

CAPITAL CITY BANK GROUP INC
Form 10-Q
November 09, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2011

OR

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

For the transition period from _____ to _____

Commission File Number: 0-13358

CAPITAL CITY BANK GROUP, INC.
(Exact name of registrant as specified in its charter)

Florida
(State or other jurisdiction of incorporation or organization)

59-2273542
(I.R.S. Employer Identification No.)

217 North Monroe Street, Tallahassee, Florida
(Address of principal executive office)

32301
(Zip Code)

(850) 402-7000
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer", and "smaller reporting

company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if smaller reporting company)

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

At October 31, 2011, 17,156,574 shares of the Registrant's Common Stock, \$.01 par value, were outstanding.

CAPITAL CITY BANK GROUP, INC.
 QUARTERLY REPORT ON FORM 10-Q
 FOR THE PERIOD ENDED SEPTEMBER 30, 2011
 TABLE OF CONTENTS

| PART I – Financial Information | | Page |
|------------------------------------|---|------|
| Item 1. | Consolidated Financial Statements (Unaudited) | |
| | Consolidated Statements of Financial Condition – September 30, 2011 and December 31, 2010 | 4 |
| | Consolidated Statements of Operations – Three and Nine Months Ended September 30, 2011 and 2010 | 5 |
| | Consolidated Statement of Changes in Shareowners’ Equity – Nine Months Ended September 30, 2011 | 6 |
| | Consolidated Statements of Cash Flow – Nine Months Ended September 30, 2011 and 2010 | 7 |
| | Notes to Consolidated Financial Statements | 8 |
| Item 2. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 22 |
| Item 3. | Quantitative and Qualitative Disclosure About Market Risk | 39 |
| Item 4. | Controls and Procedures | 39 |
| PART II – Other Information | | |
| Item 1. | Legal Proceedings | 39 |
| Item 1A. | Risk Factors | 39 |
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds | 47 |
| Item 3. | Defaults Upon Senior Securities | 47 |
| Item 4. | [Removed and Reserved] | 47 |
| Item 5. | Other Information | 47 |
| Item 6. | Exhibits | 48 |
| Signatures | | 49 |

INTRODUCTORY NOTE
Caution Concerning Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, among others, statements about our beliefs, plans, objectives, goals, expectations, estimates and intentions that are subject to significant risks and uncertainties and are subject to change based on various factors, many of which are beyond our control. The words "may," "could," "should," "would," "believe," "anticipate," "estimate," "expect," "intend," "plan," "target," "goal," and similar expressions are intended to identify forward-looking statements.

All forward-looking statements, by their nature, are subject to risks and uncertainties. Our actual future results may differ materially from those set forth in our forward-looking statements.

Our ability to achieve our financial objectives could be adversely affected by the factors discussed in detail in Part I, Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Part II, Item 1A. "Risk Factors" in this Quarterly Report on Form 10-Q, the following sections of our Annual Report on Form 10-K for the year ended December 31, 2010 (the "2010 Form 10-K"): (a) "Introductory Note" in Part I, Item 1. "Business"; (b) "Risk Factors" in Part I, Item 1A., as updated in our subsequent quarterly reports filed on Form 10-Q, and (c) "Introduction" in "Management's Discussion and Analysis of Financial Condition and Results of Operations," in Part II, Item 7 as well as:

- § legislative or regulatory changes, including the Dodd-Frank Wall Street Reform and Consumer Protection Act;
- § the strength of the United States economy in general and the strength of the local economies in which we conduct operations;
- § the accuracy of our financial statement estimates and assumptions, including the estimate for our loan loss provision and the valuation allowance on deferred tax assets;
 - § the frequency and magnitude of foreclosure of our loans;
 - § continued depression of the market value of the Company that could result in an impairment of goodwill;
 - § restrictions on our operations, including the inability to pay dividends without our regulators' consent;
- § the effects of the health and soundness of other financial institutions, including the FDIC's need to increase Deposit Insurance Fund assessments;
 - § our ability to declare and pay dividends;
 - § changes in the securities and real estate markets;
 - § changes in monetary and fiscal policies of the U.S. Government;
- § increased competition and its effect on pricing, including the effect of the repeal of Regulation Q on our net interest income;
 - § inflation, interest rate, market and monetary fluctuations;
- § the effects of our lack of a diversified loan portfolio, including the risks of geographic and industry concentrations;
 - § our need and our ability to incur additional debt or equity financing;
 - § the effects of harsh weather conditions, including hurricanes, and man-made disasters;
 - § our ability to comply with the extensive laws and regulations to which we are subject;
- § the willingness of clients to accept third-party products and services rather than our products and services and vice versa;
 - § technological changes;
 - § negative publicity and the impact on our reputation;
- § the effects of security breaches and computer viruses that may affect our computer systems;
 - § changes in consumer spending and saving habits;
 - § growth and profitability of our noninterest income;
 - § changes in accounting principles, policies, practices or guidelines;

- § the limited trading activity of our common stock;
- § the concentration of ownership of our common stock;
- § anti-takeover provisions under federal and state law as well as our Articles of Incorporation and our Bylaws;
- § our ability to integrate the business and operations of companies and banks that we have acquired, and those we may acquire in the future;
- § other risks described from time to time in our filings with the Securities and Exchange Commission; and
- § our ability to manage the risks involved in the foregoing.

However, other factors besides those referenced also could adversely affect our results, and you should not consider any such list of factors to be a complete set of all potential risks or uncertainties. Any forward-looking statements made by us or on our behalf speak only as of the date they are made. We do not undertake to update any forward-looking statement, except as required by applicable law.

PART I. FINANCIAL INFORMATION

Item 1. CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

CAPITAL CITY BANK GROUP, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
AS OF SEPTEMBER 30, 2011 AND DECEMBER 31, 2010

