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CAPITAL CITY BANK GROUP INC  
Form 424B3  
September 27, 2004

Filed Pursuant to Rule 424(b)(3)  
Registration No. 333-118638

[Farmers & Merchants Bank Logo]

FARMERS AND MERCHANTS BANK  
600 Bellevue Avenue  
Dublin, Georgia 31021

To the shareowners of  
Farmers and Merchants Bank

September 20, 2004

I am pleased to invite you to attend a Special Meeting of the shareowners of Farmers and Merchants Bank to be held at Farmers and Merchants Bank, located at 600 Bellevue Avenue, Dublin, Georgia, on Friday, October 15, 2004, at 10:00 a.m., Eastern Time.

At the Special Meeting, you will be asked to approve the Agreement and Plan of Merger among Farmers and Merchants, Capital City Bank Group, Inc. and Capital City Bank, whereby Farmers and Merchants will merge with Capital City. When the merger is completed, each share of common stock held by you will be exchanged for the right to receive \$666.50 in cash, plus up to 17.54 shares (but no less than 14.81 shares) of Capital City common stock. The exact exchange ratio of Farmers and Merchants Bank common stock for Capital City common stock will be based on the average of the daily closing sales prices of Capital City common stock, as reported by the Nasdaq National Market, for an agreed upon period prior to the closing date of the merger. Capital City will pay Farmers and Merchants shareowners cash instead of issuing any fractional shares in the merger.

As the bank's board of directors, we believe that the merger will have many benefits. We believe that the combined company will have greater financial strength and greater opportunity and flexibility to expand and diversify. The merger is subject to certain conditions, including approval of the Agreement and Plan of Merger by the affirmative vote of holders of a majority of the outstanding common stock of Farmers and Merchants represented, in person or by proxy, at the Special Meeting, and approval of the merger by various regulatory agencies.

As the bank's board of directors, we have unanimously approved the Agreement and Plan of Merger and recommend it to you for your approval as well.

This Proxy Statement/Prospectus provides detailed information about the merger. We urge you to read this entire document carefully, including the risk factors considered by Capital City's and Farmers and Merchants' boards of directors beginning on page 18. You can also get information about Capital City from the SEC. Capital City's common stock is traded on the Nasdaq National Market under the symbol "CCBG."

Whether or not you plan to attend the Special Meeting, you are urged to complete, sign, and promptly return the enclosed proxy card. If you attend the Special Meeting, you may vote in person if you wish, even if you have previously returned your proxy card. The merger is a significant step for Farmers and Merchants Bank and your vote on this matter is of great importance.

On behalf of the board of directors, I strongly urge you to vote FOR

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approval of the Agreement and Plan of Merger by marking the enclosed proxy card "FOR" item one.

We look forward to seeing you at the Special Meeting.

Sincerely,  
/s/ McGrath Keen, Jr.

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McGrath Keen, Jr.  
President and Director

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Neither the Securities and Exchange Commission nor any state securities regulatory body has approved or disapproved of the securities to be issued under this Proxy Statement/Prospectus or determined if this Proxy Statement/Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The securities offered hereby are not savings accounts or deposit accounts or other obligations of any bank or savings association and they are not insured by the Federal Deposit Insurance Corporation, the Bank Insurance Fund, the Savings Association Insurance Fund, or any other government agency.

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This Proxy Statement/Prospectus is dated September 20, 2004, and was first mailed to shareowners on September 20, 2004.

[Capital City Bank Logo]

[Farmers & Merchants Bank Logo]

PROPOSED MERGER OF FARMERS AND MERCHANTS BANK  
WITH CAPITAL CITY BANK GROUP, INC.  
NOTICE OF SPECIAL MEETING OF SHAREOWNERS  
TO BE HELD OCTOBER 15, 2004

A special meeting of the shareowners (the "Special Meeting") of Farmers and Merchants Bank will be held at Bank, located at 600 Bellevue Avenue, Dublin, Georgia, on Friday, October 15, 2004, at 10:00 a.m., Eastern Time, for the following purposes:

- \* To vote on an Agreement and Plan of Merger, pursuant to which, among other matters, Farmers and Merchants Bank will merge with and into Capital City Bank Group, Inc. with Capital City being the resulting corporation.
- \* To transact any other business that properly comes before the Special Meeting, or any adjournments or postponements of the Special Meeting.

In connection with the merger, each share of Farmers and Merchants common stock outstanding at the effective time of the merger will be exchanged for \$666.50 in cash, plus up to 17.54 shares (but no less than 14.81 shares) of Capital City common stock. The exact exchange ratio of Farmers and Merchants Bank common stock for Capital City common stock is more fully described in the accompanying Proxy Statement/Prospectus. A copy of the Agreement and Plan of Merger is attached to the Proxy Statement/Prospectus as Appendix A.

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The Board of Directors of Farmers and Merchants is not aware of any other business to be presented to a vote at the Special Meeting.

Only shareowners of record at the close of business on September 20, 2004, will be entitled to notice of and to vote at the Special Meeting or any adjournments. Approval of the Agreement and Plan of Merger requires the affirmative vote of a majority of the issued and outstanding shares of Farmers and Merchants common stock on that record date represented, in person or by proxy, at the Special Meeting.

The Board of Directors of Farmers and Merchants unanimously recommends that shareowners vote FOR approval of the Agreement and Plan of Merger.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ McGrath Keen, Jr.

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McGrath Keen, Jr.  
President and Director

Dublin, Georgia  
September 20, 2004

Whether or not you plan to attend the Special Meeting, please complete, date, and sign the enclosed form of proxy and promptly return it in the enclosed postage paid return envelope in order to ensure that your shares will be represented at the Special Meeting.

Title 7, Chapter 1, Article 537 of the Financial Institutions Code of Georgia, by reference to Title 14, Chapter 2, Article 13 of the Georgia Business Corporation Code provides that each Farmers and Merchants shareowner may dissent from the Agreement and Plan of Merger and demand payment of the fair value of his or her shares in cash if the merger is consummated. The right of any shareowner to receive such payment is contingent upon strict compliance with the provisions of Title 14, Chapter 2, Article 13 of the Georgia Business Corporation Code. We have included for your review the full text of Title 14, Chapter 2, Article 13 of the Georgia Business Corporation Code in Appendix E to the accompanying Proxy Statement/Prospectus. See "DESCRIPTION OF THE MERGER - Dissenters' Rights" in the accompanying Proxy Statement/Prospectus, page 38.

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WHERE YOU CAN FIND MORE INFORMATION ABOUT CAPITAL CITY

Capital City files annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any materials Capital City files with the SEC at the SEC's Public Reference Room at Room 1024, 450 Fifth Street, N.W., Judiciary Plaza, Washington, D.C. 20549. You should call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. The SEC also maintains a Web site that contains reports, proxy and information statements and other information about Capital City. The address of the SEC Web site is <http://www.sec.gov>.

Capital City filed a Registration Statement on Form S-4 to register with the SEC the shares that Capital City will issue to Farmers and Merchants shareowners in the merger. This Proxy Statement/Prospectus is a part of the Registration Statement but does not include all of the information contained in the Registration Statement. For further information about Capital City

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and the securities offered in this Proxy Statement/Prospectus, you should review the Registration Statement at the SEC's Public Reference Room or on its Web site.

The SEC allows Capital City to "incorporate by reference" information into the Proxy Statement/Prospectus, which means that Capital City can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered part of this Proxy Statement/Prospectus, except when superseded by information contained in this Proxy Statement/Prospectus or in later filed documents incorporated by reference in this Proxy Statement/Prospectus.

This Proxy Statement/Prospectus incorporates by reference the documents listed below that Capital City previously filed with the SEC. These documents contain important information about Capital City and its finances. Some filings have been amended by later filings, which are also listed.

- \* Annual Report on Form 10-K for the fiscal year ended December 31, 2003
- \* Quarterly Report on Form 10-Q for the quarter ended March 31, 2004
- \* Quarterly Report on Form 10-Q for the quarter ended June 30, 2004
- \* Amendment 1 to Quarterly Report on Form 10-Q/A for the quarter ended June 30, 2004
- \* Amendment 2 to Quarterly Report on Form 10-Q/A for the quarter ended June 30, 2004
- \* Current Reports on Form 8-K filed on January 13, 2004, May 14, 2004 and August 6, 2004

Capital City also incorporates by reference additional documents that it may file with the SEC between the date of this Proxy Statement/Prospectus and the completion of the merger or the termination of the Agreement and Plan of Merger. These additional documents include periodic reports, such as Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, as well as proxy statements.

We are providing you with a copy of Capital City's Annual Report to Shareowners for the fiscal year ended December 31, 2003 and a copy of Capital City's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004. These documents provide more information about Capital City and its

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finances. Capital City's Amendments to its Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 were filed to include the Agreement and Plan of Merger as an exhibit to the Form 10-Q. These amendments did not alter any of the disclosures set forth in the original Form 10-Q. Because the Agreement and Plan of Merger is included as Appendix A to this Proxy Statement, we are not providing you with copies of these amendments.

Capital City's internet website is [www.ccbg.com](http://www.ccbg.com). Capital City's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, including any amendments to those reports filed or furnished pursuant to section 13(a) or 15(d), and reports filed pursuant to Section 16, 13(d), and 13(g) of the Exchange Act are available free of charge through the website as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. In addition, you may obtain other documents

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incorporated by reference in this Proxy Statement/Prospectus by requesting them from Capital City at the address or telephone number listed on page 6.

### PLEASE NOTE

Neither Capital City nor Farmers and Merchants has authorized anyone to give any information or make any statement about the merger or either company that differ from, or adds to, the information in the Proxy Statement/Prospectus or in other documents filed with the SEC. Therefore, if anyone gives you different or additional information, you should not rely on it.

If you reside in a jurisdiction where it is unlawful to offer to exchange or sell, or to ask for offers to exchange or buy, the securities offered by this Proxy Statement/Prospectus or to ask for proxies, or if you are a person to whom it is unlawful to direct such activities, then the offer presented by this Proxy Statement/Prospectus does not extend to you.

The information contained in this Proxy Statement/Prospectus speaks only as of its date unless the information specifically indicates that another date applies.

Information in this Proxy Statement/Prospectus about Capital City has been supplied by Capital City, and information about Farmers and Merchants has been supplied by Farmers and Merchants.

### A WARNING ABOUT FORWARD-LOOKING STATEMENTS

We have made forward-looking statements in this Proxy Statement/Prospectus (and in other documents filed with the SEC) that are subject to risks and uncertainties. These statements are based on the beliefs and assumptions of Capital City's and Farmers and Merchants' managements and on information currently available to members of management. These forward-looking statements include information about possible or assumed future results of operations or the performance of Capital City after the merger. Many possible events or factors could cause results or performance to differ materially from those expressed in our forward-looking statements.

You should consider the events or factors detailed in the "RISK FACTORS" section of this Proxy Statement/Prospectus beginning on page 18 when you vote on the merger:

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### QUESTIONS AND ANSWERS ABOUT THE MEETING

Q(1): WHAT AM I BEING ASKED TO APPROVE?

A: You are being asked to approve the Agreement and Plan of Merger providing for, among other things, the merger of Farmers and Merchants into Capital City with Capital City being the resulting corporation.

Q(2): WHY IS FARMERS AND MERCHANTS MERGING WITH CAPITAL CITY?

A: The merger will enable Farmers and Merchants shareowners to hold stock in a larger and more diversified entity whose shares are more widely held and more actively traded. Capital City's common stock is traded

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on the Nasdaq National Market under the symbol "CCBG." We also believe the merger will enable Farmers and Merchants to better serve its customers with more products and services. Based upon these and other factors, we believe that the merger is in the best interest of the Farmers and Merchants shareowners. We provide the background and reasons for the merger, starting on page 24.

Q(3): AS A FARMERS AND MERCHANTS SHAREOWNER, WHAT WILL I RECEIVE IN THE MERGER?

A: For each share of Farmers and Merchants common stock you own, Capital City will pay you a combination of \$666.50 in cash, plus shares of Capital City common stock, calculated based on an exchange ratio described in the next sentence. The exchange ratio to calculate the number of Capital City shares you will receive in the merger is based in part on the market price of Capital City common stock, which will be calculated by dividing \$666.50 by the average of the daily closing sales prices of one share of Capital City common stock (as reported by the Nasdaq National Market) for the 20 consecutive full trading days ending on the fifth full trading day prior to the closing date of the merger. Based on the terms of the Agreement and Plan of Merger, you can expect to receive up to 17.54 shares (but no less than 14.81 shares) of Capital City common stock for each share of Farmers and Merchants common stock you own, assuming the merger is approved and consummated. Cash will be paid in lieu of issuing fractional shares based upon the average closing price of Capital City common stock as calculated above.

Example: If you own 1,000 shares of Farmers and Merchants common stock, and, assuming the average closing price of Capital City common stock (calculated as described above) is \$40.00 per share, upon completion of the merger, you will receive 16,662 shares of Capital City common stock and a check for \$666,500.00, plus an additional \$20 in lieu of your remaining fractional share.

In addition, the Agreement and Plan of Merger permits distribution payments by Farmers and Merchants to its shareowners, provided Farmers and Merchants' net worth is at least \$30 million, subject to certain adjustments. We anticipate that Farmers and Merchants will distribute cash to its shareowners through one or more distributions prior to the closing date of the merger to the extent Farmers and Merchants' net worth exceeds the \$30 million dollar threshold. Based on the numbers reported by Farmers and Merchants in its last call report dated June 30, 2004, we expect each share of Farmers and Merchants common stock to receive a pre-merger distribution of approximately \$785.20.

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Q(4): WHAT HAPPENS AS THE MARKET PRICE OF CAPITAL CITY COMMON STOCK FLUCTUATES?

A: As we stated above, the exchange ratio of the Capital City common stock you will receive in the merger is based in part on the market price of Capital City common stock for a specified period prior to the close of the merger transaction. However, the Agreement and Plan of Merger provides that the Capital City common stock price per share used in calculating the exchange ratio will range from a minimum of \$38.00 per share to a maximum of \$45.00 per share. As a result, the share exchange ratio will fall somewhere in the range between approximately 14.81 and 17.54 shares of Capital City common stock for



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each outstanding share of Farmers and Merchants common stock. Because the market value of Capital City common stock will fluctuate before and after the closing date of the merger, the value of the stock you will receive as a result of the merger will fluctuate as well and could decrease in value.

Q(5): WHEN DO YOU EXPECT THE MERGER TO BE COMPLETED?

A: We expect to complete the merger during the fourth quarter of 2004. The merger must be approved by the Farmers and Merchants shareowners and by certain regulatory agencies, including the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Florida Department of Financial Services and the Georgia Department of Banking and Finance. Additional approvals by or notices to other Georgia and Florida state authorities may be necessary.

Q(6): WHAT ARE THE TAX CONSEQUENCES OF THE MERGER TO ME?

A: We expect that for U.S. federal income tax purposes, your exchange of Farmers and Merchants common stock for Capital City common stock in the merger generally will not cause you to recognize any gain or loss. You will, however, have to recognize gain in connection with any cash received in the merger. In addition, shareowners who exercise dissenters' rights may recognize gain or loss in the exchange of their shares for cash.

We provide a more detailed review of the U.S. federal income tax consequences of the merger at page 47 of this Proxy Statement/Prospectus.

Q(7): AS A FARMERS AND MERCHANTS SHAREOWNER, DO I HAVE TO ACCEPT CAPITAL CITY COMMON STOCK IN EXCHANGE FOR MY SHARES IF THE MERGER IS APPROVED?

A: No. If you are a Farmers and Merchants shareowner and you follow the procedures prescribed by Georgia law, you may dissent from the merger and receive the fair value of your stock. If you follow those procedures, you will not receive Capital City common stock. Instead, the fair value of your Farmers and Merchants stock, determined in the manner prescribed by Georgia law, will be paid to you in cash.

Q(8): WHAT SHOULD I DO NOW?

A: Just indicate on your proxy card how you want to vote, sign it and mail it in the enclosed envelope as soon as possible, so that your shares will be represented at the Special Meeting.

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If you sign and send in your proxy and do not indicate how you want to vote, your proxy will be voted in favor of the proposal to approve the merger. If you do not sign and send in your proxy or attend and vote in favor of the merger at the Special Meeting, your failure to vote will count as a vote against the merger. Failure to vote against the merger will not result in a waiver of your right to dissent. However, the failure to vote or a vote against the merger, alone, will not perfect your dissenters' rights under Georgia law.

The meeting is scheduled for October 15, 2004. You are invited to the meeting to vote your shares in person rather than signing and mailing

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your proxy card. If you do sign your card, you can take back your proxy up to and including the time of the vote at the meeting and either change your vote or attend the meeting and vote in person. We provide more detailed instructions about voting starting on page 20.

Q(9): SHOULD I SEND IN MY STOCK CERTIFICATES NOW?

A: No. After the merger is completed, you will be sent written instructions explaining how to exchange your Farmers and Merchants common stock certificates for Capital City common stock certificates and the cash portion of the merger consideration.

Q(10): WHO CAN HELP ANSWER MY QUESTIONS?

A: If you want additional copies of this document, or if you want to ask any questions about the merger, you should contact:

McGrath Keen, Jr.  
Farmers and Merchants Bank  
600 Bellevue Avenue  
Dublin, Georgia 31021  
(478) 272-3100

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### SUMMARY

This summary highlights selected information contained elsewhere in this Proxy Statement/Prospectus. Because this is a summary, it does not contain all of the information that may be important to you. You should read the entire Proxy Statement/Prospectus and its appendices carefully before you decide to vote. We have included page references in this summary to direct you to other places in this Proxy Statement/Prospectus where you can find a more complete description of the topics we have summarized.

The Companies (See Page 69 for Farmers and Merchants, Page 99 for Capital City)

Farmers and Merchants Bank  
600 Bellevue Avenue  
Dublin, Georgia 31021  
(478) 272-3100

Farmers and Merchants Bank is a Georgia chartered commercial bank headquartered in Dublin, Georgia. Founded in 1910, Farmers and Merchants is one of the oldest and largest community banks in Georgia, with three full-service offices in Laurens County. As of June 30, 2004, Farmers and Merchants had total consolidated assets of approximately \$403 million, total consolidated deposits of approximately \$305 million, total loans outstanding of approximately \$271 million and total consolidated shareowners' equity of approximately \$69.2 million.

Capital City Bank Group, Inc.  
217 North Monroe Street  
Tallahassee, Florida 32301  
(850) 671-0300

Capital City is a \$2.0 billion financial services company headquartered in Tallahassee, Florida providing traditional deposit and credit services,

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asset management, trust, mortgage banking, merchant services, bankcards, data processing and securities brokerage services. Founded in 1895, Capital City has 57 banking offices, 5 residential lending offices, 73 ATMs, and 11 Bank 'N Shop locations in Florida, Georgia and Alabama. For more information about Capital City, go to [www.ccbg.com](http://www.ccbg.com).

The Merger (See Page 22)

The Agreement and Plan of Merger provides for Capital City to acquire Farmers and Merchants in a four-step process. First, Capital City will merge a Georgia-chartered, interim banking subsidiary with and into Farmers and Merchants, with Farmers and Merchants being the resulting bank. Immediately following this bank merger, the deposit liabilities of Farmers and Merchants will be assumed by Capital City's wholly-owned banking subsidiary, Capital City Bank. Immediately thereafter, Farmers and Merchants will merge with and into Capital City, with Capital City being the resulting corporation. Immediately following this second merger, Capital City will transfer the assets and remaining liabilities of Farmers and Merchants into Capital City Bank. A copy of the Agreement and Plan of Merger is included as Appendix A to this Proxy Statement/Prospectus. We encourage you to read the Agreement and Plan of Merger because it is the legal document that governs the merger.

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Our Reasons for the Merger (See Page24)

The Farmers and Merchants Board of Directors believes that the merger is in the best interest of Farmers and Merchants and its shareowners. The Farmers and Merchants Board of Directors has unanimously approved the Agreement and Plan of Merger. In deciding to approve the Agreement and Plan of Merger, the Farmers and Merchants Board of Directors considered a number of factors, including:

- \* the value of the consideration to be received by Farmers and Merchants shareowners relative to the book value and earnings per share of Farmers and Merchants common stock;
- \* certain information concerning the financial condition, results of operations and business prospects of Capital City;
- \* the financial terms of recent business combinations in the financial services industry and a comparison of the multiples of selected combinations with the proposed transaction with Capital City;
- \* the alternatives to the merger, including remaining an independent institution;
- \* the previous experience of management of Capital City in completing acquisition transactions;
- \* the expanded range of banking services that the merger will allow Farmers and Merchants to provide to its customers;
- \* the competitive and regulatory environment for financial institutions generally;
- \* the fact that the merger will enable Farmers and Merchants shareowners to exchange their shares of Farmers and Merchants common stock, in a partially tax-free transaction, for cash and shares of common stock of a

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larger company, the stock of which is more widely held and more liquid than that of Farmers and Merchants; and

- \* the opinion of Trident Securities that the consideration to be received by Farmers and Merchants shareowners as a result of the merger is fair to Farmers and Merchants shareowners from a financial point of view.

The Capital City Board of Directors believes that the merger is in the best interests of Capital City and its shareowners. The Capital City Board of Directors has unanimously approved the Agreement and Plan of Merger. In deciding to approve the Agreement and Plan of Merger, the Capital City Board of Directors considered a number of factors, including:

- \* a review, based in part on a presentation by Capital City's management, of
  - the business, operations, earnings, and financial condition, including the capital levels and asset quality, of Farmers and Merchants on an historical, prospective, and pro forma bases and in comparison to other financial institutions in the area,

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- the demographic, economic, and financial characteristics of the Laurens County market, including existing competition, history of the market area with respect to financial institutions, and average demand for credit, on an historical and prospective bases, and
- \* the results of Capital City's due diligence review of Farmers and Merchants; and
- \* the likelihood of regulators approving the merger without undue conditions or delay;
- \* the compatibility and the community bank orientation of both Capital City and its subsidiary and Farmers and Merchants; and
- \* a variety of factors affecting and relating to the overall strategic focus of Capital City.

The Boards of Directors of Farmers and Merchants and Capital City believe that the merger will result in a company with expanded opportunities for profitable growth and that the combined resources and capital of Farmers and Merchants and Capital City will provide the combined company with greater ability to compete in the changing and competitive financial services industry.

Recommendation to Farmers and Merchants Shareowners (See Page 25)

The Farmers and Merchants Board believes that the merger of Farmers and Merchants with and into Capital City is in the best interests of Farmers and Merchants and Farmers and Merchants' shareowners. The Farmers and Merchants Board unanimously recommends that you vote FOR the merger.

Fairness Opinion (See Page 27)

In deciding to approve the merger, we have considered an opinion from our financial adviser, Trident Securities, that the price to be paid to Farmers and Merchants shareowners is fair to Farmers and Merchants shareowners, from a financial point of view. The full text of this opinion

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is attached to this Proxy Statement/Prospectus as Appendix F. We encourage you to read this opinion.

Farmers and Merchants Special Shareowner Meeting (See Page 20)

The Special Meeting will be held at Farmers and Merchants Bank, located at 600 Bellevue Avenue, Georgia, on Friday, October 15, 2004, at 10:00 a.m., Eastern Time. The Farmers and Merchants Board of Directors is soliciting proxies for use at the Special Meeting. At the Special Meeting, the Farmers and Merchants Board of Directors will ask the Farmers and Merchants shareowners to vote on a proposal to approve the Agreement and Plan of Merger.

Record Date for Special Shareowner Meeting (See Page 20)

You may vote at the Special Meeting if you owned shares of Farmers and Merchants common stock of record as of the close of business on Monday, September 20, 2004. You will have one vote for each share of Farmers and Merchants common stock you owned as of that date. You may revoke your proxy at any time prior to the vote at the Special Meeting.

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Vote Required (See Page 20)

Shareowners holding a majority of the outstanding shares of Farmers and Merchants common stock entitled to vote at the Special Meeting must be present in person or by proxy at the Special Meeting in order to form a quorum.

