 2008, our allowance for loan losses included $10.1 million specifically allocated to individual loans in these categories.

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Allowance for Loan Losses

The following table summarizes the activity in our allowance for loan losses as of and for the periods indicated:

	As of and for the Years Ended December 31,				
	2008	2007	2006	2005	2004
	(Dollars in thousands)				
Average loans outstanding	$ 1,350,870	$ 1,284,762	$ 973,466	$ 808,795	$ 756,110
Total loans outstanding at end of period	$ 1,328,329	$ 1,337,847	$ 1,222,946	$ 860,644	$ 828,563
Allowance for loan losses at beginning of period	$ 14,926	$ 12,236	$ 9,312	$ 10,914	$ 6,181
Allowance of acquired entity			3,116		4,547
Total allowances	14,926	12,236	12,428	10,914	10,728
Charge-offs:					
Commercial, financial and agricultural	(1,582)	(2,547)	(749)	(1,320)	(732)
Real estate	(21,000)	(2,952)	(526)	(1,373)	(2,070)
Installment loans and other	(1,339)	(1,999)	(1,358)	(1,927)	(1,308)
Total charge-offs	(23,921)	(7,498)	(2,633)	(4,620)	(4,110)
Recoveries:					
Commercial, financial and agricultural	379	408	259	52	133
Real estate	322	1,171	119	348	185
Installment loans and other	425	479	407	490	456
Total recoveries	1,126	2,058	785	890	774
Net charge-offs	(22,795)	(5,440)	(1,848)	(3,730)	(3,336)
Provision for loan losses	28,599	8,130	1,656	2,128	3,522
Allowance for loan losses at end of period	$ 20,730	$ 14,926	$ 12,236	$ 9,312	$ 10,914
Ratio of net charge-offs to average loans outstanding	1.69 %	0.42 %	0.19 %	0.46 %	0.44 %
Ratio of allowance for loan losses to period end loans	1.56 %	1.12 %	1.00 %	1.08 %	1.32 %
Ratio of allowance for loan losses to nonperforming loans	65.55 %	163.43 %	447.88 %	356.24 %	241.78 %

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Allocated Allowance for Loan Losses. The following table describes the allocation of the allowance for loan losses among various categories of loans and certain other information for the dates indicated. The allocation is made for analytical purposes and is not necessarily indicative of the categories in which future losses may occur. The total allowance is available to absorb losses from any segment of loans.

	As of December 31,									
	2008		2007		2006		2005		2004	
	Loan Balance	Allowance for Loan Losses	Loan Balance	Allowance for Loan Losses	Loan Balance	Allowance for Loan Losses	Loan Balance	Allowance for Loan Losses	Loan Balance	Allowance for Loan Losses
	(In thousands)									
Allocated component:										
Impaired loans	$ 59,664	$ 10,075	$ 23,824	$ 4,396	$ 13,577	$ 2,113	$ 10,544	$ 1,293	$ 4,107	$ 2,237
Graded loans	86,376	1,876	24,728	852	32,682	972	19,978	812	44,820	3,805
Homogeneous pools	141,318	584	133,191	570	105,114	524	120,315	855	232,618	2,230
Other loans	1,040,971	4,195	1,156,104	4,246	1,071,573	6,107	709,807	4,768	547,018	1,905
Unallocated component		4,000		4,862		2,520		1,584		737
Total	$ 1,328,329	$ 20,730	$ 1,337,847	$ 14,926	$ 1,222,946	$ 12,236	$ 860,644	$ 9,312	$ 828,563	$ 10,914

We believe that the allowance for loan losses as of December 31, 2008 was adequate to cover losses inherent in the portfolio as of such date. There can be no assurance, however, that we will not sustain losses in future periods, which could be substantial in relation to the size of the allowance for loan losses as of December 31, 2008.

Investment Portfolio

As of December 31, 2008, we had no securities classified as trading. Fair values of securities are based on quoted market prices where available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable securities.