| | Unaudited September 30, 2011 | December 31, 2010 |
|--|------------------------------------|----------------------|
| (Dollars In Thousands, Except Share Data) | | |
| ASSETS | | |
| Cash and Due From Banks | \$ 53,027 | \$ 35,410 |
| Federal Funds Sold and Interest Bearing Deposits | 193,387 | 200,783 |
| Total Cash and Cash Equivalents | 246,414 | 236,193 |
| Investment Securities, Available-for-Sale | 306,038 | 309,731 |
| Loans, Net of Unearned Interest | 1,657,699 | 1,758,671 |
| Allowance for Loan Losses | (29,658) | (35,436) |
| Loans, Net | 1,628,041 | 1,723,235 |
| Premises and Equipment, Net | 111,471 | 115,356 |
| Goodwill | 84,811 | 84,811 |
| Other Intangible Assets | 780 | 1,348 |
| Other Real Estate Owned | 61,196 | 57,937 |
| Other Assets | 85,221 | 93,442 |
| Total Assets | \$ 2,523,972 | \$ 2,622,053 |
| LIABILITIES | | |
| Deposits: | | |
| Noninterest Bearing Deposits | \$ 584,628 | \$ 546,257 |
| Interest Bearing Deposits | 1,459,170 | 1,557,719 |
| Total Deposits | 2,043,798 | 2,103,976 |
| Short-Term Borrowings | 47,508 | 92,928 |
| Subordinated Notes Payable | 62,887 | 62,887 |
| Other Long-Term Borrowings | 45,389 | 50,101 |
| Other Liabilities | 63,465 | 53,142 |
| Total Liabilities | 2,263,047 | 2,363,034 |
| SHAREOWNERS' EQUITY | | |
| Preferred Stock, \$.01 par value, 3,000,000 shares authorized; no shares outstanding | - | - |
| Common Stock, \$.01 par value, 90,000,000 shares authorized; 17,156,571 and 17,100,081 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively | 172 | 171 |
| Additional Paid-In Capital | 38,074 | 36,920 |
| Retained Earnings | 237,969 | 237,679 |
| Accumulated Other Comprehensive Loss, Net of Tax | (15,290) | (15,751) |

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| | | |
|---|--------------|--------------|
| Total Shareowners' Equity | 260,925 | 259,019 |
| Total Liabilities and Shareowners' Equity | \$ 2,523,972 | \$ 2,622,053 |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

CAPITAL CITY BANK GROUP, INC.
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30
(Unaudited)

| (Dollars in Thousands, Except Per Share Data) | Three Months Ended | | Nine Months Ended | |
|---|--------------------|---------------|-------------------|----------------|
| | 2011 | 2010 | 2011 | 2010 |
| INTEREST INCOME | | | | |
| Interest and Fees on Loans | \$ 23,777 | \$ 26,418 | \$ 72,029 | \$ 80,054 |
| Investment Securities: | | | | |
| U.S. Treasuries | 393 | 315 | 1,199 | 748 |
| U.S. Government Agencies | 352 | 274 | 1,044 | 893 |
| States and Political Subdivisions | 150 | 339 | 562 | 1,235 |
| Other Securities | 83 | 86 | 261 | 242 |
| Federal Funds Sold | 136 | 144 | 452 | 492 |
| Total Interest Income | 24,891 | 27,576 | 75,547 | 83,664 |
| INTEREST EXPENSE | | | | |
| Deposits | 907 | 1,820 | 3,248 | 7,121 |
| Short-Term Borrowings | 78 | 31 | 299 | 60 |
| Subordinated Notes Payable | 339 | 376 | 1,022 | 1,666 |
| Other Long-Term Borrowings | 467 | 565 | 1,453 | 1,642 |
| Total Interest Expense | 1,791 | 2,792 | 6,022 | 10,489 |
| NET INTEREST INCOME | 23,100 | 24,784 | 69,525 | 73,175 |
| Provision for Loan Losses | 3,718 | 5,668 | 11,396 | 20,041 |
| Net Interest Income After Provision For Loan Losses | 19,382 | 19,116 | 58,129 | 53,134 |
| NONINTEREST INCOME | | | | |
| Service Charges on Deposit Accounts | 6,629 | 6,399 | 18,921 | 20,066 |
| Data Processing | 749 | 911 | 2,487 | 2,730 |
| Asset Management Fees | 1,080 | 1,040 | 3,240 | 3,140 |
| Retail Brokerage Fees | 807 | 671 | 2,475 | 2,082 |
| Securities Transactions | - | 3 | - | 8 |
| Mortgage Banking Fees | 645 | 772 | 1,830 | 1,921 |
| Bank Card Fees | 2,590 | 2,327 | 7,644 | 6,864 |
| Other | 1,693 | 1,326 | 8,378 | 5,279 |
| Total Noninterest Income | 14,193 | 13,449 | 44,975 | 42,090 |
| NONINTEREST EXPENSE | | | | |
| Salaries and Associate Benefits | 15,805 | 15,003 | 48,382 | 47,366 |
| Occupancy, Net | 2,495 | 2,611 | 7,338 | 7,604 |
| Furniture and Equipment | 2,118 | 2,288 | 6,461 | 6,661 |
| Intangible Amortization | 108 | 709 | 568 | 2,129 |
| Other Real Estate | 2,542 | 3,306 | 9,252 | 10,213 |
| Other | 7,579 | 8,446 | 23,144 | 26,403 |
| Total Noninterest Expense | 30,647 | 32,363 | 95,145 | 100,376 |
| INCOME (LOSS) BEFORE INCOME TAXES | 2,928 | 202 | 7,959 | (5,152) |
| Income Tax Expense (Benefit) | 951 | (199) | 2,527 | (2,821) |

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| | | | | | | | | |
|-------------------------------------|----|------------|----|------------|----|------------|----|------------|
| NET INCOME (LOSS) | \$ | 1,977 | \$ | 401 | \$ | 5,432 | \$ | (2,331) |
| Basic Net Income (Loss) Per Share | \$ | 0.12 | \$ | 0.02 | \$ | 0.32 | \$ | (0.14) |
| Diluted Net Income (Loss) Per Share | \$ | 0.12 | \$ | 0.02 | \$ | 0.32 | \$ | (0.14) |
| Average Basic Shares Outstanding | | 17,152,148 | | 17,087,196 | | 17,133,796 | | 17,069,255 |
| Average Diluted Shares Outstanding | | 17,167,173 | | 17,087,927 | | 17,142,773 | | 17,070,087 |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

CAPITAL CITY BANK GROUP, INC.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREOWNERS' EQUITY
(Unaudited)

| (Dollars In Thousands, Except Share Data) | Shares Outstanding | Common Stock | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income, Net of Taxes | Total |
|--|-----------------------|-----------------|----------------------------------|----------------------|--|------------|
| Balance, December 31, 2010 | 17,100,081 | \$ 171 | \$ 36,920 | \$ 237,679 | \$ (15,751) | \$ 259,019 |
| Comprehensive Income: | | | | | | |
| Net Income | - | - | - | 5,432 | - | 5,432 |
| Net Change in Unrealized Gain On Available-for-Sale Securities (net of tax) | - | - | - | - | 461 | 461 |
| Total Comprehensive Income | - | - | - | - | - | 5,893 |
| Cash Dividends (\$0.30 per share) | - | - | - | (5,142) | - | (5,142) |
| Stock Performance Plan Compensation | - | - | 430 | - | - | 430 |
| Issuance of Common Stock | 56,490 | 1 | 724 | - | - | 725 |
| Balance, September 30, 2011 | 17,156,571 | \$ 172 | \$ 38,074 | \$ 237,969 | \$ (15,290) | \$ 260,925 |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