In order to approve the merger, however, shareowners holding two-thirds of the outstanding shares of Farmers and Merchants common stock represented in person or by proxy at the Special Meeting must approve the Agreement and Plan of Merger. At the record date, all directors and executive officers of Farmers and Merchants as a group (6 persons) could vote approximately 32,947 shares of Farmers and Merchants common stock, constituting approximately 65.89% of the total number of shares of Farmers and Merchants common stock outstanding at that date. The Farmers and Merchants directors and executive officers have committed to vote their shares of Farmers and Merchants common stock in favor of the merger.

What Farmers and Merchants Shareowners will Receive (See Page 32)

Under the Agreement and Plan of Merger, Capital City will pay Farmers and Merchants shareowners \$666.50 in cash, plus a determinable number of shares of Capital City common stock for each share of Farmers and Merchants common stock that they own.

The exchange ratio to calculate the number of Capital City shares you will receive in the merger is based in part on the market price of Capital City common stock, and will be calculated by dividing \$666.50 by the average of the daily closing sales prices of one share of Capital City common stock, as reported by the Nasdaq National Market, for the 20 consecutive full trading days ending on the fifth full trading day prior to the closing date of the merger, and then multiplying that quotient by the number of shares of Farmers and Merchants common stock you own. In addition, the per share price of Capital City common stock used in calculating the exchange ratio will range from a minimum of \$38.00 to a maximum of \$45.00. As a result, the share exchange ratio will fall somewhere in the range of approximately 14.81 and 17.54 shares of Capital City common stock for each outstanding share of

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Farmers and Merchants common stock, or between 740,555 and 876,973 shares of Capital City's stock in total, assuming 50,000 shares of Farmers and Merchants common stock are outstanding on the closing date.

Farmers and Merchants shareowners will not receive fractional shares of Capital City common stock. Instead, they will receive a payment for any fractional shares based on the market value of Capital City common stock as calculated above.

In addition, as a condition to the merger, Farmers and Merchants must have, immediately prior to the effective date of the merger, a net worth of at least \$30 million, subject to certain adjustments. We anticipate that Farmers and Merchants will distribute in cash any equity above this \$30 million amount, subject to adjustment, to its shareowners in one or more distributions prior to the closing date of the merger. Based on Farmers and Merchants last call report filed with the FDIC, as of June 30, 2004, Farmers and Merchants had an unaudited net worth of approximately \$69.26 million. Assuming that to be the total immediately prior to the effective date of the merger, Farmers and Merchants shareowners would receive an additional distribution of approximately \$39.26 million, or \$785.20 per share (assuming 50,000 shares are outstanding).

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Once the merger is complete, Capital City's transfer agent will mail you materials and instructions for exchanging your Farmers and Merchants stock certificates for Capital City stock certificates and the cash portion of the consideration. You should not send in your Farmers and Merchants stock certificates until you receive the transmittal materials and instructions from Capital City's transfer agent.

Regulatory Approvals (See Page 36)

We cannot complete the merger until we receive the approval of the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Georgia Department of Banking and Finance, the Florida Department of Financial Services and the Florida Secretary of State. Capital City and Farmers and Merchants have filed applications with the Federal Reserve, the Federal Deposit Insurance Corporation, the Georgia Department and the Florida Department seeking approval of the merger. The approvals of the bank regulators may impose conditions or restrictions that, in the opinion of Capital City and/or Farmers and Merchants, would have a material adverse effect on the economic or business benefits of the merger. In that event, Capital City and Farmers and Merchants may terminate the Agreement and Plan of Merger by mutual consent.

Conditions to the Merger (See Page 34)

The completion of the merger depends upon Capital City and Farmers and Merchants satisfying a number of conditions, including:

- \* the holders of two-thirds of the outstanding Farmers and Merchants common stock represented in person or by proxy at the Special Meeting must approve the Agreement and Plan of Merger;
- \* Farmers and Merchants must have a minimum net worth of at least \$30 million, subject to certain adjustments;
- \* Capital City and Farmers and Merchants must receive all required regulatory approvals and any waiting periods required by law must have

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passed; and

- \* Capital City and Farmers and Merchants must receive a legal opinion confirming the tax-free nature of the merger.

Termination of the Agreement and Plan of Merger (See Page 36)

Either Capital City or Farmers and Merchants may terminate the Agreement and Plan of Merger without completing the merger if, among other things, any of the following occurs:

- \* the merger is not completed by December 31, 2004;
- \* the holders of two-thirds of Farmers and Merchants common stock do not approve the Agreement and Plan of Merger; or
- \* the other party breaches or materially fails to comply with any of its representations or warranties or obligations under the Agreement and Plan of Merger.

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In addition, Farmers and Merchants may terminate the Agreement and Plan of Merger without completing the merger if the adjusted average closing price of Capital City common stock is less than \$32.00, and Capital City may terminate the Agreement and Plan of Merger without completing the merger in the event of a material adverse effect.

Dissenter's Rights (See Page 38 and Appendix E)

Each holder of Farmers and Merchants common stock who perfects his or her rights is entitled to the rights and remedies of a dissenting shareowner under Title 7, Chapter 1, Article 537 of the Financial Institutions Code of Georgia, by reference to Title 14, Chapter 2, Article 13 of the Georgia Business Corporation Code, subject to compliance with the procedures set forth in those dissenters' rights provisions (referred to in this document as the "Appraisal Statute"). A dissenting shareowner who has perfected his or her dissenter's rights is entitled to receive an amount in cash equal to the "fair value" of his or her shares of Farmers and Merchants common stock. A copy of the Appraisal Statute is set forth in Appendix E to this Proxy Statement/Prospectus and a summary is included under "DESCRIPTION OF THE MERGER - Dissenters' Rights." To perfect dissenters' rights, a shareowner must comply with the provisions of the Appraisal Statute which require, among other things, that the shareowner deliver to Farmers and Merchants, prior to the vote at the Special Meeting, written notice of his or her intention to demand payment for his or her shares if the merger is effectuated and that such shareowner not vote his or her shares in favor of the Agreement and Plan of Merger. Any Farmers and Merchants shareowner who returns a signed proxy but fails either to provide instructions as to the manner in which his or her shares are to be voted, or to revoke such proxy, will be deemed to have voted in favor of the Agreement and Plan of Merger and thus will not be entitled to assert dissenters' rights.

Interests of Officers and Directors in the Merger that are Different from Yours (See Page 44)

Certain members of Farmers and Merchants' management and Board of Directors have interests in the merger that are in addition to their interests as shareowners of Farmers and Merchants.

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Wallace E. Miller, Chairman and Chief Executive Officer, and Roger W. Miller, Executive Vice President and a director, will be paid bonuses of \$1,000,000 and \$500,000, respectively, by Capital City Bank after the successful completion of the merger.

McGrath Keen, Jr., President and a director of Farmers and Merchants, will be appointed to the Board of Directors of Capital City after the merger, and is expected to be compensated for his services in accordance with Capital City's standard director compensation policy.

The Agreement and Plan of Merger contains provisions for the indemnification of Farmers and Merchants directors, officers and employees by Capital City, and provisions for the officers and employees of Farmers and Merchants to receive certain employee benefits that Capital City already provides to its officers and employees.

In addition, the Agreement and Plan of Merger contains provisions for the same or substantially similar directors' and officers' liability insurance (with certain cost restraints), for three years after the effective time of the merger.

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The Capital City and Farmers and Merchants Boards of Directors were aware of these interests and took them into account in approving the Agreement and Plan of Merger.

Important Federal Income Tax Consequences of the Merger (See Page 47)

We expect that Capital City, Farmers and Merchants and their shareowners will not recognize any gain or loss for U.S. federal income tax purposes from the merger, except for the cash portion of the consideration paid to Farmers and Merchants shareowners for their Farmers and Merchants common stock and where Farmers and Merchants shareowners receive cash instead of fractional shares. Both parties have received a legal opinion that this will be the case. This legal opinion is filed as an exhibit to the Registration Statement of which this Proxy Statement/Prospectus is a part. However, the opinion does not bind the Internal Revenue Service, which could take a different view. In addition, this tax treatment will not apply to any Farmers and Merchants shareowner who receives cash for his or her shares due to the exercise of dissenters' rights. Determining the actual tax consequences of the merger to you as an individual taxpayer can be complicated. The tax treatment also may depend upon facts that are unique to your specific situation. Accordingly, you should consult your own tax adviser for a full understanding of the tax consequences of the merger.

Accounting Treatment of the Merger (See Page 48)

The merger will be accounted for as a "purchase," as that term is used under generally accepted accounting principles, for accounting and financial reporting purposes. Under purchase accounting, the assets and liabilities of Farmers and Merchants as of the effective time of the merger will be recorded at their respective fair values and added to those of Capital City. Any excess of purchase price over the fair values is recorded as goodwill. Financial statements of Capital City issued after the merger would reflect such fair values and would not be restated retroactively to reflect the historical financial position or results of operations of Farmers and Merchants.

Certain Differences in Shareowners' Rights (See Page 50)



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When the merger is consummated, Farmers and Merchants shareowners, whose rights are governed by Farmers and Merchants' Charter Application and Bylaws, as amended, and by the Financial Institutions Code of Georgia, will automatically become Capital City shareowners, and their rights as Capital City shareowners will be determined by Capital City's Articles of Incorporation and Bylaws and by the Florida Business Corporations Act. The rights of Capital City shareowners differ from the rights of Farmers and Merchants shareowners in certain important respects. For example, Capital City's governing documents contain certain anti-takeover provisions that may deter the efforts of, or make it more difficult for, a person to acquire Capital City in the future.

Comparative Market Prices of Common Stock (See Page 65)

Capital City common stock is traded on the Nasdaq National Market under the symbol "CCBG." Farmers and Merchants common stock is not traded in any established market. On May 12, 2004, the last day prior to public announcement of the merger, the last reported sale price per share of Capital City common stock on the Nasdaq National Market was \$37.88. Because this is below the minimum exchange ratio, the \$38.00 minimum exchange price would

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have been used to calculate the resulting equivalent pro forma price per share of Farmers and Merchants common stock. Based on the combined \$666.50 in cash and the exchange ratio of approximately 17.54 shares of Capital City stock for each share of stock (using the minimum exchange ratio, without factoring in any withholdings), the resulting equivalent pro forma price per share of Farmers and Merchants common stock would have been \$1,330.98.

To the knowledge of Farmers and Merchants, the most recent trade of Farmers and Merchants common stock prior to May 12, 2004, the last day prior to public announcement of the merger between Capital City and Farmers and Merchants, was on February 28, 2003, which was a sale of 200 shares for a purchase price of \$2,000 per share. To the knowledge of Farmers and Merchants, there have been no trades since the announcement of the merger. There can be no assurance as to what the market price of the Capital City common stock will be if and when the merger is consummated.

Listing of Capital City Common Stock (See Page 50)

Capital City will list the shares of Capital City common stock to be issued in connection with the merger on the Nasdaq National Market.

Risk Factors (See Page 18)

An investment in Capital City common stock involves risks. In determining whether to approve the Agreement and Plan of Merger, you should consider the various risks associated with an investment in Capital City common stock as more fully described in the "Risk Factors" section beginning on page 18.

Recent Developments in Capital City's Business

On March 19, 2004, Capital City completed its merger with Quincy State Bank, an affiliate of Synovus Financial Corp. Results of Quincy State Bank's operations have been included in Capital City's consolidated financial statements since March 20, 2004. Quincy State Bank had \$116.6 million in assets with one office in Quincy, Florida and one office in Havana, Florida.

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The transaction was accounted for as a purchase and resulted in approximately \$14.9 million of intangible assets, including approximately \$12.5 million in goodwill and a core deposit intangible of \$2.4 million. The core deposit intangible is being amortized over a 7-year period.

### Selected Financial Data

The following tables present, for Capital City and for Farmers and Merchants, selected consolidated financial data for the six-month periods ended June 30, 2003 and 2004, and for the five-year period ended December 31, 2003. The Farmers and Merchants information is based on the historical financial information that has been presented in Farmers and Merchants' annual financial statements, included as Appendix C to this Proxy Statement/Prospectus, and interim financial statements included as Appendix D to this Proxy Statement/Prospectus. The Capital City information is based on the consolidated financial statements contained in reports Capital City filed with the SEC, including its June 30, 2004 Quarterly Report on Form 10-Q. All of these documents are incorporated by reference in this Proxy Statement/Prospectus. See "WHERE YOU CAN FIND MORE INFORMATION ABOUT CAPITAL CITY," on page 1.

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You should read the following tables in conjunction with the consolidated financial statements of Capital City and Farmers and Merchants described above with the notes to them.

Historical results are not necessarily indicative of results to be expected for any future period. In the opinion of the respective managements of Capital City and Farmers and Merchants, all adjustments (which include only normal recurring adjustments) necessary to arrive at a fair statement of interim results of operations of Capital City and Farmers and Merchants, respectively, have been included. With respect to Capital City and Farmers and Merchants, results for the six-month period ended June 30, 2004 are not necessarily indicative of results which may be expected for any other interim period or for the year as a whole.

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### Historical and Pro Forma Comparative Per Share Data (unaudited)

|                       | Six Months<br>Ended<br>June 30,<br>2004<br>----- | Twelve Months<br>Ended<br>December 31,<br>2003<br>----- |
|-----------------------|--|---|
| (In thousands)        |  |   |
| NET INCOME:           |  |   |
| Capital City          |  |   |
| Basic                 | \$0.85   | \$1.91  |
| Diluted               | 0.85   | 1.90  |
| Farmers and Merchants |  |   |
| Basic                 | 115.36   | 226.94  |
| Diluted               | 115.36   | 226.94  |

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|  |          |          |
|--|----------|----------|
| Pro Forma (Capital City and Farmers and Merchants)     |          |          |
| Basic  | 0.95     | 2.08     |
| Diluted  | 0.95     | 2.07     |
| Farmers and Merchants equivalent pro forma             |          |          |
| Basic  | 16.66    | 36.48    |
| Diluted  | 16.66    | 36.31    |
| CASH DIVIDENDS PER SHARE                               |          |          |
| Capital City 0.36 0.65                                 |          |          |
| Farmers and Merchants 67.00 153.50                     |          |          |
| Pro Forma (Capital City and Farmers and Merchants) (1) | 0.57     | 1.23     |
| Farmers and Merchants equivalent pro forma             | 10.00    | 21.57    |
| BOOK VALUE PER DILUTED SHARE                           |          |          |
| Capital City   | 15.80    | 15.27    |
| Farmers and Merchants                                  | 1,385.20 | 1,387.12 |
| Pro Forma (Capital City and Farmers and Merchants)     | 17.17    | 16.68    |
| Farmers and Merchants equivalent pro forma             | 301.16   | 292.57   |

(1) Calculated based on actual cash dividends paid by Capital City and Farmers and Merchants for the periods shown divided by the anticipated number of Capital City shares to be outstanding after the merger.

| (Dollars in Thousands, Except Per Share Data) | Farmers and Merchants Bank              |           |   |           |           |
|---|---|-----------|---|-----------|-----------|
|   | At or for the six months ended June 30, |           | At or for the six months ended December 31, |           |           |
|   | 2004                                    | 2003      | 2003  | 2002      | 2001      |
| Interest Income                               | \$11,174                                | \$11,646  | \$23,033                                    | \$25,180  | \$27,620  |
| Net Interest Income                           | 8,148                                   | 8,038     | 16,297                                      | 16,717    | 14,810    |
| Provision for Loan Losses                     | 150                                     | 300       | 450   | 900       | 400       |
| Net Income                                    | 5,768                                   | 5,729     | 11,347                                      | 11,265    | 10,200    |
| Per Common Share:                             |   |           |   |           |           |
| Basic and Diluted Net Income                  | \$115.36                                | \$114.58  | \$226.94                                    | \$225.30  | \$204.00  |
| Cash Dividends Declared                       | 67.00                                   | 61.00     | 153.50                                      | 153.50    | 122.00    |
| Book Value                                    | 1,385.20                                | 1,401.82  | 1,386.44                                    | 1,341.48  | 1,191.00  |
| Based on Net Income:                          |   |           |   |           |           |
| Return on Average Assets                      | 2.87%                                   | 2.99%     | 2.95%                                       | 3.02%     | 2.94%     |
| Return on Average Equity                      | 17.25%                                  | 18.13%    | 17.95%                                      | 19.25%    | 17.74%    |
| Dividend Payout Ratio                         | 58.08%                                  | 53.24%    | 67.64%                                      | 58.37%    | 59.83%    |
| Averages for the Period:                      |   |           |   |           |           |
| Loans, Net                                    | \$277,683                               | \$251,224 | \$257,038                                   | \$236,167 | \$217,445 |
| Earning Assets                                | 390,869                                 | 373,167   | 372,091                                     | 356,818   | 333,397   |
| Assets  | 404,055                                 | 386,979   | 388,619                                     | 372,722   | 347,092   |
| Deposits                                      | 302,905                                 | 285,820   | 286,472                                     | 279,344   | 271,673   |
| Other Borrowings                              | 22,448                                  | 22,306    | 22,411                                      | 20,298    | 8,480     |
| Stockholders' Equity                          | 66,869                                  | 63,197    | 63,207                                      | 58,519    | 54,422    |
| Period-End Balances:                          |   |           |   |           |           |
| Loans, Net                                    | 275,598                                 | 253,918   | 257,662                                     | 242,074   | 224,344   |

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|                      |         |         |         |         |         |
|----------------------|---------|---------|---------|---------|---------|
| Earning Assets       | 390,287 | 374,665 | 374,219 | 364,403 | 342,317 |
| Assets               | 403,370 | 387,800 | 385,067 | 384,698 | 360,374 |
| Deposits             | 305,224 | 287,283 | 293,027 | 283,859 | 273,476 |
| Other Borrowings     | 22,562  | 22,284  | 22,289  | 22,293  | 17,010  |
| Stockholders' Equity | 69,260  | 70,091  | 63,197  | 67,074  | 59,550  |

Capital City Bank Group, Inc. and Subsidiary

| (Dollars in Thousands, Except Per Share Data) | At or for the six months ended June 30, |            |             | At or for the six months ended December 31, |             |
|---|---|------------|-------------|---|-------------|
|   | 2004                                    | 2003       | 2003        | 2002  | 2001        |
| Interest Income                               | \$46,935                                | \$48,324   | \$94,830    | \$104,165                                   | \$117,156   |
| Net Interest Income                           | 40,536                                  | 40,330     | 79,991      | 81,662                                      | 68,907      |
| Provision for Loan Losses                     | 1,541                                   | 1,665      | 3,436       | 3,297                                       | 3,983       |
| Net Income                                    | 11,290                                  | 12,801     | 25,193      | 23,082                                      | 16,866      |
| Per Common Share:                             |   |            |             |   |             |
| Basic Net Income                              | \$0.85                                  | \$0.97     | \$1.91      | \$1.75                                      | \$1.27      |
| Diluted Net Income                            | 0.85                                    | 0.97       | 1.90        | 1.74  | 1.27        |
| Cash Dividends Declared                       | .360                                    | .306       | .656        | .502  | .476        |
| Diluted Book Value                            | 15.80                                   | 14.73      | 15.27       | 14.08                                       | 12.86       |
| Based on Net Income:                          |   |            |             |   |             |
| Return on Average Assets                      | 1.21%                                   | 1.44%      | 1.40%       | 1.34%                                       | 0.99%       |
| Return on Average Equity                      | 10.90%                                  | 13.40%     | 12.82%      | 12.85%                                      | 10.00%      |
| Dividend Payout Ratio                         | 41.40%                                  | 31.42%     | 34.51%      | 28.87%                                      | 37.48%      |
| Averages for the Period:                      |   |            |             |   |             |
| Loans, Net of Unearned Interest               | \$1,424,175                             | 1,303,008  | \$1,318,080 | \$1,256,107                                 | \$1,184,290 |
| Earning Assets                                | 1,678,062                               | 1,613,701  | 1,624,680   | 1,556,500                                   | 1,534,548   |
| Assets  | 1,879,991                               | 1,791,797  | 1,804,895   | 1,727,180                                   | 1,704,167   |
| Deposits                                      | 1,497,895                               | 1,411,802  | 1,431,808   | 1,424,999                                   | 1,442,916   |
| Long-Term Debt                                | 50,387                                  | 63,354     | 55,594      | 30,423                                      | 15,308      |
| Shareowners' Equity                           | 208,303                                 | 192,610    | 196,588     | 179,652                                     | 168,652     |
| Period-End Balances:                          |   |            |             |   |             |
| Loans, Net of Unearned Interest               | 1,521,497                               | 1,332,387  | \$1,341,632 | \$1,285,221                                 | \$1,243,351 |
| Earning Assets                                | 1,818,628                               | 1,671,905  | 1,648,818   | 1,636,472                                   | 1,626,841   |
| Assets  | 2,026,830                               | 1,870,590  | 1,846,502   | 1,824,771                                   | 1,821,423   |
| Deposits                                      | 1,612,736                               | 1,498,577  | 1,474,205   | 1,434,200                                   | 1,550,101   |
| Long-Term Debt                                | 58,427                                  | 57,664     | 46,475      | 71,745                                      | 13,570      |
| Shareowners' Equity                           | 209,721                                 | 195,469    | 202,809     | 186,531                                     | 171,783     |
| Equity to Assets Ratio                        | 10.35%                                  | 10.45%     | 10.98%      | 10.22%                                      | 9.43%       |
| Other Data:                                   |   |            |             |   |             |
| Basic Average Shares Outstanding              | 13,268,272                              | 13,208,909 | 13,222,487  | 13,225,285                                  | 13,241,957  |
| Shareowners of Record                         | 1,512                                   | 1,457      | 1,512       | 1,457                                       | 1,473       |
| Banking Locations                             | 57                                      | 57         | 57          | 54  | 56          |
| Full-Time Equivalent Associates               | 829                                     | 782        | 795         | 781   | 787         |

RISK FACTORS

In addition to the other information contained in or incorporated by reference into this Proxy Statement/Prospectus, in deciding whether to approve the Agreement and Plan of Merger, you should consider the various risks associated with an investment in Capital City common stock, including, but not limited to the following:

Capital City may have difficulties integrating Farmers and Merchants operations into Capital City Bank's operations.

The merger involves the integration of two companies that have previously operated independently of each other. Successful integration of Farmers and Merchants' operations will depend primarily on Capital City's ability to consolidate its operations, systems and procedures into those of Capital City Bank and to eliminate redundancies and costs. We may not be able to integrate our operations without encountering difficulties including, without limitation:

- \* the loss of key employees and customers;
- \* possible inconsistencies in standards, control procedures and policies; and
- \* unexpected problems with costs, operations, personnel, technology or credit.

In determining that the merger is in the best interests of Capital City and Farmers and Merchants, as the case may be, the Board of Directors of each of Capital City and Farmers and Merchants considered that enhanced earnings may result from the consummation of the merger, including from the reduction of duplicate costs, improved efficiency and cross-marketing opportunities. However, we cannot assure that any enhanced earnings or cost savings will actually occur from the merger.

There is a limited market for shares of Capital City common stock.

While Capital City common stock is listed and traded on the Nasdaq National Market, there has been limited trading activity in Capital City common stock. The average daily trading volume of Capital City common stock over the six-month period ending June 30, 2004 was approximately 12,294 shares. Capital City does not anticipate that the merger will cause any significant improvements in the trading of Capital City common stock.

There are restrictions on Capital City's ability to pay dividends.

Capital City must comply with Florida corporate law and rules and regulations of bank regulators before it may pay any dividends. The Board of Directors of Capital City must authorize Capital City to pay any dividends and Capital City must have sufficient funds to pay dividends. Capital City's only sources of income are dividends and other payments that Capital City Bank and any other subsidiary of Capital City make to Capital City. Certain statutes and regulations restrict the ability of Capital City's subsidiary to pay dividends to Capital City.

Capital City is subject to extensive governmental regulation.

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Capital City and its subsidiary are subject to extensive governmental regulation. Capital City, as a bank holding company, is regulated primarily by the Federal Reserve. Capital City

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Bank is a commercial bank chartered by the State of Florida and regulated by the Federal Reserve and the Florida Department of Financial Services. These federal and state bank regulators have the ability, should the situation require, to place significant regulatory and operational restrictions upon Capital City and its subsidiary. Any such restrictions imposed by federal and state bank regulators could affect the profitability of Capital City and its subsidiary.

The financial institution industry is very competitive.