Securities available-for-sale are carried at fair value with unrealized holding gains and losses reported as a separate component of shareholders equity called other comprehensive income. Securities that are held as available-for-sale are used as a part of our asset/liability management strategy. Securities may be sold in response to interest rate changes, changes in prepayment risk or changes to underlying bank funding. Our average investment portfolio balances were $436.8 million as of December 31, 2008, compared to $440.6 million as of December 31, 2007. Available-for-sale securities were $398.7 million as of December 31, 2008, compared to $403.8 million as of December 31, 2007 and $413.8 million as of December 31, 2006. As of December 31, 2008, $220.5 million, or 55.3%, of the available-for-sale securities were invested in mortgage-backed securities, compared to $137.8 million, or 34.1%, as of December 31, 2007. The remainder of the available-for-sale portfolio was invested primarily in government securities.

Securities held-to-maturity are carried at amortized historical cost. Securities that we have the intent and ability to hold until maturity or on a long-term basis are classified as held-to maturity. Held-to-maturity securities were $21.4 million as of December 31, 2008, compared to $22.8 million as of December 31, 2007 and $23.5 million as of December 31, 2006. All of the securities in the held-to-maturity category were state and municipal securities.

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The following tables summarize the amortized cost of securities classified as available-for-sale and held-to-maturity and their approximate fair values as of the dates shown:

	As of December 31, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Available-for-sale:				
Mortgage-backed securities	$ 213,736	$ 6,736	$ 17	$ 220,455
Other securities	177,528	2,168	1,449	178,247
Total	$ 391,264	$ 8,904	$ 1,466	$ 398,702
Held-to-maturity:				
Mortgage-backed securities	$	$	$	$
Other securities	21,358	757		22,115
Total	$ 21,358	$ 757	$	$ 22,115

	As of December 31, 2007				As of December 31, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)							
Available-for-sale:								
Mortgage-backed securities	$ 137,221	$ 971	$ 412	$ 137,780	$ 254,390	$ 268	$ 6,466	$ 248,192
Other securities	265,128	1,338	450	266,016	166,556	271	1,207	165,620
Total	$ 402,349	$ 2,309	$ 862	$ 403,796	$ 420,946	$ 539	$ 7,673	$ 413,812
Held-to-maturity:								
Mortgage-backed securities	$	$	$	$	$	$	$	$
Other securities	22,846	1,111		23,957	23,478	1,579		25,057
Total	$ 22,846	$ 1,111	$	$ 23,957	$ 23,478	$ 1,579	$	$ 25,057

Certain investment securities are valued at less than their historical cost. We believe these declines resulted primarily from increases in market interest rates. Because the declines in market value are due to changes in interest rates and not credit quality, and because we have the ability and intent to hold these securities until a recovery in fair value, management believes the declines in fair value for these securities are temporary. Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net earnings in the period the other-than-temporary impairment is identified.

As of December 31, 2008, we had net unrealized gains of $8.2 million in the investment portfolio compared to net unrealized gains of $2.6 million as of December 31, 2007. The $5.6 million increase in net unrealized gains is primarily attributable to changes in market interest rates from December 31, 2007 to December 31, 2008. As of

December 31, 2007, we had net unrealized gains of $2.6 million compared to net unrealized losses of $5.6 million as of December 31, 2006. The $8.1 million increase in net unrealized gains was primarily due to rising interest rates.

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The following table summarizes the contractual maturities of investment securities on an amortized cost basis and their yields as of December 31, 2008. This table shows the contractual maturities of the related investment securities and not the estimated average lives of the securities. The contractual maturity of an MBS is the date at which the last underlying mortgage matures. In the case of a 15-year pool of loans or a 30-year pool of loans, the maturity date of the security will be the date the last payment is due on the underlying mortgages.

	Due in One Year or Less		Due After One Year through Five Years		Due After Five Years through Ten Years		Due After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(Dollars in thousands)									
Available-for-sale:										
Mortgage-backed securities	$ 4	8.32%	$ 44,794	4.41%	$ 21,201	4.88%	$ 194,456	5.30%	$ 220,455	5.24%
Other securities	4,864	4.81	69,296	4.40	60,865	4.99	41,908	5.31	176,933	4.83
Total	4,868	4.81	74,090	4.40	82,066	4.96	236,364	5.31	397,388	5.06
Held-to-maturity:										
Mortgage-backed securities										
Other securities	2,145	3.02			1,933	9.24	17,280	8.27	21,358	7.83
Total	2,145	3.02			1,933	9.24	17,280	8.27	21,358	7.83
Equity and other securities	501	5.73	248	8.61			16,934	3.96	17,683	4.07
Total securities	$ 7,514	4.36%	$ 74,338	4.42%	$ 83,999	5.06%	$ 270,578	5.41%	$ 436,429	5.16%