CAPITAL CITY BANK GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30
(Unaudited)

| (Dollars in Thousands) | 2011 | 2010 |
|--|---------------|-----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Income (Loss) | \$ 5,432 | \$ (2,331) |
| Adjustments to Reconcile Net Income to Cash Provided by Operating Activities: | | |
| Provision for Loan Losses | 11,396 | 20,041 |
| Depreciation | 5,127 | 5,306 |
| Net Securities Amortization | 2,856 | 2,421 |
| Amortization of Intangible Assets | 568 | 2,129 |
| Gain (Loss) on Securities Transactions | - | (8) |
| Loss on Impaired Security | - | 61 |
| Origination of Loans Held-for-Sale | (84,773) | (99,508) |
| Proceeds From Sales of Loans Held-for-Sale | 84,694 | 94,857 |
| Net Gain From Sales of Loans Held-for-Sale | (1,830) | (1,921) |
| Non-Cash Compensation | 430 | - |
| Decrease in Deferred Income Taxes | (586) | (661) |
| Net Decrease in Other Assets | 36,547 | 17,063 |
| Net Increase in Other Liabilities | 10,323 | 12,111 |
| Net Cash Provided By Operating Activities | 70,184 | 49,560 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Securities Available-for-Sale: | | |
| Purchases | (60,672) | (121,609) |
| Sales | - | 505 |
| Payments, Maturities, and Calls | 62,257 | 65,185 |
| Net Decrease in Loans | 54,420 | 63,048 |
| Purchase of Premises & Equipment | (1,242) | (5,556) |
| Net Cash Provided By Investing Activities | 54,763 | 1,573 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Decrease in Deposits | (60,178) | (136,791) |
| Net Decrease (Increase) in Short-Term Borrowings | (45,419) | 2,298 |
| Increase (Decrease) in Other Long-Term Borrowings | 789 | (1,969) |
| Repayment of Other Long-Term Borrowings | (5,501) | (956) |
| Dividends Paid | (5,142) | (6,658) |
| Issuance of Common Stock | 725 | 766 |
| Net Cash Used by Financing Activities | (114,726) | (143,310) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 10,221 | (92,177) |
| Cash and Cash Equivalents at Beginning of Period | 236,193 | 334,293 |
| Cash and Cash Equivalents at End of Period | \$ 246,414 | \$ 242,116 |

Supplemental Disclosure:

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| | | | | |
|---|----|--------|----|--------|
| Interest Paid on Deposits | \$ | 3,548 | \$ | 7,884 |
| Interest Paid on Debt | | 2,892 | | 3,383 |
| Taxes Paid | | 6,402 | | 485 |
| Loans Transferred to Other Real Estate Owned | | 31,287 | | 31,907 |
| Issuance of Common Stock as Non-Cash Compensation | | 725 | | 765 |
| Transfer of Current Portion of Long-Term Borrowings | \$ | - | \$ | 10,000 |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

-7-

CAPITAL CITY BANK GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Capital City Bank Group, Inc. (“CCBG” or the “Company”) provides a full range of banking and banking-related services to individual and corporate clients through its subsidiary, Capital City Bank, with banking offices located in Florida, Georgia, and Alabama. The Company is subject to competition from other financial institutions, is subject to regulation by certain government agencies and undergoes periodic examinations by those regulatory authorities.

The unaudited consolidated financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission, including Regulation S-X. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. Prior period financial statements have been reformatted and amounts reclassified, as necessary, to conform to the current presentation. The Company and its subsidiary follow accounting principles generally accepted in the United States (“GAAP”) and reporting practices applicable to the banking industry. The principles that materially affect its financial position, results of operations and cash flows are set forth in the Notes to Consolidated Financial Statements, which are included in the 2010 Form 10-K.

In the opinion of management, the consolidated financial statements contain all adjustments, which are those of a recurring nature, and disclosures necessary to present fairly the financial position of the Company as of September 30, 2011 and December 31, 2010, the results of operations for the three and nine months ended September 30, 2011 and 2010, and cash flows for the nine months ended September 30, 2011 and 2010.

NOTE 2 - INVESTMENT SECURITIES

Investment Portfolio Composition. The amortized cost and related market value of investment securities available-for-sale were as follows:

| (Dollars in Thousands) | September 30, 2011 | | | |
|---|--------------------|------------------|-------------------|--------------|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | Market Value |
| U.S. Treasury | \$ 168,294 | \$ 1,677 | \$ - | \$ 169,971 |
| U.S. Government Agencies and Corporations | 9,989 | 36 | 18 | 10,007 |
| States and Political Subdivisions | 58,457 | 217 | 54 | 58,620 |
| Mortgage-Backed Securities | 55,186 | 730 | 175 | 55,741 |
| Other Securities(1) | 12,299 | - | 600 | 11,699 |
| Total Investment Securities | \$ 304,225 | \$ 2,660 | \$ 847 | \$ 306,038 |

| (Dollars in Thousands) | December 31, 2010 | | | |
|------------------------|-------------------|------------------|-------------------|--------------|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | Market Value |
| U.S. Treasury | \$ 160,913 | \$ 1,371 | \$ 134 | \$ 162,150 |
| | - | - | - | - |

U.S. Government Agencies and
Corporations

| | | | | |
|-----------------------------------|------------|----------|----------|------------|
| States and Political Subdivisions | 78,990 | 319 | 9 | 79,300 |
| Mortgage-Backed Securities | 56,099 | 678 | 560 | 56,217 |
| Other Securities(1) | 12,664 | - | 600 | 12,064 |
| Total Investment Securities | \$ 308,666 | \$ 2,368 | \$ 1,303 | \$ 309,731 |

(1) Includes Federal Home Loan Bank and Federal Reserve Bank stock recorded at cost of \$6.8 million and \$4.8 million, respectively, at September 30, 2011 and \$7.2 million and \$4.8 million, respectively, at December 31, 2010.

Securities with an amortized cost of \$128.5 million and \$131.6 million at September 30, 2011 and December 31, 2010, respectively, were pledged to secure public deposits and for other purposes.

The Company's subsidiary, Capital City Bank, as a member of the Federal Home Loan Bank ("FHLB") of Atlanta, is required to own capital stock in the FHLB of Atlanta based generally upon the balances of residential and commercial real estate loans, and FHLB advances. FHLB stock of \$6.8 million, which is included in other securities, is pledged to secure FHLB advances. No ready market exists for this stock, and it has no quoted market value. However, redemption of this stock has historically been at par value.