Capital City and its subsidiary compete directly with financial institutions that are well established and have significantly greater resources and lending limits than Capital City and its subsidiary. As a result of those greater resources, the large financial institutions may be able to provide a broader range of services to their customers than Capital City and may be able to afford newer and more sophisticated technology than Capital City. The long-term success of Capital City will be dependent on the ability of Capital City's subsidiary to compete successfully with other financial institutions in their service areas.

Management of Capital City holds a large portion of Capital City common stock.

As of June 30, 2004, the directors and executive officers of Capital City beneficially owned about 5.9 million shares of Capital City common stock, or 44.7%, of the total outstanding shares of Capital City. As a result, Capital City's management has significant control of Capital City.

Capital City's Articles of Incorporation and Bylaws may prevent takeover by another company.

Capital City's Articles of Incorporation permit the Board of Directors of Capital City to issue preferred stock without shareholder action. The ability to issue preferred stock could discourage a company from attempting to obtain control of Capital City by means of a tender offer, merger, proxy contest or otherwise. Additionally, Capital City's Articles of Incorporation and Bylaws divide the Board of Directors of Capital City into three classes, as nearly equal in size as possible, with staggered three-year terms. One class is elected each year. The classification of the Board of Directors could make it more difficult for a company to acquire control of Capital City. Capital City is also subject to certain provisions of the Florida Business Corporations Act and the Capital City Articles of Incorporation which relate to business combinations with interested shareholders.

Future results of the combined company may differ materially from the pro forma financial information presented in this document.

Future results of the combined company may be materially different from those shown in the pro forma financial statements that only show a combination of our historical results. The pro forma financial information includes adjustments to the fair value of Farmers and Merchants' assets and liabilities. These adjustments represent management's estimates based on current information and market conditions. The final allocation of the purchase price will be determined after the merger is completed and after

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completion of a final analysis to determine the fair values of Farmers and Merchants' assets and liabilities. Accordingly, the final adjustments may be materially different from the pro forma financial information. Furthermore, we have estimated that the combined company will record approximately \$1.5 million of merger-related charges.

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The charges may be higher or lower than we have estimated, depending upon how costly or difficult it is to integrate our two companies. These charges may decrease capital of the combined company that could be used for profitable, income-earning investments in the future.

The fairness opinion obtained by Farmers and Merchants will not reflect changes in circumstances between the signing of the Agreement and Plan of Merger and the closing date.

Farmers and Merchants has not obtained an updated opinion as of the date of this document from its financial adviser. Changes in the operations and prospects of Farmers and Merchants, general market and economic conditions and other factors which may be beyond the control of Farmers and Merchants, and on which the fairness opinion was based, may alter the value of Farmers and Merchants or the prices of shares of Farmers and Merchants common stock and shares of Capital City common stock by the time the merger is completed. The opinion does not speak as of the time the merger will be completed or as of any date other than the date of such opinion. For a description of the opinion that Farmers and Merchants received from its financial adviser, please refer to "DESCRIPTION OF THE MERGER - Fairness Opinion of Farmers and Merchants' Financial Adviser" on page 27.

### MEETING OF FARMERS AND MERCHANTS SHAREOWNERS

Date, Place, Time, and Purpose

The Farmers and Merchants Board of Directors is sending you this Proxy Statement/Prospectus in connection with the solicitation by the Farmers and Merchants Board of Directors of proxies for use at the Special Meeting. Each of Farmers and Merchants and Capital City will pay one-half of the filing fees payable and printing costs incurred in connection with this Proxy Statement/Prospectus and the registration statement of which this Proxy Statement/Prospectus is a part. At the Special Meeting, the Farmers and Merchants Board of Directors will ask you to vote on a proposal to approve the Agreement and Plan of Merger. Farmers and Merchants will pay all other costs associated with the solicitation of proxies for the Special Meeting. The Special Meeting will be held at Farmers and Merchants Bank, located at 600 Bellevue Avenue, Dublin, Georgia, on Friday, October 15, 2004, at 10:00 a.m., Eastern Time.

Record Date, Voting Rights, Required Vote, and Revocability of Proxies

Farmers and Merchants has set the close of business on Monday, October 15, 2004, as the record date for determining the holders of Farmers and Merchants common stock entitled to notice of and to vote at the Special Meeting. Only holders of Farmers and Merchants common stock of record on the books of Farmers and Merchants at the close of business on the record date are entitled to notice of and to vote at the Special Meeting. As of the record date, there were 50,000 shares of Farmers and Merchants common stock entitled to vote at the Special Meeting. The executive officers and directors of Farmers and Merchants have committed to vote their shares in favor of the merger. Capital City holds no shares of Farmers and Merchants

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common stock.

You are entitled to one vote for each share of Farmers and Merchants common stock you own on the record date. Shareowners holding a majority of the outstanding shares of Farmers

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and Merchants common stock entitled to vote at the Special Meeting must be present, in person or by proxy, at the Special Meeting to form a quorum. In order to approve the merger, however, shareowners holding at least two-thirds of the issued and outstanding shares of Farmers and Merchants common stock represented, in person or by proxy, at the Special Meeting must approve the Agreement and Plan of Merger. Consequently, abstentions and broker non-votes, as well as instructions to withhold authority to vote, will have the same effect as a vote "against" the Agreement and Plan of Merger.

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Failure either to vote by proxy or in person at the Special Meeting will have the same effect as a vote cast "against" approval of the Agreement and Plan of Merger and the transactions contemplated therein.

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Persons named as proxies will vote shares of Farmers and Merchants common stock in accordance with the instructions on the proxies if such proxies are properly executed, received in time, and not revoked. If the proxy does not contain instructions on how to vote, persons named as proxies will vote for approval of the Agreement and Plan of Merger. If any other matters properly come before the Special Meeting, the persons named as proxies will vote upon such matters according to their judgment. If necessary, such persons may vote in favor of a proposal to adjourn the Special Meeting in order to permit further solicitation of proxies in the event there are not sufficient votes to approve the Agreement and Plan of Merger at the time of the Special Meeting. However, no proxy that is voted against the approval of the Agreement and Plan of Merger will be voted in favor of an adjournment of the Special Meeting in order to permit further solicitation of proxies.

A Farmers and Merchants shareowner who has given a proxy may revoke it at any time prior to its exercise at the Special Meeting by:

- \* giving written notice of revocation to the Secretary of Farmers and Merchants;
- \* properly submitting to Farmers and Merchants a duly executed proxy bearing a later date; or
- \* attending the Special Meeting and voting in person.

All written notices of revocation and other communications with respect to revocation of proxies should be addressed as follows: Farmers and Merchants Bank, 600 Bellevue Avenue, Dublin, Georgia 31021, Attention: McGrath Keen, Jr., President.

At the record date, all directors and executive officers of Farmers and Merchants as a group (6 persons) were entitled to vote approximately 32,947 shares of Farmers and Merchants common stock, constituting approximately 65.89% of the total number of shares of Farmers and Merchants common stock outstanding at that date. The Farmers and Merchants directors and executive



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officers have committed to vote their shares of Farmers and Merchants common stock in favor of the Agreement and Plan of Merger. See "BUSINESS OF FARMERS AND MERCHANTS - Management Stock Ownership," on page 69.

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### DESCRIPTION OF THE MERGER

The following information describes certain aspects of the merger. However, the Agreement and Plan of Merger is attached as Appendix A to this Proxy Statement/Prospectus, and you are urged to read carefully the Agreement and Plan of Merger in its entirety.

#### General

This Agreement provides for Capital City to acquire Farmers and Merchants in a series of transactions.

#### The Bank Merger

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First, Capital City will merge a Georgia chartered, interim banking subsidiary of Capital City with and into Farmers and Merchants in accordance with the provisions of, and with the effect provided in, Sections 7-1-530 et seq. of the Financial Institutions Code of Georgia on terms and subject to the provisions of the Bank Plan of Merger, attached as Appendix B to this Proxy Statement/Prospectus. Farmers and Merchants will be the surviving bank resulting from the Bank Merger and will continue to be governed by the Laws of the State of Georgia.

#### Assumption of Deposit Liabilities

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Second, immediately following the consummation of the Bank Merger, Farmers and Merchants will transfer and Capital City Bank will assume the following deposit liabilities:

- \* all deposits held by Farmers and Merchants and all terms and agreements relating to the deposit accounts; and
- \* Farmers and Merchants' duties and responsibilities relating to the deposits with respect to:
  - the abandoned property laws of any state;
  - any legal process which is served on Farmers and Merchants on or before the effective time with respect to claims against or for the deposits; and
  - any other applicable law.

#### The Holding Company Merger

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Third, immediately following the consummation of the Bank Merger and immediately after the assumption of the deposit liabilities, Farmers and Merchants will be merged with and into Capital City in accordance with the provisions of and with the effect provided in Section 607.1108 of the Florida Business Corporations Act and Sections 14-2-1101 et seq. of the Georgia Business Corporation Code. Capital City will be the surviving corporation

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resulting from this Holding Company Merger and will continue to be a corporation governed by the laws of the State of Florida.

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### Transfer of Assets and Remaining Liabilities

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Fourth, immediately after the Holding Company Merger, Capital City will transfer to Capital City Bank the assets and remaining liabilities that were on the books of Farmers and Merchants at that moment (after taking into account the transfer of the Deposit Liabilities to Capital City Bank described above).

At the effective time of the Bank Merger, the outstanding shares of the capital stock of Farmers and Merchants will be converted into the right to receive:

\* \$666.50 in cash, and

\* that multiple of a share of Capital City common stock equal to the quotient obtained by dividing \$666.50 by the average of the daily closing sales prices of one share of Capital City common stock as reported on the Nasdaq National Market for the 20 consecutive full trading days ending on the fifth full trading day preceding the effective date of the Bank Merger. However, the per share price of Capital City common stock used in calculating the exchange ratio will range from a minimum of \$38.00 to a maximum of \$45.00.

As a result, shareowners of Farmers and Merchants will become shareowners of Capital City, and Capital City and Capital City Bank will conduct the business and operations of Farmers and Merchants.

Shares held by Farmers and Merchants, Capital City, or their subsidiary, other than shares held in a fiduciary capacity or in satisfaction of debts previously contracted, will not be converted to Capital City common stock. Shares held by Farmers and Merchants shareowners who perfect their dissenters' rights will not be converted to Capital City common stock. The Agreement and Plan of Merger provides that the exchange ratio will be adjusted to prevent dilution in the event Capital City changes the number of shares of Capital City common stock issued and outstanding prior to the effective time of the merger as a result of a stock split, stock dividend, recapitalization, reclassification, or similar transaction.

Capital City will not adjust the exchange ratio of the shares of Capital City to be received in the merger based on changes in the market value of Capital City common stock before the effective time of the merger beyond a minimum of \$38.00 and a maximum of \$45.00. The market value of the Capital City common stock that shareowners of Farmers and Merchants will receive may therefore vary significantly between the date of this Proxy Statement/Prospectus and the effective time of the merger. Further, because Capital City and Farmers and Merchants must satisfy various conditions, including receipt of necessary regulatory approvals, the merger may not be consummated until a substantial period of time following the Special Meeting. During the time between the date of the Special Meeting and the effective time of the merger, shareowners of Farmers and Merchants who do not properly perfect their dissenters' rights, or who do not sell their shares of Farmers and Merchants common stock, will be subject to the risk of a decline in the market value of Capital City common stock.

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Capital City will not issue fractional shares. Instead of issuing any fractional share to which any Farmers and Merchants shareowner would otherwise be entitled upon consummation of the merger, Capital City will pay such shareowner cash equal to the fractional part of a share

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of Capital City common stock multiplied by the average closing price of one share of Capital City common stock.

In addition, as a condition to the merger, Farmers and Merchants must have, immediately prior to the effective date of the merger, a net worth of at least \$30 million, subject to certain adjustments. See "- Conditions to Consummation of the Merger," on page 34. Capital City anticipates that Farmers and Merchants will distribute any equity above this \$30 million amount, subject to adjustment, to its shareowners in one or more distributions prior to the closing date of the merger. Based on the last call report filed by Farmers and Merchants with the FDIC, as of June 30, 2004, Farmers and Merchants had a net worth of approximately \$69.2 million. Assuming that to be the total immediately prior to the effective date of the merger, Farmers and Merchants shareowners would receive an additional distribution of approximately \$39.26 million, or \$785.20 per share (assuming all 50,000 shares remain outstanding).

At the record date, Farmers and Merchants had 50,000 shares of common stock issued and outstanding. Based on the number of shares of Farmers and Merchants common stock outstanding on the record date and the exchange ratio range of 14.81 to 17.54 shares, Capital City anticipates that it will issue a minimum of 740,555 and a maximum of 876,973 shares of Capital City common stock to holders of Farmers and Merchants common stock once the merger is complete. Accordingly, Capital City would then have issued and outstanding between approximately 14,022,645 and 14,159,063 shares of Capital City common stock based on the number of shares of Capital City common stock issued and outstanding on the record date. Following the merger, and assuming no exercise of dissenters' rights, the current shareowners of Farmers and Merchants will beneficially own between approximately 5.3% and 6.2% of the outstanding Capital City common stock.

### Background of And Reasons for the Merger

In exercising their fiduciary responsibility to shareowners, Farmers and Merchants' management and board of directors has assessed the financial services industry as a whole, including the regulatory and competitive environment for banking services, Farmers and Merchants' future prospects for earnings and asset growth, and the viability of continued independent operations in accordance with Farmers and Merchants' business plan.

On June 23, 2003, the Board of Directors engaged Trident Securities to assist Farmers and Merchants in setting a strategic course and in identifying suitable partners. Trident identified potential candidates which could provide liquidity, enhanced earnings growth, and outstanding service to the Laurens County market. During September and October of 2003, two of those institutions identified expressed interest in a transaction with Farmers and Merchants. Based on these preliminary expressions of interest, Farmers and Merchants entered into exclusive negotiations with Capital City during which Capital City was permitted to conduct further due diligence.

The Board of Directors of Farmers and Merchants met on May 4, 2004, to discuss the Agreement and Plan of Merger and the merger. After review of the matters before the Board of Directors, the Board of Directors of Farmers and

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Merchants unanimously approved the Agreement and Plan of Merger and authorized the President and the Chief Executive Officer of Farmers and Merchants to take the appropriate actions necessary to execute the Agreement and Plan of Merger.

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The Board of Directors of Capital City met on April 27, 2004, to discuss the Agreement and Plan of Merger. After review of the matters before the Directors of Capital City, the Board of Directors of Capital City unanimously approved the Agreement and Plan of Merger and authorized the President and Chief Executive Officer of Capital City to take the appropriate actions necessary to execute the Agreement and Plan of Merger in substantially the form approved by the Board.

On May 12, 2004, Capital City and Farmers and Merchants executed the Agreement and Plan of Merger. Capital City and Farmers and Merchants each conducted a due diligence review of the material financial, operating and legal information relating to the other party.

### Farmers and Merchants' Reasons for the Merger and Recommendation of Directors

Farmers and Merchants' Board of Directors, with the assistance of outside advisers, evaluated the financial and market considerations bearing on the decision to recommend the merger to the shareowners of Farmers and Merchants. In reaching its conclusion that the Agreement and Plan of Merger is in the best interests of Farmers and Merchants and its shareowners, the Farmers and Merchants Board of Directors considered the following factors:

- \* the value of the consideration to be received by Farmers and Merchants shareowners relative to the book value and earnings per share of Farmers and Merchants common stock;
- \* the Farmers and Merchants board's familiarity with and review of Farmers and Merchants' business, operations, financial condition and earnings on an historical and a prospective basis, including, without limitation, its potential growth and profitability;
- \* the Farmers and Merchants board's review, based on the presentation of its financial adviser, of the business, operations, financial condition and earnings of Capital City on an historical and a prospective basis and of the combined company on a pro forma basis and the historical stock price performance and liquidity of Capital City common stock, and the resulting relative interests of Farmers and Merchants shareowners and Capital City in the common equity of the combined company;
- \* the financial terms of recent business combinations in the financial services industry and a comparison of the multiples of selected combinations with the terms of the proposed transaction with Capital City;
- \* the alternatives to the merger, including remaining an independent institution;
- \* the competitive and regulatory environment for financial institutions generally;
- \* the fact that the merger will enable Farmers and Merchants shareowners to exchange their shares of Farmers and Merchants common stock, in a partially tax-free transaction, for cash and shares of common stock of a

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larger company, the stock of which is more widely held and more liquid than that of Farmers and Merchants;

- \* the previous experience of management of Capital City in completing acquisition transactions;

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- \* the general impact that the merger could be expected to have on the constituencies served by Farmers and Merchants, including its customers, employees and communities;
- \* the expanded range of banking services that the transaction will allow Farmers and Merchants to provide to its customers;
- \* that the directors and officers of Farmers and Merchants might be deemed to have interests in the merger other than their interests generally as Capital City shareowners;
- \* the results of the due diligence investigation of Capital City by management of Farmers and Merchants and Trident Securities;
- \* the Farmers and Merchants board's assessment, with the assistance of counsel, concerning the likelihood that Capital City would obtain all requisite regulatory approvals required for the merger;
- \* the terms of the \$3.2 million termination fee in favor of Capital City, including the risk that the termination fee might discourage third parties from offering to acquire Farmers and Merchants by increasing the cost of a third party acquisition, and recognizing that the termination fee was a condition to Capital City's willingness to enter into the Agreement and Plan of Merger;
- \* the terms of the \$3.2 million termination fee in favor of Capital City if Farmers and Merchants shareowners fail to approve the merger; and
- \* the opinion of Trident Securities that the consideration to be received by Farmers and Merchants shareowners as a result of the merger is fair to Farmers and Merchants shareowners from a financial point of view.

While each member of Farmers and Merchants' Board of Directors considered the foregoing and other factors, the Farmers and Merchants Board of Directors did not assign any specific or relative weights to the factors considered and did not make any determination with respect to any individual factor. Farmers and Merchants' Board of Directors collectively made its determination with respect to the merger based on the unanimous conclusion reached by its members, in light of the factors that each of them considered as appropriate, that the merger is in the best interests of Farmers and Merchants' shareowners.

The terms of the merger, including the exchange ratio, were the result of arm's-length negotiations between representatives of Farmers and Merchants and representatives of Capital City. Based upon its consideration of the foregoing factors, the Board of Directors of Farmers and Merchants approved the Agreement and Plan of Merger and the merger as being in the best interests of Farmers and Merchants and its shareowners.

Farmers and Merchants' Board of Directors unanimously recommends that shareowners vote "FOR" approval of the Agreement and Plan of Merger.

Fairness Opinion Of Farmers and Merchants' Financial Adviser

Acquisition - General. Pursuant to an engagement letter dated June 23, 2003 between Farmers and Merchants and Trident Securities, a division of McDonald Investments Inc., Farmers and Merchants retained Trident to render an opinion with respect to the fairness, from a financial point of view, of the merger consideration to be received by Farmers and Merchants shareowners in connection with a sale of Farmers and Merchants. Trident is a nationally recognized specialist in the financial services industry and is regularly engaged in evaluations of similar businesses and in advising institutions with regard to mergers and acquisitions, as well as raising debt and equity capital for such institutions. Farmers and Merchants selected Trident to render a fairness opinion based upon Trident's qualifications, expertise and reputation in such capacity.

Trident delivered a written opinion, dated May 12, 2004 that the merger consideration was fair to Farmers and Merchants shareowners, from a financial point of view, as of the date of such opinion. Neither Farmers and Merchants nor its Board imposed any limitations on Trident with respect to the investigations made or the procedures followed in rendering its opinion.

The full text of Trident's written opinion to the Farmers and Merchants Board, dated May 12, 2004, which sets forth the assumptions made, matters considered and extent of review by Trident, is attached as Appendix F and is incorporated into this Proxy Statement/Prospectus by reference. It should be read carefully and in its entirety in conjunction with this document. The following summary of Trident's opinion is qualified in its entirety by reference to the full text of the opinion. Trident's opinion is addressed to the Farmers and Merchants Board and does not constitute a recommendation to any shareowner of Farmers and Merchants as to how such shareowner should vote at the Farmers and Merchants Special Meeting described in this document.

Trident, in connection with rendering its opinion:

- \* reviewed Farmers and Merchants' audited financial statements for each of the years ended December 31, 2002, 2001, and 2000; Farmers and Merchants' internal financial statements and general ledger balances for the years ended December 31, 2003 and interim periods ending June 30, 2003 and September 30, 2003;
- \* reviewed Capital City's Annual Report to Shareowners and Annual Report on Form 10-K for each of the years ended December 31, 2003, 2002, and 2001, including the audited financial statements contained therein; and Capital City's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004;
- \* reviewed certain other public and non-public information, primarily financial in nature, relating to the respective businesses, earnings, assets and prospects of Farmers and Merchants and Capital City provided to Trident or publicly available;
- \* participated in meetings and telephone conferences with members of senior management of Farmers and Merchants and Capital City concerning the financial condition, business, assets, financial forecasts and prospects of the respective companies, as well as other matters Trident believed relevant to its inquiry;

- \* reviewed certain stock market information for Capital City common stock and compared it with similar information for certain companies, the securities of which are publicly traded;
- \* compared the results of operations and financial condition of Farmers and Merchants and Capital City with that of certain companies which Trident deemed to be relevant for purposes of this opinion;
- \* reviewed the financial terms, to the extent publicly available, of certain acquisition transactions which Trident deemed to be relevant for purposes of this opinion;
- \* reviewed the Agreement and Plan of Merger dated May 12, 2004 and certain related documents; and
- \* performed such other reviews and analyses as Trident has deemed appropriate.

The oral and written opinions provided by Trident to Farmers and Merchants were necessarily based upon economic, monetary, financial market and other relevant conditions as of the dates thereof.

In connection with its review and arriving at its opinion, Trident relied upon the accuracy and completeness of the financial information and other pertinent information provided by Farmers and Merchants and Capital City to Trident for purposes of rendering its opinion. Trident did not assume any obligation to independently verify any of the provided information as being complete and accurate in all material respects. With regard to the financial forecasts established and developed for Farmers and Merchants with the input of its management, Trident assumed that these materials had been reasonably prepared on bases reflecting the best available estimates and judgments of Farmers and Merchants as to the future performance of the Company and that the projections provided a reasonable basis upon which Trident could formulate its opinion. Farmers and Merchants does not publicly disclose such internal management projections of the type utilized by Trident in connection with Trident's role as financial adviser to Farmers and Merchants. Therefore, such projections cannot be assumed to have been prepared with a view towards public disclosure. The projections were based upon numerous variables and assumptions that are inherently uncertain, including, among others, factors relative to the general economic and competitive conditions facing Farmers and Merchants. Accordingly, actual results could vary significantly from those set forth in the respective projections.

Trident does not claim to be an expert in the evaluation of loan portfolios or the allowance for loan losses with respect thereto and therefore assumes that such allowances for Farmers and Merchants are adequate to cover such losses. In addition, Trident does not assume responsibility for the review of individual credit files and did not make an independent evaluation, appraisal or physical inspection of the assets or individual properties of Farmers and Merchants, nor was Trident provided with such appraisals. Furthermore, Trident assumes that the merger will be consummated in accordance with the terms set forth in the Agreement and Plan of Merger, without any waiver of any material terms or conditions by Farmers and Merchants, and that obtaining the necessary regulatory approvals for the merger will not have an adverse effect on either separate institution or the combined entity. In particular, Trident assumes that the

merger will be recorded as a "purchase" in accordance with generally accepted accounting principles.

In connection with rendering its opinion to Farmers and Merchants' Board, Trident performed a variety of financial and comparative analyses, of which the analyses necessitating the primary weight of our opinion are briefly summarized below. Such summary of analyses does not purport to be a complete description of the analyses performed by Trident. Moreover, Trident believes that these analyses must be considered as a whole and that selecting portions of such analyses and the factors considered by it, without considering all such analyses and factors, could create an incomplete understanding of the scope of the process underlying the analyses and, more importantly, the opinion derived from them. The preparation of a financial adviser's opinion is a complex process involving subjective judgments and is not necessarily susceptible to partial analyses or a summary description of such analyses. In its full analysis, Trident also included assumptions with respect to general economic, financial market and other financial conditions. Furthermore, Trident drew from its past experience in similar transactions, as well as its experience in the valuation of securities and its general knowledge of the banking industry as a whole. Any estimates in Trident's analyses were not necessarily indicative of actual future results or values, which may significantly diverge more or less favorably from such estimates. Estimates of Farmers and Merchants valuations do not purport to be appraisals, nor to necessarily reflect the prices at which companies or their respective securities actually may be sold. None of the analyses summarized below were assigned a greater significance by Trident than any other in deriving its opinion.