Contractual maturity of an MBS is not a reliable indicator of its expected life because borrowers have the right to prepay their obligations at any time. A third party analysis of our mortgage-backed securities as of December 31, 2008 shows the estimated average lives for fixed MBSs to be 2.6 years. The average life of the total investment portfolio is 2.3 years as of December 31, 2008.

Goodwill and Other Intangibles

The change in our carrying amount of goodwill and intangibles as of the years ended December 31, 2008 and 2007 is as follows:

	As of December 31,	
	2008	2007
	(Dollars in thousands)	
Balance, beginning	$ 69,738	$ 71,342
Intangible asset amortization	(889)	(1,327)
Goodwill adjustment relating to acquisition		(277)
Balance, ending	$ 68,849	$ 69,738

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Deposits

Deposits were $1.461 billion as of December 31, 2008, compared to $1.426 billion as of December 31, 2007, an increase of $35.6 million, or 2.5%. Interest-bearing deposits increased to $1.280 billion as of December 31, 2008, compared to $1.254 billion as of December 31, 2007, an increase of $25.8 million, or 2.1%. Noninterest-bearing deposits increased to $181.2 million as of December 31, 2008, compared to $171.4 million as of December 31, 2007, an increase of $9.8 million, or 5.7%. Federal funds purchased and securities sold under agreements to repurchase decreased to $98.5 million as of December 31, 2008, compared to $107.1 million as of December 31, 2007, a decrease of $8.5 million, or 8.0%. Other borrowed funds (primarily FHLB advances) decreased to $188.9 million as of December 31, 2008, compared to $210.8 million as of December 31, 2007, a decrease of $21.8 million, or 10.4%, during 2008. Our deposits were $1.461 billion for the year ended December 31, 2008, $1.426 billion for 2007 and $1.227 billion for 2006.

As of December 31, 2008, core deposits (which consist of all deposits other than brokered deposits, 50% of time deposits $100,000 and greater and 50% of public funds) were $1.094 billion, or 74.8%, of total deposits, while non-core deposits, including brokered deposits, made up 25.2% of total deposits.

The interest rates we pay are based on the competitive environments in each of our markets. We manage our interest expense through weekly deposit pricing reviews that compare our deposit rates with the competition and wholesale alternatives. The rising cost of our deposits in 2007 and the decline in our cost of deposits in 2008 reflect the impact of the changes in the Federal Funds rate from 2006 through 2008. In addition, we have at times offered special products or attractive rates so that our deposits will keep up with our loan growth. The average cost of deposits, including noninterest-bearing deposits, for the year ended December 31, 2008 was 2.52% compared to 3.51% for the year ended December 31, 2007, and 2.93% for the year ended December 31, 2006.

As of December 31, 2007, core deposits (which consist of all deposits other than brokered deposits, 50% of time deposits $100,000 and greater and 50% of public funds) were $1.157 billion, or 81.1%, of total deposits while non-core deposits, including brokered deposits, made up 18.9% of total deposits.

The following table presents the daily average balances and weighted average rates paid on deposits for the periods indicated:

	Years Ended December 31,					
	2008		2007		2006	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
	(Dollars in thousands)					
Noninterest-bearing deposits	$ 177,670	%	$ 175,196	%	$ 165,939	%
Interest-bearing demand [1]	526,918	1.80	489,136	2.95	414,137	2.51
Savings	40,261	0.58	42,310	0.78	42,218	0.46
Time deposits less than $100,000	287,987	3.76	344,853	4.74	291,972	3.94
Core deposits	1,032,836	1.99	1,051,495	2.96	914,266	2.42
Time deposits $100,000 and greater	287,621	3.79	309,804	5.08	256,593	4.41
Brokered deposits	95,369	4.41	62,709	4.94	56,330	4.60

Total deposits	$ &nbs	1,415,826	2.52%	$ 1,424,008	3.51%	$ 1,227,189	2.93%