Maturity Distribution. As of September 30, 2011, the Company's investment securities had the following maturity distribution based on contractual maturities:

| (Dollars in Thousands) | Amortized Cost | | Market Value | |
|----------------------------------|----------------|---------|--------------|---------|
| Due in one year or less | \$ | 120,431 | \$ | 120,775 |
| Due after one through five years | | 168,026 | | 170,033 |
| Due after five through 10 years | | 1,906 | | 1,992 |
| Due after 10 years | | 1,563 | | 1,539 |
| No Maturity | | 12,299 | | 11,699 |
| Total Investment Securities | \$ | 304,225 | \$ | 306,038 |

Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Other Than Temporarily Impaired Securities. The following table summarizes the investment securities with unrealized losses at September 30, 2011 aggregated by major security type and length of time in a continuous unrealized loss position:

| (Dollars in Thousands) | September 30, 2011 | | | | | |
|--|------------------------|----------------------|---------------------------|----------------------|-----------------|----------------------|
| | Less Than 12 Months | | Greater Than 12 Months | | Total | |
| | Market Value | Unrealized Losses | Market Value | Unrealized Losses | Market Value | Unrealized Losses |
| U.S. Treasury | \$ 3,696 | \$ 18 | \$ - | \$ - | \$ 3,696 | \$ 18 |
| U.S. Government Agencies and Corporations | - | - | - | - | - | - |
| States and Political Subdivisions | 7,510 | 54 | - | - | 7,510 | 54 |
| Mortgage-Backed Securities | 15,757 | 175 | - | - | 15,757 | 175 |
| Other Securities | - | - | - | 600 | - | 600 |
| Total Investment Securities | \$ 26,963 | \$ 247 | \$ - | \$ 600 | \$ 26,963 | \$ 847 |

Management evaluates securities for other than temporary impairment at least quarterly, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the nature of the securities, the underlying collateral, the financial condition of the issuer, the extent and duration of the loss, our intent related to the individual securities, and the likelihood that we will have to sell the securities prior to the expected recovery. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by rating agencies have occurred, regulatory issues, and analysts' reports.

At September 30, 2011, the Company had securities of \$309.7 million with net pre-tax unrealized gains of \$1.8 million on these securities, of which \$27.0 million have unrealized losses totaling \$247,000 and have been in a loss position for less than 12 months. These securities are primarily in a loss position because they were acquired when the general level of interest rates was lower than that on September 30, 2011. The Company believes that the losses in these securities are temporary in nature and that the full principal will be collected as anticipated. Because the declines in the market value of these investments are attributable to changes in interest rates and not credit quality and because the Company has the ability and intent to hold these investments until there is a recovery in fair value, which may be at maturity, the Company does not consider these investments to be other-than-temporarily impaired at September 30, 2011. One preferred bank stock issue for \$0.6 million has been in a loss position for greater than 12 months. The Company continues to closely monitor the fair value of this security as the subject bank continues to experience negative operating trends.

NOTE 3 - LOANS

Loan Composition. The composition of the Company's loan portfolio was as follows:

| (Dollars in Thousands) | September 30, 2011 | December 31, 2010 |
|--|-----------------------|----------------------|
| Commercial, Financial and Agricultural | \$ 142,511 | \$ 157,394 |
| Real Estate-Construction | 31,991 | 43,239 |
| Real Estate-Commercial | 644,128 | 671,702 |
| Real Estate-Residential(1) | 393,624 | 424,229 |
| Real Estate-Home Equity | 245,438 | 251,565 |
| Real Estate-Loans Held-for-Sale | 8,782 | 6,312 |
| Consumer | 191,225 | 204,230 |
| Loans, Net of Unearned Interest | \$ 1,657,699 | \$ 1,758,671 |

(1) Includes loans in process with outstanding balances of \$14.5 million and \$10.2 million for September 30, 2011 and December 31, 2010, respectively.

Net deferred fees included in loans at September 30, 2011 and December 31, 2010 were \$1.6 million and \$1.8 million, respectively.

Past Due Loans. A loan is defined as a past due loan when one full payment is past due or a contractual maturity is over 30 days past due ("DPD").

The following table presents the aging of the recorded investment in past due loans as of September 30, 2011 and December 31, 2010 by class of loans:

| September 30, 2011 (Dollars in Thousands) | 30-59 DPD | 60-89 DPD | 90 + DPD | Total Past Due | Total Current | Total Loans |
|--|--------------|--------------|-------------|-------------------|------------------|----------------|
| Commercial, Financial and Agricultural | \$320 | 140 | - | 460 | 141,010 | \$142,511 |
| Real Estate - Construction | 148 | - | - | 148 | 30,704 | 31,991 |
| Real Estate - Commercial Mortgage | 1,712 | 3,847 | - | 5,559 | 612,337 | 644,128 |
| Real Estate - Residential | 3,771 | 2,957 | 26 | 6,754 | 374,377 | 388,686 |
| Real Estate - Home Equity | 1,460 | 446 | - | 1,906 | 240,758 | 245,438 |
| Consumer | 1,986 | 265 | - | 2,251 | 188,039 | 204,945 |
| Total Past Due Loans | \$9,397 | 7,655 | 26 | 17,078 | 1,587,225 | \$1,657,699 |

| December 31, 2010 (Dollars in Thousands) | 30-59 DPD | 60-89 DPD | 90 + DPD | Total Past Due | Total Current | Total Loans |
|---|--------------|--------------|-------------|-------------------|------------------|----------------|
| Commercial, Financial and Agricultural | \$ 645 | 193 | - | 838 | 155,497 | \$ 157,394 |
| Real Estate - Construction | 314 | 129 | - | 443 | 40,890 | 43,239 |
| Real Estate - Commercial Mortgage | 5,577 | 840 | - | 6,417 | 638,411 | 671,702 |
| Real Estate - Residential | 7,171 | 3,958 | 120 | 11,249 | 389,103 | 430,541 |

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| | | | | | | |
|---------------------------|-----------|-------|-----|--------|-----------|--------------|
| Real Estate - Home Equity | 1,445 | 698 | 39 | 2,182 | 244,579 | 251,565 |
| Consumer | 2,867 | 356 | - | 3,223 | 200,139 | 204,230 |
| Total Past Due Loans | \$ 18,019 | 6,174 | 159 | 24,352 | 1,668,619 | \$ 1,758,671 |

-10-

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Nonaccrual Loans. Loans are generally placed on non-accrual status if principal or interest payments become 90 days past due and/or management deems the collectability of the principal and/or interest to be doubtful. Loans are returned to accrual status when the principal and interest amounts contractually due are brought current or when future payments are reasonably assured.