Description of Transaction: Per the terms of the Agreement and Plan of Merger dated May 12, Farmers and Merchants shareowners will receive all equity capital in excess of \$30 million, unrestricted dividend distributions through closing, and consideration from Capital City of \$33.325 million in cash and \$33.325 million in Capital City stock. For purposes of our analysis, the aggregate consideration in the transaction is estimated to be \$110.73 million, which includes \$66.65 million from Capital City and \$44.08 million of excess capital distributions.

Comparable Transaction Analysis: Trident reviewed and compared actual information for groups of comparable pending and completed thrift merger transactions (through January 7, 2004) it deemed pertinent to an analysis of the Merger. The pricing ratios for the Merger were compared to the average and median ratios of (i) price to last twelve months net income ("LTM NI"), (ii) price to tangible book value ("TBV"), (iii) capital adjusted price to TBV, and (iv) TBV premium to core deposit ratio ("TBV Prem./Core Deposits"), for each of the following 9 comparable transactions:

Buyer / Seller (State)

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- \* Persons Banking Company/Farmers Bank (GA)
  - \* First Bancorp/Carolina Community Bancshares (SC)
  - \* Hazlehurst Investors/Bank of Hazlehurst (GA)
  - \* Putnam-Greene Financial/Citizens Bank of Cochran (GA)
  - \* SNB Bancshares/Bank of Gray (GA)
  - \* State Capital Corp/Mississippi Southern Bank (GA)
  - \* Southwest Georgia Financial/First Bank Holding Co. (GA)
  - \* Peoples Bancorp Inc./Kentucky Bancshares Inc. (KY)
  - \* First Citizens Bancorp of SC/First Banks, Inc. (GA)



A summary of the pricing multiples for the Comparable Transactions is listed below:

|                              | Mean    | Median | Farmers and<br>Merchants |
|------------------------------|---------|--------|--------------------------|
|                              | -----   | -----  | -----                    |
| Price / LTM NI               | 13.70x  | 14.44x | 15.74x                   |
| Price / TBV                  | 189.78% | 180.4% | 159.7%                   |
| Capital Adjusted Price / TBV | 240.4%  | 247.9% | 269.4%                   |
| Premium / Core Deposits      | 13.7%   | 14.2%  | 17.2%                    |
| Price / Assets               | 20.9%   | 20.8%  | 28.1%                    |

The value of the transaction indicates that the Merger Consideration paid to Farmers and Merchants shareowners falls within the range of similar transactions, based on all methods of merger valuation used by Trident in its comparable merger transaction analyses.

**Discounted Dividend Analysis:** Trident calculated a present value of Farmers and Merchants' projected stand alone earnings and dividends based on Trident assumptions and management estimates for the five-year period through the calendar year ended December 31, 2008. This analysis utilized a range of discount rates of 12.7%-14.7%, assumed annual earnings growth of 5.0%, utilized a range of terminal earnings multiples of 11.0x - 14.0x calendar year 2008 net income, and a target tangible capital ratio of 10.0%. Additionally an initial dividend of \$29.9 million was assumed to bring the company to 10% capital. The discounted dividend analyses resulted in a range of present values for Farmers and Merchants shareowners of between \$103.7 million and \$124.3 million. Trident found that the total consideration to shareowners fell within this range.

Trident noted that the discounted earnings analysis was included because it is a widely used valuation methodology, but noted that the results of such methodology are highly dependent upon the numerous assumptions that must be made, including earnings growth rates, terminal multiples, discount rates and target tangible capital ratios.

Based on the aforementioned analyses and Trident's experience with numerous mergers involving thrift institutions, it is Trident's opinion that the merger consideration to be received by Farmers and Merchants shareowners in the Merger is fair from a financial point of view.

No institution used as a comparison in the above analyses is identical to Farmers and Merchants, or the combined entity, and no other transaction is identical to the merger. Accordingly, an analysis of the results of the foregoing is not purely mathematical; rather, such analyses involve complex considerations and judgments concerning differences in financial, market and operating characteristics of the companies and other factors that could affect the trading characteristics of the companies to which Farmers and Merchants, and the combined entity are being compared.

For its financial advisory services provided to Farmers and Merchants, Trident will be paid a total fee of 0.85% of the merger consideration from Capital City, excluding the dividend payments, of which \$125,000 has been received to date with the balance of the total fee to be paid to Trident at the time of closing of the Merger. In addition, Farmers and Merchants has

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agreed to reimburse Trident for all reasonable out-of-pocket expenses, incurred by it on Farmers

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and Merchants' behalf, provided such expenses shall not exceed \$20,000 without Farmers and Merchants' prior consent. Farmers and Merchants also agreed to indemnify Trident against certain liabilities, including any which may arise under the federal securities laws.

Trident is a member of all principal securities exchanges in the United States and in the conduct of its broker-dealer activities may have from time to time purchased securities from, and sold securities to, Farmers and Merchants and Capital City. As a market maker, Trident may also have purchased and sold the securities of Capital City for Trident's own account and for the accounts of its customers.

Based on the analyses performed for comparable transactions, Trident Securities determined that the terms of the merger proposal were fair and equitable to the shareowners of Farmers and Merchants. See Appendix F for full report.

### Capital City's Reasons For The Merger

The Capital City Board of Directors believes that the merger is in the best interests of Capital City and its shareowners. The Capital City Board of Directors has unanimously approved the Agreement and Plan of Merger. In deciding to approve the Agreement and Plan of Merger, the Capital City Board of Directors considered a number of factors, including:

- \* a review, based in part on a presentation by Capital City's management, of
  - the business, operations, earnings, and financial condition, including the capital levels and asset quality, of Farmers and Merchants on a historical, prospective, and pro forma bases and in comparison to other financial institutions in the area,
  - the demographic, economic, and financial characteristics of the Laurens County market, including existing competition, history of the market areas with respect to financial institutions, and average demand for credit, on an historical and prospective bases, and
  - the results of Capital City's due diligence review of Farmers and Merchants; and
- \* the likelihood of regulators approving the merger without undue conditions or delay;
- \* the compatibility and the community bank orientation of both Capital City and its subsidiary and Farmers and Merchants;
- \* that the merger will provide Capital City with significant opportunities to market its fee based products, such as cash management, asset management and securities products to the existing customers of Farmers and Merchants;
- \* that after the merger, Farmers and Merchants will be able to draw upon the resources and competencies of Capital City and Capital City Bank to

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provide a broader range of services and product delivery channels; and

- \* a variety of factors affecting and in relating to the overall strategic focus of Capital City.

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While Capital City's Board of Directors considered the foregoing and other factors, the Board of Directors did not assign any specific or relative weights to the factors considered and did not make any determination with respect to any individual factor. Capital City's Board of Directors collectively made its determination with respect to the merger based on the unanimous conclusion reached by its members, in light of the factors that each of them considers as appropriate, that the merger is in the best interests of Capital City's shareowners.

The terms of the merger, including the exchange ratio, were the result of arm's-length negotiations between representatives of Capital City and representatives of Farmers and Merchants. Based upon its consideration of the foregoing factors, the Board of Directors of Capital City approved the Agreement and Plan of Merger and the merger as being in the best interests of Capital City and its shareowners.

### Effective Time of the Merger

The effective time of the merger will occur at 11:59 p.m. Eastern Time on the date requested by Capital City's Georgia-chartered interim bank, as soon as practicable after the delivery of the Bank Plan of Merger and the Agreement and Plan of Merger to the Georgia Department of Banking and Finance. Unless Farmers and Merchants and Capital City otherwise agree in writing, and subject to the conditions to the obligations of Capital City and Farmers and Merchants to effect the merger, the parties will use their reasonable efforts to cause the effective time of the merger to occur at a mutually-agreed upon time within 60 days after the last to occur of:

- \* the effective date (including expiration of any applicable waiting period) of the last required consent of any regulatory authority having authority over and approving or exempting the merger, and
- \* the date on which the shareowners of Farmers and Merchants approve the Agreement and Plan of Merger.

Capital City and Farmers and Merchants cannot assure that they can obtain the necessary shareowner and regulatory approvals or that they can or will satisfy the other conditions to the merger. Capital City and Farmers and Merchants anticipate that they will satisfy all conditions to consummation of the merger so that the merger can be completed during the fourth quarter of 2004. However, delays in the consummation of the merger could occur.

The Board of Directors of either Capital City or Farmers and Merchants may terminate the Agreement and Plan of Merger if the merger is not consummated by December 31, 2004, unless the failure to consummate the merger by that date is the result of a breach of the Agreement and Plan of Merger by the party seeking termination. See "- Conditions to Consummation of the Merger," on page 34 and "- Waiver, Amendment, and Termination," on page 36.

### Distribution of Capital City Stock Certificates

Promptly after the effective time of the merger, Capital City will mail

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to each holder of record of Farmers and Merchants common stock appropriate transmittal materials and

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instructions for the exchange of Farmers and Merchants stock certificates for Capital City stock certificates and the cash portion of the consideration.

Holders of Farmers and Merchants common stock should NOT send in their Farmers and Merchants stock certificates until they receive the transmittal materials and instructions.

After Capital City's exchange agent receives your Farmers and Merchants stock certificates and properly completed transmittal materials, the Exchange Agent will issue and mail to you a certificate representing the number of shares of Capital City common stock to which you are entitled. The Exchange Agent will also send Farmers and Merchants shareowners a check for the amount to be paid, without interest for the cash portion of the consideration, for any fractional shares and for all undelivered dividends or distributions in respect of such shares.

After the effective time of the merger, to the extent permitted by law, holders of Farmers and Merchants common stock of record as of the effective time of the merger will be entitled to vote at any meeting of Capital City shareowners the number of whole shares of Capital City common stock they will receive in the merger, regardless of whether such shareowners have surrendered their Farmers and Merchants stock certificates. Whenever Capital City declares a dividend or other distribution on Capital City common stock, the record date for which is at or after the effective time of the merger, the declaration will include dividends or other distributions on all shares issuable pursuant to the Agreement and Plan of Merger. However, Capital City will not pay any dividend or other distribution payable after the effective time of the merger with respect to Capital City common stock to the holder of any unsurrendered Farmers and Merchants stock certificate until the holder duly surrenders such Farmers and Merchants stock certificate. In no event will the holder of any surrendered Farmers and Merchants stock certificate(s) be entitled to receive interest on any cash to be issued to such holder, except to the extent required in connection with dissenters' rights. In no event will Capital City or the Exchange Agent be liable to any holder of Farmers and Merchants common stock for any amounts paid or property delivered in good faith to a public official pursuant to any applicable abandoned property, escheat, or similar law.

After the effective time of the merger, no transfers of shares of Farmers and Merchants common stock on Farmers and Merchants' stock transfer books will be recognized. If Farmers and Merchants stock certificates are presented for transfer after the effective time of the merger, they will be canceled and exchanged for shares of Capital City common stock and a check for the amount due in lieu of a fractional share, if any.

After the effective time of the merger, holders of Farmers and Merchants stock certificates will have no rights with respect to the shares of Farmers and Merchants common stock other than the right to surrender such Farmers and Merchants stock certificates and receive in exchange the shares of Capital City common stock to which such holders are entitled. After the effective time of the merger, holders of Farmers and Merchants stock certificates who have complied with the provisions regarding the right to dissent as detailed in the Financial Institutions Code of Georgia (which provides that the provisions of the Georgia Business Corporation Code apply), may be entitled to receive in cash the fair value of such shareowner's shares of Farmers and

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Merchants common stock determined immediately prior to the merger, excluding any appreciation or depreciation in anticipation of the merger. Failure to comply with the procedures prescribed by applicable law will result in the loss of dissenters' rights. See Appendix E to this Proxy Statement/Prospectus.

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### Conditions to Consummation of the Merger

Consummation of the merger is subject to various conditions, including:

- \* the approval of the Agreement and Plan of Merger by the holders of two-thirds of the outstanding Farmers and Merchants common stock represented in person or by proxy at the Special Meeting;
- \* the receipt of all regulatory approvals required for consummation of the merger (see "- Regulatory Approvals," on page 35);
- \* receipt of all consents required for consummation of the merger or for the preventing of any default under any contract or permit which consent, if not obtained, is reasonably likely to have, individually or in the aggregate, a material adverse effect;
- \* the absence of any law or order, whether temporary, preliminary or permanent, or any action taken by any court, governmental, or regulatory authority of competent jurisdiction prohibiting, restricting, or making illegal the consummation of the transactions contemplated by the Agreement and Plan of Merger;
- \* the Registration Statement, of which this Proxy Statement/Prospectus forms a part, being declared effective by the SEC and the receipt of all necessary SEC and state approvals relating to the issuance or trading of the shares of Capital City common stock issuable pursuant to the Agreement and Plan of Merger;
- \* the approval of the Capital City common stock issuable pursuant to the Agreement and Plan of Merger for listing on the Nasdaq National Market;
- \* the receipt of a written opinion of Gunster, Yoakley & Stewart, P.A. as to the tax aspects of the merger, including that the merger will constitute a reorganization within the meaning of Section 368(a) of the Internal Revenue Code;
- \* the accuracy, in all material respects, as of the date of the Agreement and Plan of Merger and as of the effective time of the merger, of the representations and warranties of Farmers and Merchants and Capital City as set forth in the Agreement and Plan of Merger;
- \* the performance of all agreements and the compliance with all covenants of Farmers and Merchants and Capital City as set forth in the Agreement and Plan of Merger;
- \* the receipt by Capital City and Farmers and Merchants of certain required written opinions of counsel;
- \* the receipt by Capital City of agreements from each person Farmers and Merchants reasonably believes may be deemed an affiliate of Farmers and Merchants with respect to certain matters;

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- \* Farmers and Merchants must have, immediately prior to the date the merger becomes effective, a minimum net worth of at least \$30 million, provided that "net worth" shall

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not be reduced by fees, costs and expenses (a) incurred or paid at the request of Capital City, except for adjustments requested by Capital City for purposes of complying with accounting principles generally accepted in the United States, or (b) incurred or paid by Farmers and Merchants to ensure that the allowances for possible loan and lease credit losses shown on Farmers and Merchants balance sheet immediately prior to the effective time will be a minimum of 1.75% of total loans of Farmers and Merchants and will be adequate (within the meaning of accounting principles generally accepted in the United States and applicable regulatory requirements or guidelines) to provide for all known or reasonably anticipated losses relating to or inherent in Farmers and Merchants loan and lease portfolio (including accrued interest receivables) and other extensions of credit (including letters of credit) by Farmers and Merchants as of the dates thereof;

- \* the delivery to Capital City by each Farmers and Merchants director of a Director's Agreement;
- \* the receipt by Capital City of letters from each of the directors and executive officers of Farmers and Merchants releasing any claims they may have against Farmers and Merchants;
- \* the performance of all agreements and the compliance with all covenants of Farmers and Merchants and Capital City as set forth in the Agreement and Plan of Merger;
- \* the delivery to Capital City by Farmers and Merchants of any required clearance certificate or similar document required by any state taxing authority in order to relieve Capital City of any obligation to withhold any portion of the consideration under the Agreement and Plan of Merger.

Capital City and Farmers and Merchants cannot assure you when or if all of the conditions to the merger can or will be satisfied. In the event the merger is not completed by December 31, 2004, the Agreement and Plan of Merger may be terminated and the merger abandoned by either Farmers and Merchants or Capital City, unless the failure to consummate the merger by that date is the result of a breach of the Agreement and Plan of Merger by the party seeking termination. See "- Waiver, Amendment, and Termination," on page 36.

### Regulatory Approvals

Capital City and Farmers and Merchants cannot complete the merger unless and until they receive regulatory approvals from the Federal Reserve, the Federal Deposit Insurance Corporation, the Georgia Department of Banking and Finance and the Florida Department of Financial Services. These regulators will evaluate financial, managerial and competitive criteria, as well as the supervisory history of the parties and the public benefits of the merger. Capital City and Farmers and Merchants have filed all required regulatory applications relating to the merger. Capital City and Farmers and Merchants cannot assure when or whether they will receive the required regulatory approvals. Additionally, the parties cannot assure that the regulatory approvals will impose no conditions or restrictions that in the judgment of their Boards of Directors would so adversely impact the economic or business

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benefits of the merger that, had such conditions or restrictions been known, the parties would not have entered into the Agreement and Plan of Merger.

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Capital City and Farmers and Merchants are not aware of any other material governmental approvals or actions that are required for consummation of the merger.

Waiver, Amendment, and Termination

To the extent permitted by applicable law, Farmers and Merchants and Capital City may amend the Agreement and Plan of Merger by written agreement at any time, whether before or after approval of the Agreement and Plan of Merger by the Farmers and Merchants shareowners. After the Farmers and Merchants shareowners approve the Agreement and Plan of Merger, the Agreement and Plan of Merger cannot be amended in a way that reduces or modifies the consideration to be received by the holders of Farmers and Merchants common stock without further approval of Farmers and Merchants shareowners. In addition, after the Farmers and Merchants shareowners approve the Agreement and Plan of Merger, the provisions of the Agreement and Plan of Merger relating to the manner or basis in which shares of Farmers and Merchants common stock will be exchanged for shares of Capital City common stock cannot be amended in a manner adverse to the holders of Capital City common stock without any requisite approval of Capital City shareowners entitled to vote on such an amendment. In addition, prior to or at the effective time of the merger, either Farmers and Merchants or Capital City, or both, acting through their respective Boards of Directors, chief executive officers or other authorized officers, may:

- \* waive any default in the performance of any term of the Agreement and Plan of Merger by the other party;
- \* waive or extend the time for the compliance or fulfillment by the other party of any and all of its obligations under the Agreement and Plan of Merger; and
- \* waive any of the conditions precedent to the obligations of such party under the Agreement and Plan of Merger, except any condition that, if not satisfied, would result in the violation of any applicable law or governmental regulation.

No such waiver will be effective unless written and unless signed by a duly authorized officer of Farmers and Merchants or Capital City, as the case may be.

The Agreement and Plan of Merger may be terminated at any time prior to the effective time of the merger:

- \* by the mutual agreement of Capital City and Farmers and Merchants;
- \* by Capital City or Farmers and Merchants:
  - in the event of any material breach of any representation, warranty, covenant or agreement of the other party contained in the Agreement and Plan of Merger which cannot be or has not been cured within 30 days after written notice to the breaching party and which breach is reasonably likely, in the opinion of the non-breaching party, to have, individually or in the aggregate, a material adverse effect on the breaching party (provided that the

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terminating party is not then in material breach of any representation, warranty, covenant, or other agreement contained in the Agreement and Plan of Merger),

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- if any approval of any regulatory authority required for consummation of the merger has been denied by final nonappealable action, or if any action taken by such authority is not appealed within the time limit for appeal,
  - if the shareowners of Farmers and Merchants fail to approve the Agreement and Plan of Merger at the Special Meeting,
  - if the merger is not consummated by December 31, 2004, provided that the failure to consummate is not due to a breach by the party electing to terminate, or
  - in the event that any of the conditions precedent to the obligations of such party to consummate the merger cannot be satisfied or fulfilled by December 31, 2004, provided that the terminating party is not then in material breach of any representation, warranty, covenant, or other agreement contained in the Agreement and Plan of Merger;
- \* by Capital City, in the event that the Board of Directors of Farmers and Merchants does not reaffirm its approval of the Agreement and Plan of Merger (excluding any other acquisition proposal from a third party), or shall have resolved not to reaffirm the merger, or shall have affirmed, recommended or authorized entering into any acquisition proposal or other transaction involving a merger, share exchange or transfer of substantially all of the assets of Farmers and Merchants;
  - \* by Farmers and Merchants if, subject to any adjustments for any stock split, stock dividend, or similar recapitalization with respect to Capital City Common Stock, the Average Closing Price is less than \$32.00; and
  - \* by Capital City in the event of a material adverse effect, and, if Capital City provides notice of and grants time to cure such material adverse effect, such material adverse effect is not cured to Capital City's satisfaction within the timeframe specified in the notice.

In addition to any other payments required by the Agreement and Plan of Merger, in the event that the Agreement and Plan of Merger is terminated as a result of Farmers and Merchants or the holders of at least a majority of the shares of Farmers and Merchants common stock entering into an agreement with respect to the merger of Farmers and Merchants with a party other than Capital City or the acquisition of a majority of the outstanding shares of Farmers and Merchants common stock by any party other than Capital City, or is terminated in anticipation of any such agreement or acquisition, then, in either event, Farmers and Merchants shall immediately pay Capital City, by wire transfer, \$3,200,000 in full satisfaction of Capital City's losses and damages resulting from such termination.

If Capital City and/or Farmers and Merchants terminate the merger as described in this section, the Agreement and Plan of Merger will become void and have no effect, except that certain provisions of the Agreement and Plan of Merger will survive, including those relating to the obligations to maintain the confidentiality of certain information. In addition,



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termination of the Agreement and Plan of Merger will not relieve any breaching party from liability for any uncured willful breach of a representation, warranty, covenant, or agreement giving rise to such termination.

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### Dissenters' Rights

If the merger is consummated, any shareowner of Farmers and Merchants who properly dissents from the merger may be entitled to receive in cash the fair value of such shareowner's Farmers and Merchants common stock, determined immediately prior to the merger, excluding any appreciation or depreciation in anticipation of the merger. Failure to comply with the procedures prescribed by applicable law will result in the loss of dissenters' rights.

Any shareowner of Farmers and Merchants entitled to vote on the Agreement and Plan of Merger has the right to receive payment of the fair value of his or her shares of Farmers and Merchants common stock upon compliance with the applicable provisions of the Financial Institutions Code of Georgia, which provides that the provisions of the Georgia Business Corporation Code shall apply. A record shareowner may assert dissenters' rights as to fewer than all of the shares registered in his or her name only if he or she dissents with respect to all shares beneficially owned by any one beneficial shareowner and notifies the corporation in writing of the name and address of each person on whose behalf he or she asserts dissenters' rights. The rights of a partial dissenter under Section 14-2-1303 of the Georgia Business Corporation Code are determined as if the shares as to which he or she dissents and his or her other shares were registered in the names of different shareowners. Any Farmers and Merchants shareowner intending to enforce the right to dissent:

- \* may not vote in favor of the Agreement and Plan of Merger, and
- \* must file with Farmers and Merchants a written notice of intent to demand payment for his or her shares if the merger becomes effective (the "Objection Notice").

A Farmers and Merchants shareowner should send the Objection Notice to: Farmers and Merchants Bank, 600 Bellevue Avenue, Dublin, Georgia 31021 (telephone: (478) 272-3100), Attention: McGrath Keen, Jr., President, before the vote on the proposal to approve the Agreement and Plan of Merger is taken at the Special Meeting. The Objection Notice must state that the shareowner intends to demand payment for his or her shares of Farmers and Merchants common stock if the merger is effectuated. A vote against the Agreement and Plan of Merger, in and of itself, will not constitute an Objection Notice satisfying the requirements of the Georgia Business Corporation Code.

If the Agreement and Plan of Merger is approved by Farmers and Merchants' shareowners at the Special Meeting, each shareowner who has properly filed an Objection Notice and who has not voted in favor of the Agreement and Plan of Merger will be notified by Farmers and Merchants of such approval within ten days of the Special Meeting ("Dissenters' Notice"). The Dissenters' Notice shall contain the following information:

- \* where the payment demand must be sent and where and when the certificates representing the Farmers and Merchants common stock must be deposited;

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- \* the extent to which the transfer of uncertificated shares will be restricted after the payment demand is received;
- \* the date by which the corporation must receive the payment demand (which date may not be fewer than 30 nor more than 60 days after the Dissenters' Notice is delivered); and

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- \* a copy of Title 14, Chapter 2, Article 13 of the Georgia Business Corporation Code (relating to dissenters' rights) (the "Appraisal Statute").