The following table presents the recorded investment in nonaccrual loans and loans past due over 90 days and still on accrual by class of loans as of September 30, 2011 and December 31, 2010:

| (Dollars in Thousands) | September 30, 2011 | | December 31, 2010 | |
|--|--------------------|-----------|-------------------|--------------|
| | Nonaccrual | 90 + DPD | Nonaccrual | 90+ DPD |
| Commercial, Financial and Agricultural | \$1,041 | - | \$1,059 | \$- |
| Real Estate - Construction | 1,140 | - | 1,907 | - |
| Real Estate - Commercial Mortgage | 26,230 | - | 26,874 | - |
| Real Estate - Residential | 21,276 | 26 | 30,189 | 120 |
| Real Estate - Home Equity | 2,773 | - | 4,803 | 39 |
| Consumer | 936 | - | 868 | - |
| Total Nonaccrual Loans | \$53,396 | 26 | \$65,700 | \$159 |

Restructured Loans (“TDR’s”). The restructuring of a loan is considered a “troubled debt restructuring” if both (i) the borrower is experiencing financial difficulties and (ii) the creditor has granted a concession. Concessions may include interest rate reductions or below market interest rates, principal forgiveness, restructuring amortization schedules and other actions intended to minimize potential losses. Effective July 1, 2011, the Company adopted the provisions of Accounting Standards Update (“ASU”) No. 2011-02, “Receivables (Topic 310) – A Creditor’s Determination of Whether a Restructuring Is a Troubled Debt Restructuring.” As such, the Company reassessed all loan modifications occurring since January 1, 2011 for identification as troubled debt restructurings.

The following table presents loans classified as TDR’s as of September 30, 2011 and December 31, 2010:

| (Dollars in Thousands) | September 30, 2011 | December 31, 2010 |
|--|--------------------|-------------------|
| Commercial, Financial and Agricultural | \$ 623 | \$ 768 |
| Real Estate-Construction | 1,352 | 660 |
| Real Estate-Commercial | 14,116 | 10,635 |
| Real Estate-Residential | 11,547 | 8,884 |
| Real Estate-Home Equity | 766 | 648 |
| Consumer | - | 54 |
| Loans, Net of Unearned Interest | \$ 28,404 | \$ 21,649 |

Loans classified as TDR’s during the three and nine months ended September 30, 2011 are presented in the table below:

| (Dollars in Thousands) | Three Months Ended, September 30, 2011 | | | Nine Months Ended, September 30, 2011 | | |
|------------------------|---|--------------------------------|---------------------------------|--|--------------------------------|---------------------------------|
| | Number of Contracts | Pre-Modify Recorded Investment | Post-Modify Recorded Investment | Number of Contracts | Pre-Modify Recorded Investment | Post-Modify Recorded Investment |
| | 3 | \$ 338 | \$ 318 | 7 | \$ 568 | \$ 547 |

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| Commercial, Financial and Agricultural | | | | | | |
|--|-----------|------------------|------------------|------------|------------------|------------------|
| Real Estate-Construction | 2 | 1,176 | 1,175 | 3 | 1,352 | 1,330 |
| Real Estate-Commercial | 16 | 5,094 | 5,347 | 39 | 13,658 | 13,768 |
| Real Estate-Residential | 22 | 5,355 | 5,325 | 70 | 10,540 | 10,824 |
| Real Estate-Home Equity | 5 | 461 | 472 | 9 | 639 | 660 |
| Consumer | - | - | - | 2 | 24 | 23 |
| Total | 48 | \$ 12,424 | \$ 12,637 | 130 | \$ 26,781 | \$ 27,152 |

Loan modifications made within the last 12 months that were classified as TDR's that have subsequently defaulted are presented in the table below:

| (Dollars in Thousands) | Number of Contracts | Post-Modify Recorded Investment |
|--|---------------------------|---------------------------------------|
| Commercial, Financial and Agricultural | 2 | \$ 161 |
| Real Estate-Construction | - | - |
| Real Estate-Commercial | 7 | 2,323 |
| Real Estate-Residential | 9 | 1,967 |
| Real Estate-Home Equity | - | - |
| Consumer | - | - |
| Total | 18 | \$ 4,451 |

Credit Quality Indicators. As part of the ongoing monitoring of the Company's loan portfolio quality, management categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment performance, credit documentation, and current economic/market trends, among other factors. Risk ratings are assigned to each loan and revised as needed through established monitoring procedures for individual loan relationships over a predetermined amount and review of smaller balance homogenous loan pools. The Company uses the definitions noted below for categorizing and managing its criticized loans. Loans categorized as "Pass" do not meet the criteria set forth for the Special Mention, Substandard, or Doubtful categories and are not considered criticized.

Special Mention – Loans in this category are presently protected from loss, but weaknesses are apparent which, if not corrected, could cause future problems. Loans in this category may not meet required underwriting criteria and have no mitigating factors. More than the ordinary amount of attention is warranted for these loans.

Substandard – Loans in this category exhibit well-defined weaknesses that would typically bring normal repayment into jeopardy. These loans are no longer adequately protected due to well-defined weaknesses that affect the repayment capacity of the borrower. The possibility of loss is much more evident and above average supervision is required for these loans.

Doubtful – Loans in this category have all the weaknesses inherent in a loan categorized as Substandard, with the characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

The following table presents the risk category of loans by segment as of September 30, 2011 and December 31, 2010:

| September 30, 2011 (Dollars in Thousands) | Commercial, Financial, Agriculture | Real Estate | Consumer | Total |
|--|--|-------------|----------|-----------|
| Special Mention | \$ 6,882 | \$47,532 | \$33 | \$54,447 |
| Substandard | 10,196 | 191,395 | 1,517 | 203,108 |
| Doubtful | 16 | 5,280 | - | 5,296 |
| Total Loans | \$ 17,094 | \$244,207 | \$1,550 | \$262,851 |

| December 31, 2010 (Dollars in Thousands) | Commercial, Financial, | Real Estate | Consumer | Total |
|---|---------------------------|-------------|----------|-------|
|---|---------------------------|-------------|----------|-------|

| | Agriculture | | | |
|-----------------|-------------|------------|----------|------------|
| Special Mention | \$ 20,539 | \$ 100,008 | \$ 102 | \$ 120,649 |
| Substandard | 11,540 | 221,671 | 1,584 | 234,795 |
| Doubtful | 119 | 7,245 | 2 | 7,366 |
| Total Loans | \$ 32,198 | \$ 328,924 | \$ 1,688 | \$ 362,810 |

During the third quarter of 2011, the Company performed a review of its Special Mention loan portfolio to determine proper alignment of its loan grading practices with the regulatory definition of loans for this category. As a result of this review, a new loan risk category was added to reflect loans that currently meet existing credit underwriting guidelines, but warrant a greater level of monitoring due to certain manageable credit policy exceptions or exposure to an industry segment that is experiencing higher than normal risk levels. Loans of this nature were reflected as Pass Watch loans within the Pass category as of September 30, 2011 and are not considered criticized. The decline in the balance of Special Mention loans from December 31, 2010 to September 30, 2011, reflects the impact of this reclassification process.