Following the receipt of the Dissenters' Notice, any shareowner electing to dissent must demand payment of the fair value of the shares and deposit the certificates representing his or her Farmers and Merchants common stock in accordance with the terms of, and by the date set out in, the Dissenters' Notice. Such shareowner will retain all other rights of a shareowner until those rights are canceled or modified by the consummation of the merger. A record shareowner who does not demand payment or deposit his or her certificates where required, each by the date set out in the Dissenters' Notice, is not entitled to payment for such holder's shares under the Appraisal Statute.

Except as described below, within ten days after the later of the effective time, or the date of receipt of a payment demand, Farmers and Merchants must, by written notice, offer to each shareowner who has properly filed a payment demand, and who has deposited his or her Farmers and Merchants certificates representing Farmers and Merchants common stock, to pay an amount Farmers and Merchants estimates to be a fair value for the shareowner's shares, plus accrued interest from the effective time. Such offer of payment must be accompanied by:

- \* certain of Farmers and Merchants' recent financial statements;
- \* a statement of Farmers and Merchants' estimate of the fair value of the shares involved;
- \* an explanation of how the interest was calculated;
- \* a statement of the dissenter's right to demand payment under Section 14-2-1327 of the Georgia Business Corporation Code; and
- \* a copy of the Appraisal Statute.

Any shareowner who accepts such offer by written notice to Farmers and Merchants within 30 days after the offer, or who is deemed to have accepted such offer due to his or her failure to respond to such offer within 30 days, shall receive payment for his or her shares within 60 days after such offer to pay or consummation of the merger, whichever is later. If the merger is not consummated within 60 days following the date set for demanding payment and depositing share certificates, Farmers and Merchants must return the deposited certificates and release the transfer restrictions imposed on uncertificated shares. If Farmers and Merchants then consummates the merger, it must send a new Dissenters' Notice and repeat the payment demand procedure.

In the event that Farmers and Merchants fails to make any payment offer within ten days after the later of the date the proposed corporate action is taken or the date of receipt of a payment demand, Farmers and Merchants must provide certain information to the shareowner (the financial statements and

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other information required to accompany Farmers and Merchants' payment offer) within ten days after receipt of a written demand from such dissenting shareowner for such information. Additionally, such dissenting shareowner may, at any time within the three years following the consummation of the merger, notify Farmers and Merchants of his or her own estimate of the fair value of his or her shares and the interest due thereon, and demand payment of such amounts, if:

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- \* a dissenting shareowner is dissatisfied with an offer for payment made by Farmers and Merchants within the time period set forth above, or
- \* Farmers and Merchants, having failed to effect the merger, does not return the deposited Farmers and Merchants certificates or release the transfer restrictions imposed on uncertificated shares within 60 days after the date set for demanding payment.

A dissenting shareowner waives the right to demand payment under section 14-2-1327 of the Georgia Business Corporation Code unless he or she notifies Farmers and Merchants of his or her demand in writing within 30 days after Farmers and Merchants makes or offers payment for such holder's shares.

If such a demand for payment from any dissenting shareowner remains unsettled, within 60 days following the receipt by Farmers and Merchants of such demand for payment, Farmers and Merchants must institute proceedings in the superior court of the county where Farmers and Merchants' registered office is located (the "Court") requesting a nonjury equitable determination of the fair value of such dissenting shareowner's shares and the accrued interest owed to such dissenting shareowner. If Farmers and Merchants fails to file such action within the 60-day period, Farmers and Merchants must pay each dissenting shareowner whose demand remains unsettled the amount demanded by such dissenting shareowner. Farmers and Merchants is required to make all dissenting shareowners whose demands remain unsettled parties to the proceeding and to serve a copy of the petition upon each such dissenting shareowner. The Court may, in its discretion, appoint an appraiser to receive evidence and recommend a decision on the question of fair value. Each dissenting shareowner made a party to the proceeding will be entitled to judgment for the amount which the court finds to be the fair value of his or her shares, plus interest to the date of judgment.

The Court will determine and assess the costs and expenses of such proceeding (including reasonable compensation for and the expenses of the appraiser, but excluding fees and expenses of counsel and experts) against Farmers and Merchants, except that the Court may assess such costs and expenses as it deems appropriate against any or all of the dissenting shareowners if it finds that their demand for additional payment was arbitrary, vexatious or otherwise not in good faith. The Court may award fees and expenses of counsel and experts in amounts the Court finds equitable:

- \* against Farmers and Merchants, if Farmers and Merchants did not substantially comply with the requirements of the corporation as set out in the Appraisal Statute;
- \* against either Farmers and Merchants or the dissenting shareowner(s), if the Court finds that either party's actions were arbitrary, vexatious or otherwise not in good faith; or

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- \* if the Court finds that the services of attorneys for any dissenting shareowner were of substantial benefit to other dissenting shareowners similarly situated, and that the fees for those services should not be assessed against Farmers and Merchants, the court may award those attorneys reasonable fees out of the amounts awarded the dissenting shareowners who were benefited.

No action by any dissenting shareowner to enforce dissenters' rights may be brought more than three years after the corporate action was taken, regardless of whether

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notice of the corporate action and of the right to dissent was given by Farmers and Merchants in compliance with the Dissenters' Notice and payment offer requirements of Sections 14-2-1320 and 14-2-1322 of the Georgia Business Corporation Code.

The foregoing summary of the applicable provisions of the Appraisal Statute is not intended to be a complete statement of such provisions, and is qualified in its entirety by reference to such sections, which are included as Appendix E to this Proxy Statement/Prospectus. The provisions of the statutes are technical and complex. It is suggested that any Farmers and Merchants shareowner who desires to exercise the right to object to the Agreement and Plan of Merger consult counsel. Failure to comply with the provisions of the statute may defeat a shareowner's right to dissent. No further notice of the events giving rise to dissenters' rights or any steps associated therewith will be furnished to Farmers and Merchants shareowners, except as indicated above or as otherwise required by law.

Any dissenting Farmers and Merchants shareowner who perfects the right to be paid the value of such holder's shares will recognize taxable gain or loss upon receipt of cash for such shares for federal income tax purposes. See "- Certain Federal Income Tax Consequences," on page 47.

### Conduct of Business Pending the Merger

Capital City and Farmers and Merchants have agreed in the Agreement and Plan of Merger that unless the other party gives prior written consent, and except as otherwise expressly contemplated in the Agreement and Plan of Merger, each of Capital City and Farmers and Merchants will, and Capital City will cause its subsidiary to:

- \* operate its business only in the usual, regular, and ordinary course;
- \* preserve intact its business organization and assets and maintain its rights and franchises; and
- \* take no action which would:
  - adversely affect the ability of any party to obtain any consents required for the transactions contemplated by the Agreement and Plan of Merger without the imposition of certain conditions or restrictions referred to in the Agreement and Plan of Merger, or
  - adversely affect the ability of any party to perform its covenants and agreements under the Agreement and Plan of Merger.

In addition, Farmers and Merchants has agreed that, from the date of the Agreement and Plan of Merger until the earlier of the effective time of the

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merger or the termination of the Agreement and Plan of Merger, unless Capital City has given prior written consent, and except as otherwise expressly contemplated by the Agreement and Plan of Merger, Farmers and Merchants will not do or agree or commit to do, or permit any of its subsidiaries to do or agree or commit to do, any of the following:

- \* amend its Articles of Incorporation, Bylaws or other governing instruments;

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- \* incur any additional debt obligation or other obligation for borrowed money in excess of an aggregate of \$50,000 except in the ordinary course of the business of Farmers and Merchants consistent with past practices (which shall include creation of deposit liabilities, purchases of federal funds, and entry into repurchase agreements fully secured by U.S. government or agency securities), or impose, or suffer the imposition, on any asset of Farmers and Merchants of any lien or permit any such lien to exist (other than in connection with deposits, repurchase agreements, bankers acceptances, "treasury tax and loan" accounts established in the ordinary course of business, the satisfaction of legal requirements in the exercise of trust powers, and liens in effect as of the date of the Agreement and Plan of Merger that were previously disclosed to Capital City by Farmers and Merchants);
- \* repurchase, redeem, or otherwise acquire or exchange (other than exchanges in the ordinary course under employee benefit plans), directly or indirectly, any shares, or any securities convertible into any shares, of the capital stock of Farmers and Merchants or, except as consistent with past practice, declare or pay any dividend or make any other distribution in respect of Farmers and Merchants' capital stock that would cause Farmers and Merchants' net worth to fall below \$30 million;
- \* except for the Agreement and Plan of Merger, or as previously disclosed to Capital City by Farmers and Merchants, issue, sell, pledge, encumber, authorize the issuance of, enter into any contract to issue, sell, pledge, encumber, or authorize the issuance of, or otherwise permit to become outstanding, any additional shares of Farmers and Merchants common stock, or any stock appreciation rights, or any option, warrant, or other equity right;
- \* adjust, split, combine or reclassify any capital stock of Farmers and Merchants or issue or authorize the issuance of any other securities in respect of or in substitution for shares of Farmers and Merchants common stock, or sell, lease, mortgage or otherwise dispose of or otherwise encumber any asset having a book value in excess of \$50,000 (other than in the ordinary course of business for reasonable and adequate consideration);
- \* except for purchases of U.S. Treasury securities or U.S. Government agency securities, which in either case have maturities of one year or less, purchase any securities or make any material investment, either by purchase of stock or securities, contributions to capital, asset transfer, or purchase of any assets, in any entity, or otherwise acquire direct or indirect control over any entity, other than in connection with:
  - foreclosures in the ordinary course of business, or
  - acquisitions of control by a depository institution subsidiary in

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its fiduciary capacity;

\* any of the following:

- make any new loans or extensions of credit or renew, extend or renegotiate any existing loans or extensions of credit:

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- (1) with respect to properties or businesses outside of Farmers and Merchants current market area, or to borrowers whose principal residence is outside of Farmers and Merchants current market area,
  - (2) that are unsecured in excess of \$100,000, or
  - (3) that are secured in excess of \$500,000.
- purchase or sell (except for sales of single-family residential first mortgage loans in the ordinary course of Farmers and Merchants' business for fair market value) any whole loans, leases, mortgages or any loan participations or agented credits or other interest therein;
  - renew or renegotiate any loans or credits that are on any watch list and/or are classified or special mentioned or take any similar actions with respect to collateral held with respect to debts previously contracted or other real estate owned, except pursuant to safe and sound banking practices and with prior disclosure to Capital City Bank;
  - Farmers and Merchants may, however, without the prior notice to or written consent of Capital City, renew or extend existing credits on substantially similar terms and conditions as present at the time such credit was made or last extended, renewed or modified, for a period not to exceed one year and at rates not less than market rates for comparable credits and transactions and without any release of any collateral except as Farmers and Merchants is presently obligated under existing written agreements kept as part of Farmers and Merchants' official records;
- \* grant any increase in compensation or benefits to the employees or officers of Farmers and Merchants, except in accordance with past practice previously disclosed to Capital City by Farmers and Merchants or as required by law, pay any severance or termination pay or any bonus other than pursuant to written policies or written contracts in effect on the date of the Agreement and Plan of Merger and previously disclosed to Capital City by Farmers and Merchants; enter into or amend any severance agreements with officers of Farmers and Merchants; grant any increase in fees or other increases in compensation or other benefits to directors of Farmers and Merchants; or voluntarily accelerate the vesting of any stock options or other stock-based compensation or employee benefits or other equity rights;
- \* enter into or amend any employment contract between Farmers and Merchants and any person (unless such amendment is required by law) that Farmers and Merchants does not have the unconditional right to terminate without liability (other than liability for services already rendered) at any time on or after the effective time of the merger;

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- \* adopt any new employee benefit plan of Farmers and Merchants or terminate or withdraw from, or make any material change in or to, any existing employee benefit plans of Farmers and Merchants other than any such change that is required by law or that, in the opinion of counsel, is necessary or advisable to maintain the tax qualified status of any

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such plan, or make any distributions from such employee benefit plans, except as required by law, the terms of such plans or consistent with past practice;

- \* make any significant change in any tax or accounting methods or systems of internal accounting controls, except as may be appropriate to conform to changes in tax laws or regulatory accounting requirements or accounting principles generally accepted in the United States;
- \* commence any litigation other than in accordance with past practice, or settle any litigation involving any liability of Farmers and Merchants for material money damages or restrictions upon the operations of Farmers and Merchants; or
- \* except in the ordinary course of business, enter into, modify, amend or terminate any material contract calling for payments exceeding \$50,000 or waive, release, compromise or assign any material rights or claims.

The Agreement and Plan of Merger also provides that from the date of the Agreement and Plan of Merger until the earlier of the effective time of the merger or the termination of the Agreement and Plan of Merger, unless Farmers and Merchants has given prior written consent, and except as otherwise expressly contemplated by the Agreement and Plan of Merger, Capital City will not amend the Articles of Incorporation or Bylaws of Capital City in any manner adverse to the holders of Farmers and Merchants common stock.

Management and Operations after the Merger; Interests of Certain Persons in the Merger

Following the merger, Farmers and Merchants will be merged with and into Capital City Bank. Certain members of Farmers and Merchants' management and the Farmers and Merchants Board of Directors have interests in the merger in addition to their interests as shareowners of Farmers and Merchants generally. These include, among other things, provisions in the Agreement and Plan of Merger relating to indemnification of directors and officers and eligibility for certain Capital City employee benefits.

### Indemnification and Advancement of Expenses.

----- With respect to all claims brought during the period of three years after the effective time of the merger, the Agreement and Plan of Merger provides that Capital City will indemnify, defend and hold harmless the present and former directors, officers and employees of Farmers and Merchants against all liabilities arising out of actions or omissions arising out of the Indemnified Party's service as a director, officer or employee of Farmers and Merchants or, at Farmers and Merchants' request, of another corporation, partnership, joint venture, trust or other enterprise occurring at or prior to the effective time of the merger (including the transactions contemplated by the Agreement and Plan of Merger) to the fullest extent permitted under Florida law. Without limiting the foregoing, in any case in which approval by Capital City is required to effectuate any indemnification, Capital City shall direct, at the election of the indemnified party, that the determination of any such

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approval will be made by independent counsel mutually agreed upon between Capital City and the indemnified party.

Capital City shall, to the extent available (and Farmers and Merchants shall cooperate prior to the effective time of the merger in these efforts), maintain in effect for a period of three

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years after the effective time of the merger Farmers and Merchants' existing directors' and officers' liability insurance policy provided that Capital City may substitute therefor:

- \* policies of at least the same coverage and amounts containing terms and conditions which are substantially no less advantageous, or
- \* with the consent of Farmers and Merchants given prior to the effective time of the merger, any other policy with respect to claims arising from facts or events that occurred prior to the effective time of the merger and covering persons who are currently covered by such insurance;

provided that Capital City will not be obligated to make aggregate premium payments for such three-year period in respect of such policy (or coverage replacing such policy) which exceed, for the portion related to Farmers and Merchants' directors and officers, 125% of the annual premium payments on Farmers and Merchants' current policy in effect as of the date of the Agreement and Plan of Merger.

### Other Matters Relating to Employee Benefit Plans.

----- The Agreement and Plan of Merger also provides that, following the effective time of the merger, Capital City will provide generally to officers and employees of Farmers and Merchants employee benefits under employee benefit and welfare plans (other than stock option or other plans involving the potential issuance of Capital City common stock), on terms and conditions which when taken as a whole are substantially similar to those currently provided by the Capital City entities to their similarly situated officers and employees. Capital City will waive any pre-existing condition exclusion under any employee health plan for which any employees and/or officers and dependents covered by Farmers and Merchants plans as of the effective time of the merger of Farmers and Merchants will become eligible by virtue of the preceding sentence, to the extent:

- \* the pre-existing condition was covered under the corresponding plan maintained by Farmers and Merchants, and
- \* the individual affected by the pre-existing condition was covered by Farmers and Merchants' corresponding plan on the date which immediately precedes the effective time; provided further, however, that any portion of a pre-existing condition exclusion period imposed by a Capital City employee health plan will not be enforced to the extent it exceeds in duration any corresponding provision in effect under a Farmers and Merchants benefit plan immediately prior to closing. In addition, Capital City will credit Farmers and Merchants employees for amounts paid under Farmers and Merchants benefit plans for the applicable plan year that contains the closing date for purposes of applying deductibles, co-payments and out-of-pocket limitations under Capital City health plans.

For purposes of participation and vesting (but not benefit accrual)



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under Capital City's employee benefit plans, the service of the employees of Farmers and Merchants prior to the effective time of the merger will be treated as service with a Capital City entity participating in such employee benefits plans.

Capital City, Capital City Bank and Farmers and Merchants expressly agreed that Capital City and Capital City Bank will not adopt or maintain the Farmers and Merchants Profit Sharing

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Plan for the benefit of any employee previously or currently employed by Farmers and Merchants. As of the closing date, each Farmers and Merchants Profit Sharing Plan participant will cease to accrue any benefits under the Farmers and Merchants Profit Sharing Plan. Not less than three days prior to the closing date, Farmers and Merchants must have taken all steps necessary to terminate the Farmers and Merchants Profit Sharing Plan (or have taken all steps necessary to terminate the participation of any other entity in the Farmers and Merchants Profit Sharing Plan). In connection with the foregoing, Farmers and Merchants will cause each adopting employer of the Farmers and Merchants Profit Sharing Plan to adopt appropriate resolutions:

- \* authorizing and directing the termination of (or the termination of participation in) the Farmers and Merchants Profit Sharing Plan,
- \* fully vesting each participant's account balances within the Farmers and Merchants Profit Sharing Plan,
- \* prohibiting contributions with respect to all periods after the Farmers and Merchants Profit Sharing Plan's termination date, and
- \* requiring the officers of each adopting employer to provide each participant with a notice of termination with respect to the Farmers and Merchants Profit Sharing Plan prior to the closing date.

In addition, Farmers and Merchants will cause the employers that have adopted the Farmers and Merchants Profit Sharing Plan to prepare and adopt, not less than three days prior to the closing date, an amendment to the Farmers and Merchants Profit Sharing Plan that will provide for all necessary and appropriate modifications to the terms of the Farmers and Merchants Profit Sharing Plan in order to provide for the termination of contributions, fully-vested account balances, and the distribution of account balances after a favorable determination letter has been obtained from the Internal Revenue Service with respect to the termination of the Farmers and Merchants Profit Sharing Plan. Farmers and Merchants, Capital City, and Capital City Bank agree to request a favorable determination letter from the Internal Revenue Service with respect to such termination, and to facilitate distributions to participants in accordance with the requirements of applicable Treasury Regulations after they have received a favorable determination letter. Not less than three days prior to the closing, Farmers and Merchants will provide Capital City and Capital City Bank with copies of all documentation associated with the termination of the Farmers and Merchants Profit Sharing Plan.

Farmers and Merchants will freeze the Farmers and Merchants Bank Dublin Defined Benefit Pension Plan effective as of the closing date so that no new participant may thereafter enter the Defined Benefit Plan and so that benefit accruals cease as to existing participants from and after the closing date. In connection with the foregoing, Farmers and Merchants shall cause each adopting employer of the Defined Benefit Plan to adopt appropriate

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resolutions authorizing and directing the freezing of the Defined Benefit Plan and requiring the officers of each adopting employer to provide each participant with a notice of termination with respect to the freezing of the Defined Benefit Plan at least fifteen days prior to the closing date. In addition, Farmers and Merchants will cause the employers that have adopted the Defined Benefit Plan to prepare and adopt, not later than the closing date, an amendment to the Defined Benefit Plan that will provide for all necessary and appropriate modifications to the terms of the Defined Benefit Plan in order

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to provide for the freezing, as contemplated in this paragraph. Not later than three days prior to the closing date, Farmers and Merchants will provide Capital City and Capital City Bank with copies of all documentation associated with the freezing of the Defined Benefit Plan.

Farmers and Merchants will take all actions reasonably necessary prior to the closing date to satisfy applicable Treasury Regulations that apply to the lump sum distribution paid from the Defined Benefit Plan on or about December 31, 2003. Such actions will include any and all actions by Farmers and Merchants that may be necessary, including, but not limited to, those contemplated by IRS Revenue Procedure 2003-44 and, if and to the extent applicable, the filing of any report to the Pension Benefit Guaranty Corporation under PBGC Regulations Section 4043.27, unless an appropriate exemption from filing is available. Farmers and Merchants will consult with Capital City prior to taking any such actions and shall provide for Capital City's input in connection with any IRS or PBGC submissions, filings, or applications, and will provide Capital City at closing with documentation of the actions ultimately implemented.

Although the actuarial valuation for the Defined Benefit Plan as of January 1, 2004 has not been completed as of the date of the Agreement and Plan of Merger, Farmers and Merchants expects that as of January 1, 2004, the current liability under the Defined Benefit Plan as of that date will be in excess of its assets. Subject to any limitations under the Internal Revenue Code governing the amount of deductible contributions to a tax-qualified pension plan like the Defined Benefit Plan, Farmers and Merchants will make one or more contributions to the Defined Benefit Plan prior to the closing date that, in the aggregate, equal or exceed the amount by which the current liability, determined as of a date prior to the closing date that is mutually agreed to by the parties, exceeds the value of the assets of the Defined Benefit Plan as of such date. In making such determination, the actuary for the Defined Benefit Plan will assume that the plan has been frozen, as contemplated above. Farmers and Merchants shall provide Capital City with a copy of the January 1, 2004 actuarial valuation as soon as practicable following its issuance and will provide Capital City at closing with documentation of the contributions it makes to the Defined Benefit Plan from January 1, 2004 through the Closing Date.

### Certain Federal Income Tax Consequences

This section summarizes the material anticipated federal income tax consequences of the merger for shareowners who do not execute dissenter's rights. This summary is based on the federal income tax laws now in effect. It does not take into account possible changes in these laws or interpretations, including amendments to applicable statutes or regulations or changes in judicial decisions or administrative rulings, some of which may have retroactive effect. This summary does not purport to address all aspects of the possible federal income tax consequences of the merger and is

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not intended as tax advice to any person. This summary does not address the federal income tax consequences of the merger to shareowners in light of their particular circumstances or status (for example, as foreign persons, tax-exempt entities, dealers in securities, and insurance companies, among others), nor does this summary address any consequences of the merger under any state, local, estate, or foreign tax laws. You are urged to consult your own tax advisers as to the specific tax consequences of the merger to you, including tax return reporting requirements, the application and effect of federal, foreign, state, local, and other tax laws, and the implications of any proposed changes in the tax laws.

The parties to the merger have not required, and will not request, a federal income tax ruling from the Internal Revenue Service ("IRS") as to the tax consequences of the merger.

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Instead, Gunster, Yoakley & Stewart, P.A., counsel to Capital City, will render an opinion to Capital City and Farmers and Merchants concerning the material federal income tax consequences of the proposed merger under federal income tax law. It is such firm's opinion, based upon the assumption that the merger is consummated in accordance with the Agreement and Plan of Merger and the accuracy of representations made by the management of Capital City and Farmers and Merchants, that the merger will constitute a reorganization within the meaning of Section 368(a) of the Code, and that neither Capital City nor Farmers and Merchants will recognize gain or loss by reason of the merger.

Assuming the merger qualifies as a reorganization pursuant to Section 368(a) of the Code, the shareowners of Farmers and Merchants will have the following federal income tax consequences:

- \* Farmers and Merchants shareowners will recognize gain (but not loss) from the exchange, but not in excess of the cash received; the computation of gain is made on a share by share basis; it is not anticipated that any portion of such gain will be characterized as a dividend;
- \* the basis of the Capital City common stock received by the Farmers and Merchants shareowners in the merger will, in each instance, be the same as the basis of the Farmers and Merchants common stock surrendered in exchange therefor, (i) decreased by the cash received and (ii) increased by the gain recognized in the exchange;
- \* the holding period of the Capital City common stock received by the Farmers and Merchants shareowners will, in each instance, include the period during which the Farmers and Merchants common stock surrendered in exchange therefor was held, provided that the Farmers and Merchants common stock was held as a capital asset on the date of the exchange; and
- \* the payment of cash to Farmers and Merchants shareowners in lieu of fractional shares of Capital City common stock will be treated for federal income tax purposes as if the fractional shares were distributed as part of the exchange and then were redeemed by Capital City; it is anticipated that any gain or loss recognized upon such exchange will be capital gain or loss (rather than a dividend), provided the fractional share constitutes a capital asset in the hands of the exchanging shareowner.

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Each Farmers and Merchants shareowner who receives Capital City common stock in the merger will be required to attach to his or her federal income tax return for the year of the merger a complete statement of all facts pertinent to the non-recognition of gain, including the shareowner's basis in the Farmers and Merchants common stock exchanged, and the number of shares of Capital City common stock and cash received in exchange for Farmers and Merchants common stock. Each shareowner should also keep as part of such shareowner's permanent records information necessary to establish such shareowner's basis in, and holding period for, the Capital City common stock received in the merger.

### Accounting Treatment

The merger will be accounted for as a "purchase," as that term is used under accounting principles generally accepted in the United States, for accounting and financial reporting

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purposes. Under purchase accounting, the assets and liabilities of Farmers and Merchants as of the effective time of the merger will be recorded at their respective fair values and added to those of Capital City. Any excess of purchase price over the fair values is recorded as goodwill. Financial statements of Capital City issued after the merger would reflect such fair values and would not be restated retroactively to reflect the historical financial position or results of operations of Farmers and Merchants.

There are certain conditions on the exchange of Farmers and Merchants common stock for Capital City common stock by affiliates of Farmers and Merchants, and there are certain restrictions on the transferability of the Capital City common stock received by those affiliates. See "- Resales of Capital City Common Stock," on page 49.

### Expenses and Fees

The Agreement and Plan of Merger provides that each of the parties will bear and pay all direct costs and expenses incurred by it or on its behalf in connection with the transactions contemplated by the Agreement and Plan of Merger, including filing, registration and application fees, printing fees, and fees and expenses of financial or other consultants, investment bankers, accountants, and counsel, except that each of the parties shall bear and pay one-half of the filing fees payable, and printing costs incurred, in connection with the registration statement of which this Proxy Statement/Prospectus is a part.

In the event that Farmers and Merchants terminates the Agreement and Plan of Merger by entering into a definitive agreement with respect to the sale of Farmers and Merchants to any person or entity who or which has made a proposal to acquire Farmers and Merchants, Farmers and Merchants will pay Capital City \$3,200,000 for losses and damages of Capital City incurred in connection with the merger.

### Resales of Capital City Common Stock

The Capital City common stock issued to shareowners of Farmers and Merchants in connection with the merger will be registered under the Securities Act of 1933, as amended (the "Securities Act"), and will be freely transferable by those shareowners of Farmers and Merchants and Capital City not considered to be "Affiliates" of Farmers and Merchants or Capital City. "Affiliates" generally are defined as persons or entities who control, are

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controlled by, or are under common control with Farmers and Merchants or Capital City (generally, directors, executive officers and 10% shareowners).

Rules 144 and 145 under the Securities Act restrict the sale of Capital City common stock received in the merger by Affiliates and certain of their family members and related interests. Generally speaking, during the one-year period following the effective time of the merger, Affiliates of Farmers and Merchants may resell publicly the Capital City common stock received by them in the merger within certain limitations as to the amount of Capital City common stock sold in any three-month period and as to the manner of sale. After this one-year period, Affiliates of Farmers and Merchants who are not Affiliates of Capital City may resell their shares without restriction. The ability of Affiliates to resell shares of Capital City common stock received in the merger under Rule 144 or 145 as summarized in this Proxy Statement/Prospectus generally will be subject to Capital City's having satisfied its reporting requirements under the Securities and Exchange Act of 1934, as amended (the "Exchange Act") for specified periods

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prior to the time of sale. Affiliates also would be permitted to resell Capital City common stock received in the merger pursuant to an effective registration statement under the Securities Act or an available exemption from the Securities Act registration requirements. This Proxy Statement/Prospectus does not cover any resales of Capital City common stock received by persons who may be deemed to be Affiliates of Farmers and Merchants or Capital City.

Farmers and Merchants has caused each person Farmers and Merchants reasonably believes to be an Affiliate of Farmers and Merchants to sign and deliver to Capital City an agreement providing that such Affiliate will not sell, pledge, transfer, or otherwise dispose of any Capital City common stock obtained as a result of the merger except in compliance with the Securities Act and the rules and regulations of the SEC. The certificates representing Capital City common stock issued to Affiliates in the merger may bear a legend summarizing these restrictions. See "- Conditions to Consummation of the Merger," on page 34.

The receipt of the Farmers and Merchants Affiliate Agreements by Capital City is a condition to Capital City's obligations to consummate the merger.

### DESCRIPTION OF CAPITAL CITY CAPITAL STOCK

Capital City is authorized to issue 90,000,000 shares of Capital City common stock (\$.01 par value per share), of which 13,282,090 shares were issued and outstanding as of the record date. Capital City is also authorized to issue 3,000,000 shares of Capital City preferred stock (\$.01 par value per share), none of which is issued and outstanding.

Holders of Capital City common stock are entitled to receive such dividends as may be declared by the Board of Directors out of funds legally available therefor. The ability of Capital City to pay dividends is affected by the ability of its subsidiary depository institution to pay dividends. The approval of the Florida Department of Financial Services is required if the total of all dividends declared by Capital City's subsidiary bank, Capital City Bank, in any calendar year exceeds Capital City Bank's net profits (as defined in the Florida Statutes) for that year combined with its retained net profits for the preceding two calendar years. In 2004, Capital City Bank may declare dividends without regulatory approval of \$24.7 million plus an additional amount equal to the net profits of Capital City Bank for

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2004 up to the date of any such dividend declaration. See "BUSINESS - Supervision and Regulation - The Bank - Dividends" and "NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Note 15 - Dividend Restrictions" in Capital City's 2003 Form 10-K.

For a further description of Capital City capital stock, See "EFFECT OF THE MERGER ON RIGHTS OF SHAREOWNERS - Authorized Capital Stock," on page 52.

### EFFECT OF THE MERGER ON RIGHTS OF SHAREOWNERS

In the merger, shareowners of Farmers and Merchants will exchange their shares of Farmers and Merchants for shares of Capital City. Farmers and Merchants is a Georgia chartered commercial bank headquartered in Dublin, Georgia and is governed by Georgia law and the Charter Application and Bylaws, as amended, adopted by Farmers and Merchants. Capital City is a registered bank holding company headquartered in Tallahassee, Florida and is governed by Florida law and Capital City's Articles of Incorporation and Bylaws, as amended. There are significant differences between the rights of Farmers and Merchants' shareowners and

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Capital City shareowners. The following is a summary of the principal differences between the current rights of Farmers and Merchants' shareowners and those of Capital City's shareowners.

The following summary is not intended to be complete and is qualified in its entirety by reference to the Financial Institutions Code of Georgia, the Georgia Business Corporation Code and the Florida Act, as well as the Charter Application or Articles of Incorporation and Bylaws, as amended, of Farmers and Merchants and Capital City.

#### Anti-Takeover Provisions Generally

Capital City's Articles of Incorporation and Bylaws contain certain provisions designed to assist the Capital City Board of Directors in playing a role if any group or person attempts to acquire control of Capital City so that the Capital City Board of Directors can protect the interests of Capital City and its shareowners under the circumstances. These provisions may help the Capital City Board of Directors determine that a sale of control is in the best interests of Capital City's shareowners, or enhance the Capital City Board of Directors' ability to maximize the value to be received by the shareowners upon a sale of control of Capital City. In addition, as of September 17, 2004, William G. Smith, Jr., President and Chief Executive Officer of Capital City, and his brother, Robert Hill Smith, Vice President of Capital City, together beneficially owned approximately 35.8% of Capital City's outstanding common stock. Such ownership could also have the effect of deterring takeover proposals.

Although Capital City's management believes that these provisions are beneficial to Capital City's shareowners, they also may tend to discourage some takeover bids. As a result, Capital City's shareowners may be deprived of opportunities to sell some or all of their shares at prices that represent a premium over prevailing market prices. On the other hand, defeating undesirable acquisition offers can be a very expensive and time-consuming process. To the extent that these provisions discourage undesirable proposals, Capital City may be able to avoid those expenditures of time and money.

These provisions also may discourage open market purchases by a company

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that may desire to acquire Capital City. Those purchases may increase the market price of Capital City common stock temporarily, and enable shareowners to sell their shares at a price higher than they might otherwise obtain. In addition, these provisions may decrease the market price of Capital City common stock by making the stock less attractive to persons who invest in securities in anticipation of price increases from potential acquisition attempts. The provisions also may make it more difficult and time consuming for a potential acquiror to obtain control of Capital City by replacing the Board of Directors and management. Furthermore, the provisions may make it more difficult for Capital City's shareowners to replace the Board of Directors or management, even if a majority of the shareowners believes that replacing the Board of Directors or management is in the best interests of Capital City. Because of these factors, these provisions may tend to perpetuate the incumbent Board of Directors and management. For more information about these provisions, see "- Authorized Capital Stock," on page 52, "- Amendment of Articles of Incorporation and Bylaws," on page 53, "- Classified Board of Directors and Absence of Cumulative Voting," on page 54, "- Director Removal and Vacancies," on page 55, "- Indemnification," on page 56, "- Ability of Directors to Consider Interests Other than Shareowner Interests" on page 60, "- Actions by Shareowners Without a Meeting," on page 61, "- Shareowner Nominations," on page 61.

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### Authorized Capital Stock

#### Capital City.

----- Capital City's Articles of Incorporation authorize the issuance of up to (1) 90,000,000 shares of Capital City \$.01 par value common stock, of which 13,282,090 shares were issued and outstanding as of the record date, and (2) 3,000,000 shares of \$.01 par value preferred stock, of which no shares are issued. Capital City's Board of Directors may authorize the issuance of additional shares of Capital City common stock without further action by Capital City's shareowners, unless such action is required in a particular case by applicable laws or regulations or by any stock exchange upon which Capital City's capital stock may be listed. Capital City's shareowners do not have the preemptive right to purchase or subscribe to any unissued authorized shares of Capital City common stock or any option or warrant for the purchase thereof.

Capital City's Board of Directors may issue, without any further action by the shareowners, shares of Capital City preferred stock, in one or more classes or series, with such voting, conversion, dividend, redemption and liquidation rights as the Board may specify. In establishing and issuing shares of Capital City preferred stock, Capital City's Board of Directors may designate that Capital City preferred stock will vote as a separate class on any or all matters, thus diluting the voting power of the Capital City common stock. The existence of this ability could render more difficult or discourage an attempt to gain control of Capital City by means of a tender offer, merger, proxy contest or otherwise. The Board also may designate that Capital City preferred stock will have dividend rights that are cumulative and that receive preferential treatment compared to Capital City common stock, and that Capital City preferred stock will have liquidation rights with priority over Capital City common stock in the event of Capital City's liquidation. The Board of Directors also may designate whether or not Capital City preferred stock shall be subject to the operation of retirement or sinking funds to be applied to the purchase or redemption of such preferred shares, and the terms and provisions relative to the operation thereof.

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Subject to the payment of cash in lieu of fractional shares and payments made to dissenting shareowners, Capital City will issue between 740,555 and 876,973 shares of Capital City common stock in the merger. Based on the number of shares of Capital City common stock outstanding on the record date, it is anticipated that, following the consummation of the merger, a minimum of approximately 14,022,645 and a maximum of approximately 14,159,063 shares of Capital City common stock will be outstanding.

The authority to issue additional shares of Capital City common stock provides Capital City with the flexibility necessary to meet its future needs without the delay resulting from seeking shareowner approval. The authorized but unissued shares of Capital City common stock will be issuable from time to time for any corporate purpose, including, without limitation, stock splits, stock dividends, employee benefit and compensation plans, acquisitions, and public or private sales for cash as a means of raising capital. Such shares could be used to dilute the stock ownership of persons seeking to obtain control of Capital City. In addition, the sale of a substantial number of shares of Capital City common stock to persons who have an understanding with Capital City concerning the voting of such shares, or the distribution or declaration of a dividend of shares of Capital City common stock (or the right to receive Capital City common stock) to Capital City shareowners, may have the effect of discouraging or increasing the cost of unsolicited attempts to acquire control of Capital City.

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### Farmers and Merchants.

----- Farmers and Merchants is currently authorized to issue 50,000 shares of Farmers and Merchants \$20.00 par value common stock, of which all 50,000 are outstanding as of the record date. Farmers and Merchants has no other classes of authorized capital stock. Farmers and Merchants shareowners do generally have the preemptive right to purchase or subscribe to any unissued authorized shares of Farmers and Merchants common stock, subject to the limitation set forth in Section 7-1-431 of the Financial Institutions Code of Georgia.

### Amendment of Articles of Incorporation and Bylaws

#### Capital City.

----- Capital City's Articles of Incorporation provide that the affirmative vote of the holders of at least two-thirds of all the issued and outstanding voting shares of capital stock is required to amend them. However, if such amendment has received the prior approval by an affirmative vote of a majority of "Disinterested Directors," as defined in Section 607.0901(1)(h), Florida Statutes, then the affirmative vote of the holders of a majority of all the shares of capital stock of Capital City issued and outstanding and entitled to vote, or such greater percentage approval as is required by Florida law, is sufficient to amend the Articles. A "Disinterested Director" is defined in Section 607.0901(1)(h), Florida Statutes, as:

- \* any member of the Board of Directors who was a member of the Board of Directors before the later of January 1, 1987, or the date on which an interested shareowner became an interested shareowner; and
- \* any member of the Board of Directors who was recommended for election by, or was elected to fill a vacancy and received the affirmative vote of, a majority of the Disinterested Directors then on the Board.

Subject to certain restrictions set forth below, either the Board of



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Directors or the shareowners of Capital City may amend Capital City's Bylaws by majority vote. The Board of Directors may amend the Bylaws and adopt new Bylaws provided that:

- \* the Board of Directors may not alter, amend or repeal any bylaw adopted by shareowners if the shareowners specifically provide that such bylaw is not subject to amendment or repeal by the Board; and
- \* in the case of any shareowner action, two-thirds of the shareowners, acting only by voting at a special meeting, is required to amend any bylaw provision pertaining to:
  - meetings of shareowners,
  - directors,
  - indemnification of directors, officers and employees, and
  - amendments.

Farmers and Merchants.

----- Farmers and Merchant's Charter Application is silent as to any vote requirement to amend such charter. Accordingly, amendments to the Farmers and Merchants Charter Application are subject to the Financial Institutions Code of Georgia as it

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relates to amendments made to articles of incorporation for Georgia state banks. The Financial Institutions Code of Georgia references the Georgia Business Corporation Code regarding the amendment of a bank's articles of incorporation and bylaws. The Georgia Business Corporation Code provides that other than in the case of certain routine amendments which may be made by the corporation's Board of Directors without shareowner action (such as changing the corporate name), and other amendments which the Georgia Business Corporation Code specifically allows without shareowner action, an amendment to a corporation's articles requires the affirmative vote of a majority of the issued and outstanding shares of each voting group.

The Farmers and Merchants Bylaws may be amended by the affirmative vote of a majority of the shareowners at an annual meeting or at a special meeting; provided, however, that, if such action is to be taken at a meeting of the shareowners, notice of the proposed amendment to the Bylaws shall be given in the notice of meeting. The notice must set forth the exact text of the proposed amendment. If notice of the proposed amendment to the Bylaws is not given in the notice of meeting, the Bylaws may be amended by the affirmative vote of three-fourths of the shareowners at an annual meeting or special meeting where a quorum is present. Without limiting the generality of the foregoing, no amendment to the Bylaws shall affect the term of office for which the Directors of Farmers and Merchants then holding office have been elected.

Classified Board of Directors and Absence of Cumulative Voting

Capital City.

----- Capital City's Articles of Incorporation provide that Capital City's Board of Directors is divided into three classes, with each class to be as nearly equal in number as possible. The term of the Class I directors terminates on the date of the 2007 annual meeting of shareowners, the term of the Class II directors terminates on the date of the 2005 annual

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meeting of shareowners and the term of the Class III directors terminates on the date of the 2006 annual meeting of shareowners. At each annual meeting of shareowners, successors to the class of directors whose term expires at that annual meeting are to be elected for a three-year term. The effect of Capital City having a classified Board of Directors is that only approximately one-third of the members of the Board is elected each year, which effectively requires two annual meetings for Capital City's shareowners to change a majority of the members of the Board of Directors. The purpose of dividing Capital City's Board of Directors into classes is to facilitate continuity and stability of leadership of Capital City by ensuring that experienced personnel familiar with Capital City will be represented on Capital City's Board of Directors at all times, and to permit Capital City's management to plan for the future for a reasonable time. However, by potentially delaying the time within which an acquiror could obtain working control of the Board of Directors, this provision may discourage some potential mergers, tender offers, or takeover attempts.

Pursuant to the Capital City Bylaws, each shareowner is entitled to one vote for each share of Capital City common stock held and is not entitled to cumulative voting rights in the election of directors. With cumulative voting, a shareowner has the right to cast a number of votes equal to the total number of such holder's shares multiplied by the number of directors to be elected. The shareowner has the right to distribute all of his or her votes in any manner among any number of candidates or to accumulate such shares in favor of one candidate. Directors are elected by a plurality of the total votes cast by the shares entitled to vote in the election. With cumulative voting, it may be possible for minority shareowners to obtain representation on the Board of Directors. Without cumulative voting, the holders of more than

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50% of the shares of Capital City common stock generally have the ability to elect 100% of the directors. As a result, the holders of the remaining Capital City common stock effectively may not be able to elect any person to the Board of Directors. The absence of cumulative voting thus could make it more difficult for a shareowner who acquires less than a majority of the shares of Capital City common stock to obtain representation on Capital City's Board of Directors.

### Farmers and Merchants.

----- In accordance with the Financial Institutions Code of Georgia, each director of Farmers and Merchants is subject to annual elections. In addition, pursuant to Farmers and Merchants' Bylaws, Farmers and Merchants shareowners do not have cumulative voting rights.

### Director Removal and Vacancies

#### Capital City.

----- Capital City's Articles of Incorporation provide that:

- \* a director may be removed by the shareowners upon the affirmative vote of the holders of two-thirds of the voting power of all shares of capital stock entitled to vote generally in the election of directors; and
- \* subject to the rights of the holders of any series of preferred stock, then outstanding vacancies on the Board of Directors may be filled only by the affirmative vote of a majority of the remaining directors.

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The purpose of this provision is to prevent a majority shareowner from circumventing the classified board system by removing directors and filling the vacancies with new individuals selected by that shareowner. Accordingly, the provision may have the effect of impeding efforts to gain control of the Board of Directors by anyone who obtains a controlling interest in Capital City common stock. The term of a director appointed to fill a vacancy shall coincide with the term of the class of which such director shall have been elected.

### Farmers and Merchants.

----- Farmers and Merchants' Bylaws do not provide for the removal of a director by the shareowners or directors of Farmers and Merchants. The Financial Institutions Code of Georgia references the Georgia Business Corporation Code regarding the requirements for the removal of a director. Pursuant to the Georgia Business Corporation Code, the shareowners may remove, with or without cause, the entire board of directors or an individual director.

Farmers and Merchants' Bylaws also provide that if any vacancy shall occur among the directors for any reason, the vacancy may be filled by a majority vote of the remaining directors pending the next annual meeting of the shareowners.

### Indemnification

#### Capital City.

----- The Florida Act provides that a director, officer, employee or other agent of a Florida corporation:

- \* shall be indemnified by the corporation for all expenses of such litigation actually and reasonably incurred when he or she is successful on the merits on any legal proceeding;

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- \* may be indemnified by the corporation for liability incurred in connection with such legal proceedings (other than a derivative suit), even if he or she is not successful on the merits, if he or she acted in good faith and in a manner reasonably believed to be in the best interest of the corporation (and in the case of a criminal proceeding, he or she had no reasonable cause to believe that such conduct was unlawful); and
- \* may be indemnified by the corporation for expenses of a derivative suit (a suit by a shareowner alleging a breach by a director or officer of a duty owed to the corporation) and amounts paid in settlement not to exceed, in the judgment of the Board of Directors, the estimated costs and expenses of litigating the proceeding to conclusion, even if he or she is not successful on the merits, if he or she acted in good faith and in a manner he or she reasonably believed to be in the best interest of the corporation and the shareowners. If he or she is adjudged liable in the performance of his or her duties to the corporation, indemnification may be made in accordance with this paragraph if and only to the extent that a court determines that in view of all of the circumstances, he or she is fairly and reasonably entitled to indemnification for expenses to the extent permitted by such court.

The indemnification described in the second and third bullet-points above will be made only upon a determination by:

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- \* a majority of a quorum of disinterested directors;
- \* if a quorum of disinterested directors is not obtainable, or even if obtainable, by majority vote of a committee duly designated by the Board of Directors (in which directors who are parties may participate) consisting solely of two or more directors who are not at the time parties to the proceeding;
- \* independent legal counsel in a written opinion;
- \* the shareowners (excluding the shares owned by the person seeking indemnification); or
- \* the court in which the proceeding is or was pending, if indemnification is proper under the circumstances because the applicable standard of conduct has been met.

The Board of Directors may authorize the advancement of litigation expenses to a director or officer upon receipt of an undertaking by the director or officer to repay such expenses if it is ultimately determined that he or she is not entitled to be indemnified for them.

The Florida Act's statutory scheme of indemnification is not exclusive and allows expanded indemnification by bylaw, agreement, vote of shareowners or disinterested directors, or otherwise if the Articles of Incorporation are amended to permit expanded indemnification. Notwithstanding the expansion of indemnification rights, the Florida Act does not permit indemnification for:

- \* acts or omissions that involve a violation of the criminal law, unless the director, officer employee or agent had reasonable cause to believe his or her conduct was lawful or had no reasonable cause to believe his or her conduct was unlawful;

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- \* any transaction from which a director, officer or agent derived an improper personal benefit;
- \* willful misconduct that shows a conscious disregard for the best interest of the corporation in a proceeding by or in the right of the corporation to procure a judgment in its favor or in a proceeding by or in the right of a shareowner; or
- \* approving an improper distribution to shareowners.

Capital City's Bylaws provide for the mandatory indemnification of any of its officers and directors for costs and expenses actually and reasonably incurred in connection with a legal proceeding, including amounts paid in settlement of such a proceeding, to the fullest extent permitted by the Florida Act, and requires advancement of such costs and other expenses during pending proceedings. The Board of Directors has discretionary ability to provide indemnification with respect to other persons, such as agents and employees.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers, or persons controlling Capital City pursuant to the foregoing provisions, Capital City has been informed that, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

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Farmers and Merchants.

----- The Financial Institutions Code of Georgia references the Georgia Business Corporation Code regarding indemnification of directors and officers. The Georgia Business Corporation Code provides that a director or officer of a Georgia bank:

- \* shall be indemnified by the bank for reasonable expenses incurred in connection with a proceeding when he or she is wholly successful, on the merits or otherwise, in the defense of any proceeding to which he or she is a party because he or she was a director or officer of the bank; and
- \* may be indemnified by the bank against liability incurred in the proceeding if he or she is a party to the proceeding because he or she is or was a director or officer if such individual conducted himself or herself in good faith and such individual reasonably believed, in the case of conduct in his or her official capacity, that such conduct was in the best interest of the bank and, in all other cases, that such conduct was at least not opposed to the best interest of the bank and, in the case of criminal proceedings, such individual had no reasonable cause to believe such conduct was unlawful.

Indemnification pursuant to the Georgia Business Corporation Code will be made only upon a determination by:

- \* the Board of Directors, if there are two or more disinterested directors, by a majority vote of all disinterested directors (a majority of whom for such purpose shall constitute a quorum) or by a majority of the members of a committee of two or more disinterested directors appointed by such a vote;
- \* by special legal counsel, selected by the Board of Directors, if there are two or more disinterested directors or by a majority of the members of a committee of two or more disinterested directors;

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- \* by the shareowners, but shares owned by or voted under the control of a director who at the time does not qualify as a disinterested director may not be voted in the determination; or
- \* the court in which the proceeding is or was pending, if indemnification is fair and reasonable under the circumstances, even if the director has not met the relevant standard of conduct.

The Board of Directors or shareowners may, before final disposition of a proceeding and in accordance with the bullet points above, authorize the bank to advance funds to pay for or reimburse the reasonable expenses incurred by an officer or director upon receipt of an affirmation by the director or officer of his or her good faith belief that he or she met the relevant standard of conduct described in the bullet points above and an undertaking to repay any funds advanced if it is determined that the director or officer is not entitled to indemnification.