NOTE 4 - ALLOWANCE FOR LOAN LOSSES

An analysis of the changes in the allowance for loan losses for the three month periods ended September 30 was as follows:

| (Dollars in Thousands) | 2011 | 2010 |
|--|-----------|-----------|
| Balance, Beginning of Year | \$ 35,436 | \$ 43,999 |
| Provision for Loan Losses | 11,396 | 20,041 |
| Recoveries on Loans Previously Charged-Off | 2,077 | 2,653 |
| Loans Charged-Off | (19,251) | (28,973) |
| Balance, End of Period | \$ 29,658 | \$ 37,720 |

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio class based on impairment method as of September 30, 2011 and December 31, 2010:

| September 30, 2011 (Dollars in Thousands) | Commercial, Financial, Agricultural | Real Estate Construction | Real Estate Commercial Mortgage | Real Estate Residential | Real Estate Home Equity | Consumer | Unallocated | Total |
|---|---|-----------------------------|--|----------------------------|----------------------------------|----------|-------------|-----------|
| Allowance Allocated to: | | | | | | | | |
| Loans Individually Evaluated for Impairment | \$ 419 | 484 | 5,931 | 4,062 | 103 | - | - | \$ 10,999 |
| Loans Collectively Evaluated for Impairment | 1,195 | 656 | 4,823 | 7,426 | 2,029 | 1,530 | 1,000 | 18,659 |
| Total | \$ 1,614 | 1,140 | 10,754 | 11,488 | 2,132 | 1,530 | 1,000 | \$ 29,658 |

| | | | | | | | | |
|---|------------|--------|---------|---------|---------|---------|---|--------------|
| Total Loans: Individually Evaluated for Impairment | \$ 1,435 | 2,690 | 44,911 | 26,063 | 1,756 | - | - | \$ 76,855 |
| Collectively Evaluated for Impairment | 141,076 | 29,301 | 599,217 | 376,343 | 243,682 | 191,225 | - | 1,580,844 |
| Total | \$ 142,511 | 31,991 | 644,128 | 402,406 | 245,438 | 191,225 | - | \$ 1,657,699 |

| December 31, 2010 (Dollars in Thousands) | Commercial, Financial, Agricultural | Real Estate Construction | Real Estate Commercial Mortgage | Real Estate Residential | Real Estate Home Equity | Consumer | Unallocated | Total |
|---|---|-----------------------------|--|----------------------------|----------------------------------|----------|-------------|-----------|
| Allowance Allocated to: | | | | | | | | |
| Loans Individually Evaluated for Impairment | \$ 252 | 413 | 4,640 | 7,965 | 1,389 | 71 | - | \$ 14,730 |
| | | 1,647 | | 9,081 | 1,133 | 2,541 | 1,007 | |

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| | | | | | | | | | |
|--|-------------------|---------------|----------------|----------------|----------------|----------------|--------------|-----------|------------------|
| Loans Collectively Evaluated for Impairment | 1,292 | | 4,005 | | | | | | 20,706 |
| Total | \$ 1,544 | 2,060 | 8,645 | 17,046 | 2,522 | 2,612 | 1,007 | \$ | 35,436 |
| Total Loans: | | | | | | | | | |
| Individually Evaluated for Impairment | 1,685 | | 42,369 | | | | | \$ | 87,788 |
| Collectively Evaluated for Impairment | 155,709 | 40,706 | 629,333 | 392,762 | 248,287 | 204,086 | - | | 1,670,883 |
| Total | \$ 157,394 | 43,239 | 671,702 | 430,541 | 251,565 | 204,230 | - | \$ | 1,758,671 |

Impaired Loans. Loans are deemed to be impaired when, based on current information and events, it is probable that the Company will not be able to collect all amounts due (principal and interest payments), according to the contractual terms of the loan agreement. Loans, for which the terms have been modified, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

The following table presents loans individually evaluated for impairment by class of loans as of September 30, 2011 and December 31, 2010:

| (Dollars in Thousands) | Unpaid Principal Balance | Recorded Investment With No Allowance | Recorded Investment With Allowance | Related Allowance | Average Recorded Investment(1) |
|--|--------------------------------|--|---|----------------------|--------------------------------------|
| September 30, 2011: | | | | | |
| Commercial, Financial and Agricultural | \$1,435 | \$330 | \$1,105 | \$419 | \$ 1,582 |
| Real Estate - Construction | 2,690 | 148 | 2,542 | 484 | 2,000 |
| Real Estate - Commercial Mortgage | 44,911 | 16,477 | 28,434 | 5,931 | 43,722 |
| Real Estate - Residential | 26,063 | 4,016 | 22,047 | 4,062 | 27,946 |
| Real Estate - Home Equity | 1,756 | 406 | 1,350 | 103 | 2,054 |
| Consumer | - | - | - | - | 39 |
| Total | \$76,855 | \$21,377 | \$55,478 | \$10,999 | \$ 77,343 |
| December 31, 2010: | | | | | |
| Commercial, Financial and Agricultural | \$1,684 | \$389 | \$1,295 | \$252 | \$ 2,768 |
| Real Estate - Construction | 2,533 | - | 2,533 | 413 | 5,801 |
| Real Estate - Commercial Mortgage | 42,370 | 9,030 | 33,340 | 4,640 | 48,820 |
| Real Estate - Residential | 37,780 | 3,295 | 34,485 | 7,965 | 41,958 |
| Real Estate - Home Equity | 3,278 | 375 | 2,903 | 1,389 | 3,087 |
| Consumer | 143 | - | 143 | 71 | 172 |
| Total | \$87,788 | \$13,089 | \$74,699 | \$14,730 | \$ 102,606 |

(1) Reflects quarter-to-date average balance

Interest income recognized on impaired loans was approximately \$2.8 million for the nine month periods ended September 30, 2011 and September 30, 2010, respectively.

NOTE 5 - INTANGIBLE ASSETS

The Company had net intangible assets of \$85.6 million and \$86.2 million at September 30, 2011 and December 31, 2010, respectively. Intangible assets were as follows:

| (Dollars in Thousands) | September 30, 2011 | | December 31, 2010 | |
|----------------------------------|--------------------|-----------------------------|-------------------|-----------------------------|
| | Gross Amount | Accumulated Amortization | Gross Amount | Accumulated Amortization |
| Core Deposit Intangibles | \$ 47,176 | \$ 46,858 | \$ 47,176 | \$ 46,434 |
| Goodwill | 84,811 | - | 84,811 | - |
| Customer Relationship Intangible | 1,867 | 1,405 | 1,867 | 1,261 |
| Total Intangible Assets | \$ 133,854 | \$ 48,263 | \$ 133,854 | \$ 47,695 |

Net Core Deposit Intangibles: As of September 30, 2011 and December 31, 2010, the Company had net core deposit intangibles of \$0.3 million and \$0.7 million, respectively. Amortization expense for the first nine months of 2011 and 2010 was approximately \$0.6 million and \$2.0 million, respectively. Estimated annual amortization expense for 2011 is \$0.7 million. All of our core deposit intangibles will be fully amortized in January 2013.