The Georgia Business Corporation Code's statutory scheme of indemnification is not exclusive and allows expanded indemnification by the articles of incorporation, bylaws, contract or resolution approved or ratified by the shareowners by a majority of the votes entitled to be cast, but shares owned or voted under the control of a director who at the time does not qualify as a disinterested director with respect to any existing or threatened proceeding that would be covered by the authorization may not be

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voted on the authorization. A bank can reimburse and indemnify litigation liabilities and expenses of directors, officers and employees pursuant to agreements with them or otherwise and can purchase and maintain liability insurance for them, unless otherwise limited by the Georgia Business Corporation Code.

The Articles of Incorporation of Farmers and Merchants provide that a director of Farmers and Merchants shall not be personally liable to the shareowners of Farmers and Merchants for monetary damages for breach of fiduciary duty, duty of care or other duty as a director owed to the shareowners of Farmers and Merchants. Any repeal or modification of such provision in the Articles of Incorporation by the shareowners of Farmers and Merchants would not adversely affect any right or protection of a director existing at the time of such repeal or modification.

If a bank indemnifies or advances expenses to a director or officer in connection with a proceeding by or in the right of the bank, the bank must report the indemnification or advance in writing to the shareowners with or before the notice of the next shareowners' meeting.

Pursuant to the Georgia Business Corporation Code and the Articles of Incorporation of Farmers and Merchants, a bank may not indemnify the director or officer for any liability incurred in a proceeding in which the director is adjudged liable to the bank or is subject to injunctive relief in favor of the corporation:

- \* for any appropriation, in violation of the director or officer's duties, of any business opportunity of the bank;
- \* for acts or omissions which involve intentional misconduct or a knowing violation of the law;
- \* voting or assenting to an unlawful distribution to shareowners; or

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- \* any transaction from which the director or officer received an improper personal benefit.

### Special Meetings of Shareowners

Capital City.

----- Capital City's Bylaws provide that special meetings of the shareowners shall be held:

- \* when directed by the Board of Directors through a resolution adopted by a majority of the total number of directors (whether or not any vacancies of previously authorized directorships exist at the time the Board is presented with such resolution); or
- \* when requested in writing and upon appropriate notice by the holders of not less than 50% of all the shares entitled to vote on any issue at the meeting.

As a result, this provision, taken together with the restriction on the removal of directors, would prevent a substantial shareowner who held less than 50% of Capital City's common stock from compelling shareowner consideration of any proposal (such as a proposal for a merger) over the opposition of Capital City's Board of Directors by calling a special meeting of shareowners at which such shareowner could replace the entire Board of

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Directors with nominees who were in favor of such proposal.

Farmers and Merchants.

----- Farmers and Merchants' Bylaws provide that special meetings of the shareowners may be called at any time by a majority of the Board of Directors and as provided by Georgia law. The Financial Institutions Code of Georgia references the Georgia Business Corporation Code regarding special meetings of shareowners. The Georgia Business Corporation Code provides that a special meeting of the shareowners of a bank shall be held:

- \* on the call of the president, the chairman of the Board of Directors or the Board of Directors;
- \* on the call of the person or persons authorized to do so by the Articles of Incorporation or Bylaws;
- \* on the demand of holders of at least 25% (or such lesser or greater amount provided in the Bylaws or Articles of Incorporation) of all votes entitled to be cast on any issue to be considered at the Special Meeting; or
- \* on the order of the superior court of the county where a bank's office is located on application of the shareowners of the bank if an annual meeting has not been called and held during any calendar year.

Ability of Directors to Consider Interests Other Than Shareowners' Interests

Capital City.

----- Capital City's Articles of Incorporation expressly require the Board of Directors to consider all factors it deems relevant in evaluating a proposed share exchange, tender offer, merger, consolidation, or other similar transaction, including:

- \* the best interests of the shareowners;

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- \* the social, legal and economic effects on employees, customers, depositors and communities served by Capital City and its subsidiary;
- \* the consideration offered in relation to the then current market value of Capital City or its subsidiary in a freely negotiated transaction;
- \* estimations of future value of the stock of Capital City or any subsidiary as an independent entity; and
- \* any other factor deemed relevant by the Board of Directors.

This gives the Board the ability to consider factors other than shareowner value in considering acquisition overtures and places such considerations within the duty of the Board of Directors. This requires the Board to evaluate all factors in considering a potential future acquisition offer, including the long-term value of Capital City as a going concern versus the short-term benefit to shareowners, in order to maximize shareowner value.

This provision might have the effect of discouraging some tender offers which are above market price or which might otherwise be favorable to shareowners in the short run. A decrease in the likelihood of tender or

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acquisition offers could lower shareowner value by minimizing or eliminating acquisition market premiums associated with Capital City's capital stock.

This constituency provision of Capital City's Articles of Incorporation may discourage or make more difficult certain acquisition proposals or business combinations and, therefore, may adversely affect the ability of shareowners to benefit from certain transactions opposed by the Capital City Board of Directors. The constituency provision would allow the Capital City Board of Directors to take into account the effects of an acquisition proposal on a broad number of constituencies and to consider any potential adverse effects in determining whether to accept or reject such proposal.

Farmers and Merchants.

----- Farmers and Merchants' Charter Application and Bylaws do not contain provisions allowing the directors to consider the effect of potential transactions on any constituency other than the Farmers and Merchants shareowners.

Actions by Shareowners Without a Meeting

Capital City.

----- Capital City's Bylaws provide that any action required or permitted to be taken at a meeting of shareowners may not be effected by the written consent of the shareowners entitled to vote on the action.

Farmers and Merchants.

----- Farmers and Merchants' Bylaws do not provide for action required or permitted to be taken at a meeting of shareowners to be taken without a meeting. The Financial Institutions Code of Georgia references the Georgia Business Corporation Code regarding the ability of shareowners to take action without a meeting. The Georgia Business Corporation Code provides that action required or permitted to be taken at a meeting of the shareowners can be taken without a meeting if the action is taken by all shareowners entitled to vote.

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Shareowner Nominations

Capital City.

----- Capital City's Articles of Incorporation and Bylaws provide that nominations of persons for election to the Board of Directors at an annual or special meeting of shareowners may be made:

- \* by or at the direction of the Board of Directors by any nominating committee of or person appointed by the Board of Directors, or
- \* by any shareowner of Capital City entitled to vote for the election of directors at the meeting who complies with the applicable notice procedures set forth in the Articles of Incorporation and the Bylaws.

Despite these provisions, nominations for Board of Directors positions at special meetings may be made only if the election of directors is one of the purposes described in the special meeting notice.

Nominations of individuals for election at annual meetings, other than nominations made by or at the direction of the Board of Directors, including by any nominating committee, shall be made according to the notice procedures set forth in the Articles of Incorporation and Bylaws.



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Farmers and Merchants.

----- The Georgia Business Corporation Code and Farmers and Merchants' Charter Application Bylaws do not provide for nominations of persons for election to the Board of Directors.

Shareowner Votes Required For Certain Actions

Capital City.

----- The Florida Act provides that a corporation may merge into another corporation if a plan of merger is:

- \* adopted by the Board of Directors, and
- \* approved by a majority of the votes entitled to be cast on the plan, unless the Florida Act, the Articles of Incorporation, or the Board of Directors (acting pursuant to the Florida Act) requires a greater vote.

Affiliated Transactions. Section 607.0901 of the Florida Act provides a super-majority requirement for certain proposed transactions ("Section 607.0901") which applies to all Florida corporations unless a corporation expressly chooses to "opt out" of the applicability of such law or the corporation falls under one of the exemptions from the statute's application. Under the Florida Act, any merger, share exchange, dissolution or sale of all or substantially all of the assets of a corporation other than in the usual and regular course of business must be approved by the affirmative vote of the holders of a majority of the shares of stock entitled to vote on the matter. Section 607.0901 requires that, in addition to any vote required by the Florida Act and subject to the exceptions described below, any "Affiliated Transaction" between Capital City and any beneficial owner of 10% or more of Capital City's voting shares, including shares held by any associate or affiliate of such a person (an "Interested Shareowner"), be approved by the affirmative vote of the holders of two-thirds of the voting shares of Capital City's stock, excluding for such purposes any shares held by the Interested Shareowner.

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An "Affiliated Transaction" includes, among other transactions:

- \* any merger or consolidation of Capital City or its subsidiary with an Interested Shareowner or an associate or affiliate of an Interested Shareowner,
- \* any sale, exchange, mortgage, pledge, transfer or other disposition of assets of Capital City to an Interested Shareowner or an associate or affiliate of an Interested Shareowner, having an aggregate market value of 5% or more of the outstanding shares of Capital City having an aggregate value of 5% or more of the assets, on a consolidated basis, of Capital City, or representing 5% or more of the earning power or net income of Capital City, and
- \* the issuance or transfer to the Interested Shareowner or an associate or affiliate of the Interested Shareowner, by Capital City, of the shares of Capital City or its subsidiary which have an aggregate market value equal to 5% or more of the aggregate market value of all of the outstanding shares of Capital City.

However, the voting requirements of Section 607.0901 do not apply to an Affiliated Transaction if, among other things:

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- \* the Affiliated Transaction has been approved by a majority of Capital City's disinterested directors,
- \* the Interested Shareowner has been the beneficial owner of at least 80% of Capital City's outstanding voting shares for at least five years,
- \* certain fair price requirements have been met, or
- \* Capital City has not had more than 300 shareowners of record at any time during the three years preceding the date of the first general public announcement of a proposed Affiliated Transaction.

Capital City may also "opt out" entirely from the applicability of Section 607.0901 through a provision in Capital City's original Articles of Incorporation or through an amendment to its Articles of Incorporation or Bylaws. However, any such amendment to its Articles of Incorporation or Bylaws to expressly exclude Capital City from the applicability of Section 607.0901 must be approved by the affirmative vote of the holders, other than Interested Shareowners, of a majority of the outstanding voting shares of Capital City and such amendment will not be effective until 18 months following such a vote. The opt out provision shall not apply to any Affiliated Transaction with an Interested Shareowner who became an Interested Shareowner on or prior to the effective time of such amendment.

Capital City is subject to Section 607.0901, thus any Affiliated Transaction would be subject to a two-thirds vote of the holders of the outstanding shares of Capital City entitled to vote, unless otherwise exempt. Section 607.0901 protects shareowners of Capital City because it increases the difficulty and expense for a potential acquiror seeking to gain control of Capital City by freezing out certain minority shareowners in a "two-step" merger transaction. Thus, Section 607.0901 serves to protect shareowners from the inequitable results of certain transactions between a corporation and an Interested Shareowner.

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Control Share Acquisitions. The control share acquisition provisions of the Florida Act ("Section 607.0902") impose conditions and restrictions on "control share acquisitions." These provisions provide that any "control shares" (shares which represent at least 20% of the outstanding stock of a Florida corporation) that are acquired in a "control share acquisition" have no voting rights except to the extent approved by the affirmative vote of a majority of all votes entitled to be cast on the matter, excluding all "interested shares," which are shares which may be voted directly or indirectly by the person proposing to make the "control share acquisition," by any officer of the corporation or by any employee who is also a director of the corporation. Section 607.0902 also exempts from its application shares acquired:

- \* by gift, will, or intestacy;
- \* in satisfaction of a security interest;
- \* as a result of a merger or share exchange which the issuer is a party to such transaction;
- \* by participating in a savings, employee stock or other benefit plans of the corporation or its subsidiary; or
- \* by a group of two or more persons acting together with respect to the

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voting of shares provided that such persons are

- \* related by blood or marriage, and
- \* have been shareowners of the corporation since July 1, 1987.

These provisions are inapplicable if a Florida corporation's charter or bylaws are amended to "opt out" of Section 607.0902 in order to permit the acquisition of shares prior to the acquiring person's acquisition thereof.

The purpose of Section 607.0902 is to protect shareowners of Florida corporations by providing them with an opportunity to decide whether a change in corporate control is desirable. This statute effectively places Capital City's shareowners on equal ground with a potential acquiror by nullifying the voting power of "control shares" acquired by those who may seek to acquire Capital City without first approaching the Board of Directors. The application of Section 607.0902 to Capital City by virtue of the Florida Act has the effect of limiting the voting power of any Capital City shareowner, even those who are not intent on soliciting a change in control of Capital City without first conferring with management, upon such shareowner's acquisition of a threshold amount of Capital City voting stock.

### Farmers and Merchants.

----- The Financial Institutions Code of Georgia directly governs shareowner vote requirements for Farmers and Merchants; however, in some cases, the Financial Institutions Code of Georgia references the Georgia Business Corporation Code regarding the shareowner vote required for certain actions. Pursuant to Section 7-1-531 of the Financial Institutions Code of Georgia, the shareowner vote requirement applicable to the approval of any merger or other similar reorganization or transaction requires the approval of a majority of the board of directors and the affirmative vote of at least two-thirds of the outstanding shares of each voting group.

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Georgia's "Business Combination Statute" contained in Sections 14-2-1131 through 14-2-1133 of the Georgia Business Corporation Code and "Fair Price Statute" contained in Sections 14-2-1110 through 14-2-1113 of the Georgia Business Corporation Code are only applicable to Georgia banks that have adopted Bylaws specifically evidencing a desire to be governed by these statutes. The Farmers and Merchants Bylaws are silent with respect to these provisions and they are therefore inapplicable to Farmers and Merchants.

### Dissenters' Rights of Appraisal

#### Capital City.

----- The Florida Act generally gives shareowners of a Florida corporation the right to dissent from, and obtain payment of the fair value of their shares in the event of, a merger, share exchange, sale or exchange of property and certain other corporate transactions. The rights contained in the Florida Act do not apply, however, with respect to a plan of merger or share exchange or a proposed sale or exchange of property, to the holders of securities registered on a national securities exchange or designated as a national market system security on an interdealer quotation system by the National Association of Securities Dealers, Inc. or held of record by more than 2,000 holders as of the record date for determining shareowners entitled to vote on the proposed action and the market value of such securities is at least \$10 million, excluding the value of shares held by certain company insiders. Farmers and Merchants' shareowners are to receive shares of

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Capital City common stock in the merger, and Capital City common stock is traded on the Nasdaq National Market. Therefore, subsequent to this merger, shareowners of Farmers and Merchants that receive Capital City common stock in the merger will not have dissenters' rights with respect to the Capital City common stock.

### Farmers and Merchants.

----- The Financial Institutions Code of Georgia, through reference to the Georgia Business Corporation Code, generally gives shareowners of a Georgia bank the right to dissent from, and obtain payment of the fair value of their shares in the event of, a merger, share exchange, sale or exchange of property and certain other bank transactions. To do this, shareowners must follow certain procedures, including filing certain notices and refraining from voting their shares in favor of the transaction. The applicable provisions of the Georgia Business Corporation Code are attached in their entirety to this Proxy Statement/Prospectus as Appendix E.

For a more detailed discussion of Dissenters' Rights, see "DESCRIPTION OF THE MERGER - Dissenters' Rights," on page 38.

### Shareowners' Rights To Examine Books And Records

#### Capital City.

----- The Florida Act gives a shareowner of a Florida corporation the right to inspect and copy books and records of the corporation during regular business hours, if he or she gives the corporation written notice of his or her demand at least five business days before the date of the inspection. In order to inspect certain records, written demand must also be made in good faith and for a proper purpose and must describe with reasonable particularity the purpose of the request and the records the shareowner desires to inspect.

#### Farmers and Merchants.

----- The Georgia Business Corporation Code gives shareowners the same type of rights to inspect and copy books and records as the Florida Act.

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### Dividends

#### Capital City.

----- Capital City's ability to pay dividends on its common stock is governed by Florida corporate law. Under Florida corporate law, dividends may be paid so long as the corporation would be able to pay its debts as they become due in the usual course of business and the corporation's total assets would not be less than the sum of its total liabilities plus the amount that would be needed, if the corporation were to be dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution to shareowners whose preferential rights are superior to those receiving the distribution.

There are various statutory limitations on the ability of Capital City's banking subsidiary, Capital City Bank, to pay dividends to Capital City. See "BUSINESS - Regulatory Considerations - Dividends" in Capital City's 2003 Form 10-K.

#### Farmers and Merchants.

----- The Financial Institutions Code of Georgia gives a Georgia bank the ability to pay dividends in cash, property or in its

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shares, except when the bank is insolvent or when the payment of a dividend would render the bank insolvent or when the declaration or payment of a dividend would be contrary to any provision in the bank's articles of incorporation. There are various statutory limitations on the ability of Farmers and Merchants to pay dividends, including a restriction against paying dividends so long as its paid-in capital and appropriated retained earnings do not, in combination, equal at least 20 percent of its capital stock.

### COMPARATIVE MARKET PRICES AND DIVIDENDS

#### Price Range of Common Stock

Capital City common stock is traded on the Nasdaq National Market under the symbol "CCBG." Farmers and Merchants common stock is not publicly traded. The following table sets forth, for the indicated periods, the high and low closing sale prices for Capital City common stock as reported by the Nasdaq National Market. The stock prices do not include retail mark-ups, mark-downs or commissions. Effective June 13, 2003, Capital City declared a 5-for-4 stock split. The amounts below have been adjusted to reflect this stock split.

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| Capital City   |         |         |
|----------------|---------|---------|
| -----          |         |         |
| Price Range    |         |         |
|                | High    | Low     |
| -----          |         |         |
| 2004           |         |         |
| Second Quarter | \$43.15 | \$35.50 |
| First Quarter  | 45.55   | 39.05   |
| 2003           |         |         |
| Fourth Quarter | 46.83   | 36.62   |
| Third Quarter  | 40.93   | 35.00   |
| Second Quarter | 36.43   | 29.74   |
| First Quarter  | 32.32   | 26.81   |
| 2002           |         |         |
| Fourth Quarter | 32.04   | 22.26   |
| Third Quarter  | 29.55   | 22.32   |
| Second Quarter | 27.84   | 20.60   |
| First Quarter  | 22.00   | 18.12   |
| 2001           |         |         |
| Fourth Quarter | 19.74   | 17.52   |
| Third Quarter  | 20.20   | 16.70   |
| Second Quarter | 20.00   | 15.90   |
| First Quarter  | 20.90   | 18.50   |
| 2000           |         |         |
| Fourth Quarter | 21.40   | 15.10   |
| Third Quarter  | 16.40   | 15.00   |
| Second Quarter | 16.40   | 14.40   |
| First Quarter  | 18.40   | 12.00   |

On May 12, 2004, the last day prior to the public announcement of Capital City's proposed acquisition of Farmers and Merchants, the last reported sale price per share of Capital City common stock on the Nasdaq

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National Market was \$37.88, thus the minimum exchange price of \$38.00 would be used to calculate the resulting equivalent pro forma price per share of Farmers and Merchants common stock, which, including the cash portion of the consideration, was approximately \$1,330.98. On September 17, 2004, the latest practicable date prior to the mailing of this Proxy Statement/Prospectus, the last reported sale price per share of Capital City common stock on the Nasdaq National Market was \$40.05, and the resulting equivalent pro forma price per share of Farmers and Merchants common stock was \$1,333.00. The equivalent per share price of a share of Farmers and Merchants common stock at each specified date represents the last reported sale price of a share of Capital City common stock on such date multiplied by the exchange ratio plus \$666.50 in cash (exclusive of any withholdings). The market price of Capital City common stock on the effective time of the merger may be higher or lower than the market price at the time the merger proposal was announced, at the time the Agreement and Plan of Merger was executed, at the time of mailing of this Proxy Statement/Prospectus, or at the time of the Special Meeting. Holders of Farmers and Merchants common stock are not assured of receiving any specific market value of Capital City common stock on the effective time of the merger, and such value may be substantially more or less than the current value of Capital City common stock.

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There is no established public trading market for the Farmers and Merchants common stock. To the knowledge of Farmers and Merchants, the most recent trade of Farmers and Merchants common stock prior to May 12, 2004, the last day prior to the public announcement of the proposed merger between Capital City and Farmers and Merchants, was the sale of 200 shares on February 28, 2003, at \$2,000 per share. To the knowledge of Farmers and Merchants, there have been no trades of Farmers and Merchants common stock since the announcement of the merger.

Farmers and Merchants' practice is to declare and pay dividends to its shareowners quarterly, and Farmers and Merchants intends to continue this policy through the consummation of the merger (subject to such approvals as may be required). In the first and second quarters of 2004, the Board of Directors for Farmers and Merchants declared a cash dividend of \$33.50 per share (which were paid in March and June of 2004, respectively), and the total dividend paid by Farmers and Merchants each quarter was \$1,675,000. In addition to the regular quarterly dividends planned for Farmers and Merchants as discussed above, Farmers and Merchants intends to pay a cash distribution to shareowners prior to effecting the merger with Capital City in an amount that represents that portion of Farmers and Merchants' net worth that is in excess of the \$30 million threshold, subject to adjustment, set forth in the Agreement and Plan of Merger.

The information regarding Farmers and Merchants common stock is provided for informational purposes only and, due to the absence of an active market for Farmers and Merchants' shares, you should not view it as indicative of the actual or market value of Farmers and Merchants common stock.

### Stock Purchase Program

Capital City has been engaged in an ongoing program to purchase shares of its common stock on the open market from time to time, depending upon market conditions and other factors, however, Capital City did not make any purchases of its common stock during 2003 or the first two quarters of 2004.

### Comparative Dividends

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The holders of Capital City common stock are entitled to receive dividends when and if declared by the Board of Directors out of funds legally available therefor. Although Capital City currently intends to continue to pay quarterly cash dividends on the Capital City common stock, there can be no assurance that Capital City's dividend policy will remain unchanged after completion of the merger. The declaration and payment of dividends thereafter will depend upon business conditions, operating results, capital and reserve requirements, and the Capital City Board of Directors' consideration of other relevant factors.

Capital City is a legal entity separate and distinct from its subsidiary and its revenues depend in significant part on the payment of dividends from their respective subsidiary institutions. Capital City's subsidiary depository institution is subject to certain legal restrictions on the amount of dividends it is permitted to pay. See "BUSINESS - Regulatory Considerations - Dividends" in Capital City's 2003 Form 10-K.

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The following table sets forth cash dividends declared per share of Capital City common stock, as adjusted for Capital City's stock split on June 13, 2003, and Farmers and Merchants common stock for the periods indicated.

|                               | Capital City<br>Quarterly Cash<br>Dividends<br>Declared<br>Per Share<br>----- | Farmers and<br>Merchants<br>Quarterly<br>Dividends<br>Declared<br>Per Share<br>----- |
|-------------------------------|---|--|
| YEAR ENDING DECEMBER 31, 2004 |   |  |
| Second Quarter                | \$0.180   | \$33.50  |
| First Quarter                 | 0.180   | 33.50  |
|                               | -----   | -----  |
| Total                         | \$0.360   | \$67.00  |
|                               | =====   | =====  |
| YEAR ENDED DECEMBER 31, 2003  |   |  |
| Fourth Quarter                | \$0.180   | \$62.00  |
| Third Quarter                 | 0.170   | 30.50  |
| Second Quarter                | 0.170   | 30.50  |
| First Quarter                 | 0.136   | 30.50  |
|                               | -----   | -----  |
| Total                         | \$0.656   | \$153.50   |
|                               | =====   | =====  |
| YEAR ENDED DECEMBER 31, 2002  |   |  |
| Fourth Quarter                | \$0.136   | \$40.00  |
| Third Quarter                 | 0.122   | 30.50  |
| Second Quarter                | 0.122   | 30.50  |
| First Quarter                 | 0.122   | 30.50  |
|                               | -----   | -----  |
| Total                         | \$0.502   | \$131.50   |
|                               | =====   | =====  |

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YEAR ENDED DECEMBER 31, 2001:

|                |         |          |
|----------------|---------|----------|
| Fourth Quarter | \$0.122 | \$40.00  |
| Third Quarter  | 0.118   | 28.00    |
| Second Quarter | 0.118   | 27.00    |
| First Quarter  | 0.118   | 27.00    |
| -----          |         |          |
| Total          | \$0.476 | \$122.00 |
| =====          |         |          |

YEAR ENDED DECEMBER 31, 2000:

|                |         |          |
|----------------|---------|----------|
| Fourth Quarter | \$0.118 | \$28.00  |
| Third Quarter  | 0.106   | 28.00    |
| Second Quarter | 0.106   | 28.00    |
| First Quarter  | 0.106   | 28.00    |
| -----          |         |          |
| Total          | \$0.436 | \$112.00 |
| =====          |         |          |

Farmers and Merchants is restricted under the Agreement and Plan of Merger from paying dividends or making any distributions in respect of Farmers and Merchants' common stock, except as consistent with past practice, that would cause Farmers and Merchants' net worth to fall below \$30 million.

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### BUSINESS OF FARMERS AND MERCHANTS

#### General

Farmers and Merchants is a Georgia chartered commercial bank headquartered in Dublin, Georgia. Founded in 1910, Farmers and Merchants is one of the oldest and largest community banks in Georgia operating three full-service banking offices in Laurens County, Georgia. As of June 30, 2004, Farmers and Merchants had total assets of approximately \$403 million, total deposits of approximately \$305 million, and total shareowners' equity of approximately \$69.2 million.

#### Management Stock Ownership

The following table presents information about the amount of Farmers and Merchants common stock beneficially owned by each of the directors and executive officers of Farmers and Merchants and all executive officers and directors as a group as of the record date. Unless otherwise indicated, each person has sole voting and investment power over the indicated shares. Information relating to beneficial ownership of the Farmers and Merchants common stock is based upon "beneficial ownership" concepts set forth in rules promulgated under the Exchange Act. Under those rules, a person is considered to be a beneficial owner of a security if that person has or shares "voting power," which includes the power to vote or to direct the voting of such security, or "investment power," which includes the power to dispose or to direct the disposition of such security. Under the rules, more than one person may be deemed to be a beneficial owner of the same securities.

| Beneficial Owner | Position with Farmers<br>and Merchants | Number of<br>Shares | Percentage |
|------------------|--|---------------------|------------|
|------------------|--|---------------------|------------|



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|                       |                       |        |        |
|-----------------------|-----------------------|--------|--------|
| Keen, McGrath Jr.     | President & Director  | 27,096 | 54.19% |
| Miller, Roger W.      | Exec. V.P. & Director | 4,290  | 8.58%  |
| Miller, Wallace E.    | Chairman & CEO        | 861    | 1.72%  |
| Hall, Ben             | Director              | 400    | *      |
| Herrin, Ed            | Director              | 200    | *      |
| Carswell, Nelson M.D. | Director              | 100    | —*     |

\* - less than one percent

The Farmers and Merchants directors and executive officers have committed to vote their shares of Farmers and Merchants common stock in favor of the Agreement and Plan of Merger.

### Voting Securities and Principal Shareowners of Farmers and Merchants

The following lists each shareowner of record that directly or indirectly owned, controlled, or held with power to vote 5% or more of the 50,000 outstanding shares of Farmers and Merchants common stock as of the record date who are not a director or executive officer of the bank. Unless otherwise indicated, each person has sole voting and investment powers over the indicated shares. Information relating to beneficial ownership of the Farmers and Merchants common stock is based upon "beneficial ownership" concepts set forth in rules under the Exchange Act (discussed above).

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| Name and Address  | Number of Shares<br>Beneficially Owned at<br>Record Date | Percent of Class<br>(%) |
|---|--|-------------------------|
| L.M. Keen Marital Trust (McGrath<br>Keen and Regena Keen)<br>1629 Bellevue Road, Dublin, GA | 9,456  | 18.92%                  |

### Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's discussion and analysis is provided to assist in the understanding and evaluation of Farmers and Merchants' financial condition and results of operations. The following discussion should be read in conjunction with Farmers and Merchants' audited financial statements and accompanying notes which are also included in this joint Proxy Statement/Prospectus and Appendix C, and interim financial statements, included in this Proxy Statement/Prospectus as Appendix D.

### Results of Operations

Farmers and Merchants' results of operations are determined by its ability to effectively manage interest income and expense, to minimize loan and investment losses, to generate noninterest income and to control noninterest expense. Since market forces and economic conditions beyond the control of Farmers and Merchants determine interest rates, the ability to generate net interest income is dependent upon Farmers and Merchants' ability to obtain an adequate spread between the rate earned on earning assets and the rate paid on interest-bearing liabilities. Thus, the key performance measure for net interest income is the interest margin or net yield, which is

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taxable-equivalent net interest income divided by average earning assets.

### Net Income

-----

Farmers and Merchants' net income was \$11,347,000 and \$11,265,000 for the years 2003 and 2002, respectively. Farmers and Merchants' return on average assets totaled 2.94 percent for 2003 and 3.02 percent for 2002. The return on average equity was 17.95 percent and 19.25 percent, respectively.

Farmers and Merchants' net income was \$5,768,000 and \$5,729,000 for the six months ended June 30, 2004 and 2003, respectively. Farmers and Merchants' return on average assets totaled 2.87 percent for 2004 and 2.98 percent for 2003. The return on average equity was 17.25 percent and 18.13 percent, respectively.

### Net Interest Margin

-----

The following table represents Farmers and Merchants' average yield on interest earning assets, average cost on interest bearing liabilities and net interest spread:

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|                   | Average yield on<br>interest earning<br>assets | Average cost on<br>interest bearing<br>liabilities | Net<br>interest<br>spread |
|-------------------|--|--|---------------------------|
|                   | -----  | -----  | -----                     |
| Fiscal year ended |  |  |                           |
| 2003              | 6.21%  | 2.48%  | 3.73%                     |
| 2002              | 7.04%  | 3.18%  | 3.86%                     |
| Six months ended: |  |  |                           |
| June 30, 2004     | 5.77%  | 1.93%  | 3.84%                     |
| June 30, 2003     | 6.29%  | 2.45%  | 3.84%                     |

Net interest income was \$16,297,000 and \$16,717,000 in 2003 and 2002, respectively. Average earning assets at December 31, 2003 and 2002 represented 97.20% and 96.57% of total assets. For each of the fiscal years average loans were \$259,166,000 in 2003 and \$239,466,000 in 2002, average deposits were \$286,472,000 in 2003 and \$279,345,000 in 2002 and average investment securities were \$110,113,000 in 2003 and \$116,690,000 in 2002.

Net interest income was \$8,148,000 and \$8,038,000 for the six months ended June 30, 2004 and 2003, respectively. Average earning assets for the six months ended June 30, 2004 and 2003 represented 97.12% and 97.13% of total assets. For each of the six month periods average loans were \$273,287,000 in 2004 and \$253,713,000 in 2003, average deposits were \$302,906,000 in 2004 and \$285,820,000 in 2003 and average investment securities were \$110,999,000 in 2004 and \$113,763,000 in 2003.

### Provision for Loan Losses

-----

The allowance for loan losses represents a reserve for probable losses in the loan portfolio. The adequacy of the allowance for loan losses is

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evaluated periodically based on a review of all significant loans, with a particular emphasis on nonaccruing, past due and other loans that management believes require attention. The provision for loan losses is a charge to earnings in the current period to replenish the allowance for loan losses and maintain it at a level management has determined to be adequate. The provision for loan losses was \$450,000 in 2003 and \$900,000 in 2002. Net loan charge-offs represented less than 47% and 61%, of the provision for loan losses in 2003 and 2002, respectively.

The provision for loan losses was \$150,000 and \$300,000 for the six months ended June 30, 2004 and 2003, respectively.

Farmers and Merchants experienced net loan charge-offs as a percent of average loans of .08% and .23% for the years ended December 31, 2003 and 2002, respectively. Net loan charge-offs were \$210,000 in 2003 and \$542,000 in 2002.

Farmers and Merchants experienced net loan charge-offs as a percent of average loans of .06% and .04% for the six months ended June 30, 2004 and 2003, respectively. Net loan charge-offs were \$166,000 in 2004 and \$105,000 in 2003.

Farmers and Merchants had nonperforming assets totaling \$5,283,000 and \$4,051,000, respectively, as of December 31, 2003 and 2002.

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Farmers and Merchants had nonperforming assets totaling \$5,077,000 and \$4,036,000, respectively, as of June 30, 2004 and 2003.

The determination of the reserve rests upon management's judgment about factors affecting loan quality and assumptions about the economy. Management considers the year-end allowance for loan losses adequate to cover potential losses in the loan portfolio. The allowance for loan losses was \$4,137,000 or 1.58% and \$3,897,000 or 1.58%, of total loans as of December 31, 2003 and 2002, respectively. The allowance for loan losses was 1.60% and 1.63% of average loans for 2003 and 2002, respectively.

The allowance for loan losses was \$4,121,000 or 1.50% and \$4,092,000 or 1.59%, of total loans as of June 30, 2004 and 2003, respectively. The allowance for loan losses was 1.51% and 1.65% of average loans for the six months ended June 30, 2004 and 2003, respectively.

### Noninterest Income -----

Noninterest income consists primarily of service charges on deposit accounts. Service charges on deposit accounts totaled \$1,359,000 and \$1,296,000 in 2003 and 2002, respectively. Noninterest income represented 9.01% and 7.08% of all income sources in 2003 and 2002, respectively. The increase in noninterest income is attributable to overall loan and deposit growth of Farmers and Merchants.

Service charges on deposit accounts totaled \$657,000 and \$653,000 for the six months ended June 30, 2004 and 2003, respectively. Noninterest income represented 8.31% and 9.30% of all income sources for the six months ended June 30, 2004 and 2003, respectively. The increase in noninterest income is attribute to overall loan and deposit growth of Farmers and Merchants.

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### Noninterest Expense

-----

The following table depicts Farmers and Merchants' noninterest expense components and the percentage of the individual components to the total:

|                                | December 31, 2003 |       | December 31, 2002 |       |
|--------------------------------|-------------------|-------|-------------------|-------|
|                                | Amount            | %     | Amount            | %     |
| Salaries and employee benefits | \$3,666,000       | 54.02 | \$3,499,000       | 53.99 |
| Occupancy and equipment        | 840,000           | 12.38 | 755,000           | 11.65 |
| Other operating                | 2,280,000         | 33.60 | 2,227,000         | 34.36 |

At December 31, 2003 and 2002, Farmers and Merchants had 79 and 83 employees, respectively.

|                                | June 30, 2004 |       | June 30, 2003 |       |
|--------------------------------|---------------|-------|---------------|-------|
|                                | Amount        | %     | Amount        | %     |
| Salaries and employee benefits | \$1,668,000   | 51.43 | \$1,630,000   | 50.87 |
| Occupancy and equipment        | 435,000       | 13.41 | 478,000       | 14.92 |
| Other operating                | 1,140,000     | 35.16 | 1,096,000     | 34.21 |

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At June 30, 2004 and 2003, Farmers and Merchants had 69 and 83 employees, respectively.

As of June 30, 2004, the decrease in employees over the past twelve months is due to normal attrition and management's emphasis on increased productivity from existing employees. Management continues to evaluate its staffing levels in an effort to balance optimal customer service coverage and Farmers and Merchants Bank's internal cost control initiatives.

The efficiency ratio, or noninterest operating expenses divided by the sum of taxable-equivalent net interest income and noninterest income measures how much of a bank's revenue is consumed by operating expenses. Farmers and Merchants' efficiency ratio, calculated using the operating expense totals, was 36.5% in 2003 and 34.8% in 2002. Farmers and Merchants' efficiency ratio was 35.4% and 34.7%, respectively, for the six months ended June 30, 2004 and 2003.

### Financial Condition

-----

The following is a presentation of the average daily balance sheet of Farmers and Merchants for the fiscal years ended December 31, 2003 and 2002 and the six months ended June 30, 2004 and 2003. This presentation includes all major categories of interest earning assets and interest bearing liabilities, the amount of interest earned and paid, and the weighted average yields or rates for the fiscal years ended December 31, 2003 and 2002 and the six months ended June 30, 2004 and 2003.

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Assets

Average Balance Sheet:  
(dollars in thousands)

|                                       | December 31, 2003   |                    |                  |
|---------------------------------------|---------------------|--------------------|------------------|
|                                       | Average<br>Balances | Income/<br>Expense | Yields/<br>Rates |
| <b>Interest-Earning Assets</b>        |                     |                    |                  |
| Loans, net of unearned income taxable | \$ 259,166          | \$ 18,410          | 7.10%            |
| <b>Investment securities</b>          |                     |                    |                  |
| Taxable                               | 86,541              | 3,852              | 4.45             |
| Tax-exempt                            | 23,572              | 909                | 3.86             |
| Total investment securities           | 110,113             | 4,761              | 4.32             |
| Funds sold                            | 4,940               | 51                 | 1.03             |
| Total interest-earning assets         | 374,219             | 23,222             | 6.21             |
| <b>Noninterest-Earning Assets</b>     |                     |                    |                  |
| Cash                                  | 7,788               |                    |                  |
| Allowance for loan losses             | (4,057)             |                    |                  |
| Other assets                          | 7,724               |                    |                  |
| Total noninterest-earning assets      | 11,455              |                    |                  |
| Total assets                          | \$ 385,674          |                    |                  |

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Liabilities and Stockholders' Equity

|  | Average<br>Balances | Income/<br>Expense | Yields/<br>Rates |
|--|---------------------|--------------------|------------------|
| <b>Interest-Bearing Liabilities</b>                                  |                     |                    |                  |
| <b>Interest-bearing deposits</b>                                     |                     |                    |                  |
| Interest-bearing demand and savings                                  | \$ 73,875           | \$ 1,165           | 1.58%            |
| Other time deposits  | 169,481             | 4,654              | 2.75             |
| Total interest-bearing deposits                                      | 243,356             | 5,819              | 2.39             |
| <b>Other Interest-Bearing Liabilities</b>                            |                     |                    |                  |
| Debt   | 22,411              | 747                | 3.33             |
| Funds purchased and securities sold<br>under agreement to repurchase | 6,125               | 170                | 2.78             |
| Total other interest-bearing liabilities                             | 28,536              | 917                | 3.21             |

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|  |           |          |       |
|--|-----------|----------|-------|
| Total interest-bearing liabilities                             | 271,892   | 6,736    | 2.48  |
| Noninterest-Bearing Liabilities and Stockholders' Equity       |           |          |       |
| Demand deposits  | 43,116    |          |       |
| Other liabilities  | 7,469     |          |       |
| Stockholders' equity   | 63,197    |          |       |
| Total noninterest-bearing liabilities and stockholders' equity | 113,782   |          |       |
| Total liabilities and stockholders' equity                     | \$385,674 |          |       |
| Net interest margin  |           |          | 3.73% |
| Net interest income  |           | \$16,486 |       |

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|  |  | Assets              |                    |                  |
|--|--|---------------------|--------------------|------------------|
|  |  | December 31, 2002   |                    |                  |
| Average Balance Sheet:<br>(dollars in thousands) |  | Average<br>Balances | Income/<br>Expense | Yields/<br>Rates |
| Interest-Earning Assets                          |  |                     |                    |                  |
| Loans, net of unearned income taxable            |  | \$ 239,466          | \$ 19,449          | 8.12%            |
| Investment securities                            |  |                     |                    |                  |
| Taxable  |  | 95,254              | 4,961              | 5.21             |
| Tax-exempt                                       |  | 21,436              | 891                | 4.16             |
| Total investment securities                      |  | 116,690             | 5,852              | 5.01             |
| Funds sold                                       |  | 3,961               | 61                 | 1.54             |
| Total interest-earning assets                    |  | 360,117             | 25,362             | 7.04             |
| Noninterest-Earning Assets                       |  |                     |                    |                  |
| Cash   |  | 8,878               |                    |                  |
| Allowance for loan losses                        |  | (3,676)             |                    |                  |
| Other assets                                     |  | 8,208               |                    |                  |
| Total noninterest-earning assets                 |  | 13,410              |                    |                  |
| Total assets                                     |  | \$ 373,527          |                    |                  |
| Liabilities and Stockholders' Equity             |  |                     |                    |                  |

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|  |            |           |       |
|--|------------|-----------|-------|
| Interest-Bearing Liabilities   |            |           |       |
| Interest -bearing deposits   |            |           |       |
| Interest-bearing demand and savings                                  | \$ 68,599  | 1,496     | 2.18% |
| Other time deposits  | 170,856    | 6,055     | 3.54  |
| Total interest-bearing deposits                                      | 239,455    | 7,551     | 3.15  |
| Other Interest-Bearing Liabilities                                   |            |           |       |
| Federal Home Loan Bank advances                                      | 20,298     | 688       | 3.39  |
| Funds purchased and securities sold<br>under agreement to repurchase | 6,744      | 224       | 3.32  |
| Total other interest-bearing liabilities                             | 27,042     | 912       | 3.37  |
| Total interest-bearing liabilities                                   | 266,497    | 8,463     | 3.18  |
| Noninterest-Bearing Liabilities and Stockholders' Equity             |            |           |       |
| Demand deposits  | 39,890     |           |       |
| Other liabilities  | 8,621      |           |       |
| Stockholders' equity   | 58,519     |           |       |
| Total noninterest-bearing liabilities and<br>stockholders' equity    | 107,030    |           |       |
| Total liabilities and stockholders' equity                           | \$ 373,527 |           |       |
| Net interest margin  |            |           | 3.86% |
| Net interest income  |            | \$ 16,899 |       |

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| Assets                                |                     |                    |                  |
|---------------------------------------|---------------------|--------------------|------------------|
| -----                                 |                     |                    |                  |
| Average Balance Sheet:                |                     |                    |                  |
| (dollars in thousands)                |                     |                    |                  |
| June 30, 2004                         |                     |                    |                  |
|                                       | Average<br>Balances | Income/<br>Expense | Yields/<br>Rates |
|                                       | -----               | -----              | -----            |
| Interest-Earning Assets               |                     |                    |                  |
| Loans, net of unearned income taxable | \$ 273,287          | \$ 9,032           | 6.61%            |
| Investment securities                 |                     |                    |                  |
| Taxable                               | 89,251              | 1,799              | 4.03             |
| Tax-exempt                            | 21,748              | 406                | 3.73             |
| Total investment securities           | 110,999             | 2,205              | 3.97             |
| Funds sold                            | 6,001               | 27                 | 0.90             |
| Total interest-earning assets         | 390,287             | 11,264             | 5.77             |
| Noninterest-Earning Assets            |                     |                    |                  |

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|                                  |            |
|----------------------------------|------------|
| Cash                             | 8,772      |
| Allowance for loan losses        | (4,124)    |
| Other assets                     | 7,498      |
|                                  | -----      |
| Total noninterest-earning assets | 12,146     |
|                                  | -----      |
| <br>                             |            |
| Total assets                     | \$ 402,433 |
|                                  | =====      |

Liabilities and Stockholders' Equity

|  | Average<br>Balances | Income/<br>Expense | Yields/<br>Rates |
|--|---------------------|--------------------|------------------|
|  | -----               | -----              | -----            |
| Interest-Bearing Liabilities   |                     |                    |                  |
| Interest -bearing deposits   |                     |                    |                  |
| Interest-bearing demand and savings                                  | \$ 81,976           | \$ 553             | 1.35%            |
| Other time deposits  | 174,788             | 2,037              | 2.33             |
|  | -----               | -----              | -----            |
| Total interest-bearing deposits                                      | 256,764             | 2,590              | 2.02             |
|  | -----               | -----              | -----            |
| Other Interest-Bearing Liabilities                                   |                     |                    |                  |
| Debt   | 22,391              | 96                 | 0.86             |
| Funds purchased and securities sold<br>under agreement to repurchase | 5,110               | 62                 | 2.43             |
|  | -----               | -----              | -----            |
| Total other interest-bearing liabilities                             | 27,501              | 158                | 1.15             |
|  | -----               | -----              | -----            |
| Total interest-bearing liabilities                                   | 284,265             | 2,748              | 1.93             |
|  | -----               | -----              | -----            |
| Noninterest-Bearing Liabilities and Stockholders' Equity             |                     |                    |                  |
| Demand deposits  | 46,142              |                    |                  |
| Other liabilities  | 5,157               |                    |                  |
| Stockholders' equity   | 66,869              |                    |                  |
|  | -----               |                    |                  |
| Total noninterest-bearing liabilities and<br>stockholders' equity    | 118,168             |                    |                  |
|  | -----               |                    |                  |
| Total liabilities and stockholders' equity                           | \$ 402,433          |                    |                  |
|  | =====               |                    |                  |
| <br>   |                     |                    |                  |
| Net interest margin  |                     |                    | 3.84%            |
|  |                     |                    | =====            |
| Net interest income  |                     | \$ 8,516           |                  |
|  |                     | =====              |                  |

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Assets

Average Balance Sheet:  
(dollars in thousands)

June 30, 2003



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|                                       | Average<br>Balances | Income/<br>Expense | Yields/<br>Rates |
|---------------------------------------|---------------------|--------------------|------------------|
|                                       | -----               | -----              | -----            |
| Interest-Earning Assets               |                     |                    |                  |
| Loans, net of unearned income taxable | \$ 253,713          | \$ 9,141           | 7.21%            |
|                                       | -----               | -----              | -----            |
| Investment securities                 |                     |                    |                  |
| Taxable                               | 90,516              | 2,093              | 4.62             |
| Tax-exempt                            | 23,247              | 457                | 3.93             |
|                                       | -----               | -----              | -----            |
| Total investment securities           | 113,763             | 2,550              | 4.48             |
|                                       | -----               | -----              | -----            |
| Funds sold                            | 5,311               | 30                 | 1.13             |
|                                       | -----               | -----              | -----            |
| Total interest-earning assets         | 372,787             | 11,721             | 6.29             |
|                                       | -----               | -----              | -----            |
| Noninterest-Earning Assets            |                     |                    |                  |
| Cash                                  | 7,740               |                    |                  |
| Allowance for loan losses             | (3,955)             |                    |                  |
| Other assets                          | 7,967               |                    |                  |
|                                       | -----               |                    |                  |
| Total noninterest-earning assets      | 11,752              |                    |                  |
|                                       | -----               |                    |                  |
| Total assets                          | \$ 384,539          |                    |                  |
|                                       | =====               |                    |                  |

Liabilities and Stockholders' Equity

|  | Average<br>Balances | Income/<br>Expense | Yields/<br>Rates |
|--|---------------------|--------------------|------------------|
|  | -----               | -----              | -----            |
| Interest-Bearing Liabilities   |                     |                    |                  |
| Interest -bearing deposits   |                     |                    |                  |
| Interest-bearing demand and savings                                  | \$ 73,323           | \$ 648             | 1.77%            |
| Other time deposits  | 169,709             | 2,488              | 2.93             |
|  | -----               | -----              | -----            |
| Total interest-bearing deposits                                      | 243,032             | 3,136              | 2.58             |
|  | -----               | -----              | -----            |
| Other Interest-Bearing Liabilities                                   |                     |                    |                  |
| Debt   | 22,307              | 99                 | 0.89             |
| Funds purchased and securities sold<br>under agreement to repurchase | 6,867               | 98                 | 2.85             |
|  | -----               | -----              | -----            |
| Total other interest-bearing liabilities                             | 29,174              | 197                | 1.35             |
|  | -----               | -----              | -----            |
| Total interest-bearing liabilities                                   | 272,206             | 3,333              | 2.45             |
|  | -----               | -----              | -----            |
| Noninterest-Bearing Liabilities and Stockholders' Equity             |                     |                    |                  |
| Demand deposits  | 42,788              |                    |                  |
| Other liabilities  | 6,348               |                    |                  |
| Stockholders' equity   | 63,197              |                    |                  |
|  | -----               |                    |                  |
| Total noninterest-bearing liabilities and<br>stockholders' equity    | 112,333             |                    |                  |
|  | -----               |                    |                  |

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|  |            |       |
|--|------------|-------|
| Total liabilities and stockholders' equity | \$ 384,539 |       |
|  | =====      |       |
| Net interest margin                        |            | 3.84% |
|  |            | ===== |
| Net interest income                        | \$ 8,388   |       |
|  | =====      |       |

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Interest Rate Sensitivity

-----

The following table represents the Farmers and Merchants' interest-sensitivity gap between interest-earning assets and interest-bearing liabilities as of December 31, 2003 and 2002 and as of June 30, 2004 and 2003.

December 31, 2003  
Assets and Liabilities Repricing Within

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(dollars in thousands)