Goodwill: As of September 30, 2011 and December 31, 2010, the Company had goodwill, net of accumulated amortization, of \$84.8 million.

Goodwill is tested for impairment on an annual basis, or more often if impairment indicators exist. A goodwill impairment test consists of two steps. Step One compares the estimated fair value of the reporting unit to its carrying amount. If the carrying amount exceeds the estimated fair value, Step Two is performed by comparing the fair value of the reporting unit's implied goodwill to the carrying value of goodwill. If the carrying value of the reporting unit's goodwill exceeds the estimated fair value, an impairment charge is recorded equal to the excess.

As of September 30, 2011, the book value of the Company's equity exceeded its market capitalization, and as such the Company performed goodwill impairment testing. The Step One test indicated that the carrying amount (including goodwill) of the Company's reporting unit exceeded its estimated fair value. The Step Two test indicated the estimated fair value of our reporting unit's implied goodwill exceeded its carrying amount. Based on the results of the Step Two analysis, the Company concluded that goodwill was not impaired as of September 30, 2011. The Company will continue to test goodwill as defined by ASC Topic 350.

Other: As of September 30, 2011 and December 31, 2010, the Company had a customer relationship intangible asset, net of accumulated amortization, of \$0.5 million and \$0.6 million, respectively. This intangible asset was recorded as a result of the March 2004 acquisition of trust customer relationships. Amortization expense for the first nine months of 2011 and 2010 was approximately \$144,000. Estimated annual amortization expense is approximately \$191,000 based on use of a 10-year useful life.

NOTE 6 - DEPOSITS

The composition of the Company's interest bearing deposits at September 30, 2011 and December 31, 2010 was as follows:

| (Dollars in Thousands) | September 30, 2011 | December 31, 2010 |
|--|-----------------------|----------------------|
| NOW Accounts | \$ 708,066 | \$ 770,149 |
| Money Market Accounts | 280,001 | 275,416 |
| Savings Deposits | 154,136 | 139,888 |
| Other Time Deposits | 316,967 | 372,266 |
| Total Interest Bearing Deposits | \$ 1,459,170 | \$ 1,557,719 |

NOTE 7 - STOCK-BASED COMPENSATION

The Company recognizes the cost of stock-based associate stock compensation in accordance with ASC-718-20-05-1 and ASC 718-50-05-01, (formerly SFAS No. 123R), "Share-Based Payment" (Revised) under the fair value method.

As of September 30, 2011, the Company had three stock-based compensation plans, consisting of the 2011 Associate Stock Incentive Plan ("ASIP"), the 2011 Associate Stock Purchase Plan ("ASPP"), and the 2011 Director Stock Purchase Plan ("DSPP"). These plans are new plans replacing substantially similar plans approved by the shareowners in 2004. Total compensation expense associated with these plans for the nine months ended September 30, 2011 and 2010 was \$508,000 and \$101,000, respectively.

ASIP. The Company's ASIP allows the Company's Board of Directors to award key associates various forms of equity-based incentive compensation. Under the ASIP, all participants in this plan are eligible to earn an equity award, in the form of performance shares. The Company, under the terms and conditions of the ASIP, created the 2011 Incentive Plan ("2011 Plan"), which has an award tied to an internally established earnings goal. The grant-date fair value of the shares eligible to be awarded in 2011 is approximately \$895,000. A total of 51,952 shares are eligible for issuance. For the first nine months of 2011, the Company recognized approximately \$336,000 in expense related to the ASIP. No expense related to this plan was recognized for the first nine months of 2010.

Executive Stock Option Agreement. Prior to 2007, the Company maintained a stock option program for a key executive officer (William G. Smith, Jr. - Chairman, President and CEO, CCBG). The status of the options granted under this arrangement is detailed in the table provided below. In 2007, the Company replaced its practice of entering into an annual stock option arrangement by establishing a Performance Share Unit Plan under the provisions of the

ASIP that allows the executive to earn shares based on the compound annual growth rate in diluted earnings per share over a three-year period. For the first nine months of 2011, the Company recognized \$94,000 in expense related this plan. No expense was recognized under this plan for the first nine months of 2010.

A summary of the status of the Company's options as of September 30, 2011 is presented below:

| Options | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Term | Aggregate Intrinsic Value |
|-----------------------------------|--------|------------------------------------|---------------------------------------|---------------------------------|
| Outstanding at January 1, 2011 | 60,384 | \$ 32.79 | 3.9 | \$ - |
| Granted | - | - | - | - |
| Exercised | - | - | - | - |
| Forfeited or expired | - | - | - | - |
| Outstanding at September 30, 2011 | 60,384 | \$ 32.79 | 3.1 | \$ - |
| Exercisable at September 30, 2011 | 60,384 | \$ 32.79 | 3.1 | \$ - |

Compensation expense associated with the aforementioned option shares was fully recognized as of December 31, 2007.

DSPP. The Company's DSPP allows the directors to purchase the Company's common stock at a price equal to 90% of the closing price on the date of purchase. Stock purchases under the DSPP are limited to the amount of the director's annual cash compensation. For the first nine months 2011 and 2010, the Company recognized approximately \$20,000 in expense related to this plan or its predecessor plan, the 2005 Director Stock Purchase Plan.

ASPP. Under the Company's ASPP, substantially all associates may purchase the Company's common stock through payroll deductions at a price equal to 90% of the lower of the fair market value at the beginning or end of each six-month offering period. Stock purchases under the ASPP are limited to 10% of an associate's eligible compensation, up to a maximum of \$25,000 (fair market value on each enrollment date) in any plan year. Shares are issued at the beginning of the quarter following each six-month offering period. For the first nine months of 2011, the Company recognized approximately \$59,000 in expense related to the ASPP or its processor plan, the 2005 Associate Stock Purchase Plan, compared to approximately \$81,000 in expense for the same period in 2010.

NOTE 8 - EMPLOYEE BENEFIT PLANS

The Company has a defined benefit pension plan covering substantially all full-time and eligible part-time associates and a Supplemental Executive Retirement Plan ("SERP") covering its executive officers.

The components of the net periodic benefit costs for the Company's qualified benefit pension plan were as follows:

| (Dollars in Thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|------------------------------------|-------------------------------------|----------|------------------------------------|----------|
| | 2011 | 2010 | 2011 | 2010 |
| Discount Rate | 5.55% | 5.75% | 5.55% | 5.75% |
| Long-Term Rate of Return on Assets | 8.00% | 8.00% | 8.00% | 8.00% |
| Service Cost | \$ 1,507 | \$ 1,423 | \$ 4,521 | \$ 4,268 |
| Interest Cost | 1,311 | 1,183 | 3,932 | 3,550 |
| Expected Return on Plan Assets | (1,639) | (1,549) | (4,917) | (4,646) |
| Prior Service Cost Amortization | 116 | 127 | 347 | 382 |
| Net Loss Amortization | 555 | 522 | 1,667 | 1,566 |
| Net Periodic Benefit Cost | \$ 1,850 | \$ 1,706 | \$ 5,550 | \$ 5,120 |

The components of the net periodic benefit costs for the Company's SERP were as follows:

| (Dollars in Thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---------------------------------|-------------------------------------|---------|------------------------------------|---------|
| | 2011 | 2010 | 2011 | 2010 |
| Discount Rate | 5.55% | 5.75% | 5.55% | 5.75% |
| Interest Cost | \$ 37 | \$ 38 | \$ 111 | \$ 113 |
| Prior Service Cost Amortization | 45 | 45 | 134 | 135 |
| Net Loss Amortization | (104) | (106) | (310) | (319) |
| Net Periodic Benefit Cost | \$ (22) | \$ (23) | \$ (65) | \$ (71) |

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Lending Commitments. The Company is a party to financial instruments with off-balance sheet risks in the normal course of business to meet the financing needs of its clients. These financial instruments consist of commitments to extend credit and standby letters of credit.

-16-

The Company's maximum exposure to credit loss under standby letters of credit and commitments to extend credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in establishing commitments and issuing letters of credit as it does for on-balance sheet instruments. As of September 30, 2011, the amounts associated with the Company's off-balance sheet obligations were as follows:

| (Dollars in Millions) | Amount |
|---------------------------------|--------|
| Commitments to Extend Credit(1) | \$ 317 |
| Standby Letters of Credit | \$ 12 |

(1) Commitments include unfunded loans, revolving lines of credit, and other unused commitments.

Commitments to extend credit are agreements to lend to clients so long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Contingencies. The Company is a party to lawsuits and claims arising out of the normal course of business. In management's opinion, there are no known pending claims or litigation, the outcome of which would, individually or in the aggregate, have a material effect on the consolidated results of operations, financial position, or cash flows of the Company.

Indemnification Obligation. The Company is a member of the Visa U.S.A. network. Visa U.S.A believes that its member banks are required to indemnify it for potential future settlement of certain litigation (the "Covered Litigation"). In 2008, the Company, as a member of the Visa U.S.A. network, obtained Class B shares of Visa, Inc. upon its initial public offering. Since its initial public offering, Visa, Inc. has funded a litigation reserve for the Covered Litigation resulting in a reduction in the Class B shares held by the Company. During the first quarter of 2011, the Company sold its remaining Class B shares resulting in a \$3.2 million pre-tax gain. Associated with this sale, the Company entered into a swap contract with the purchaser of the shares that requires a payment to the counterparty in the event that Visa, Inc. makes subsequent revisions to the conversion ratio for its Class B shares. Further information on the swap contract is contained within Note 10 below.

NOTE 10 – FAIR VALUE MEASUREMENTS

The fair value of an asset or liability is the price that would be received to sell that asset or paid to transfer that liability in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for such asset or liability. In estimating fair value, the Company utilizes valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability. ASC Topic 820 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs

that are derived principally from or corroborated by market data by correlation or other means.

Level 3 Inputs - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality, the Company's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. A more detailed description of the valuation methodologies used for assets and liabilities measured at fair value is set forth in the Company's 2010 Form 10-K.

Financial Assets and Financial Liabilities. The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of September 30, 2011 segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

| (Dollars in Thousands) | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Total Fair Value |
|-----------------------------------|-------------------|-------------------|-------------------|---------------------|
| September 30, 2011 | | | | |
| ASSETS: | | | | |
| Securities available for sale: | | | | |
| US Treasury | \$ 169,971 | \$- | \$- | \$ 169,971 |
| States and Political Subdivisions | 6,321 | 52,299 | - | 58,620 |
| Mortgage-Backed Securities | - | 65,749 | - | 65,749 |
| Other Securities | - | 11,699 | - | 11,699 |
| LIABILITIES: | | | | |
| Fair Value Swap | | | 455 | 455 |
| December 31 2010 | | | | |
| ASSETS: | | | | |
| Securities available for sale: | | | | |
| US Treasury | \$ 162,151 | \$- | \$- | \$ 162,151 |
| States and Political Subdivisions | 5,278 | 74,022 | - | 79,300 |
| Mortgage-Backed Securities | - | 56,217 | - | 56,217 |
| Other Securities | - | 12,064 | - | 12,064 |

Fair Value Swap. During the first quarter of 2011, the Company entered into a stand-alone derivative contract with the purchaser of its Visa Class B shares. The valuation represents an internally developed estimate of the exposure based upon probability-weighted potential Visa litigation losses and related carrying cost obligations required under the contract.

Non-Financial Assets and Non-Financial Liabilities. Certain non-financial assets measured at fair value on a nonrecurring basis are detailed below; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

Impaired Loans. On a non-recurring basis, certain impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the liquidation of collateral. Collateral values are estimated using Level 2 inputs based on customized discounting criteria. Impaired loans had a carrying value of \$76.9 million, with a valuation allowance of \$11.0 million.

Loans Held for Sale. Loans held for sale were \$8.8 million as of September 30, 2011. These loans are carried at the lower of cost or fair value and are adjusted to fair value on a non-recurring basis. Fair value is based on observable markets rates for comparable loan products which is considered a Level 2 fair value measurement.

Other Real Estate Owned. During the first nine months of 2011, certain foreclosed assets, upon initial recognition, were measured and reported at fair value through a charge-off to the allowance for loan losses based on the fair value of the foreclosed asset. The fair value of the foreclosed asset, upon initial recognition, is estimated using Level 2 inputs based on observable market data. Foreclosed assets measured at fair value upon initial recognition totaled

\$31.3 million during the nine months ended September 30, 2011. In addition, the Company recognized subsequent losses totaling \$2.8 million for foreclosed assets that were re-valued during the nine months ended September 30, 2011. The carrying value of foreclosed assets was \$61.2 million at September 30, 2011.

FASB ASC Topic 825 requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring or non-recurring basis. A detailed description of the valuation methodologies used in estimating the fair value of financial instruments is set forth in the Company's 2010 Form 10-K.

The Company's financial instruments that have estimated fair values are presented below:

| (Dollars in Thousands) | September 30, 2011 | | December 31, 2010 | |
|--|---------------------|----------------------|---------------------|----------------------|
| | Carrying Value | Estimated Fair Value | Carrying Value | Estimated Fair Value |
| Financial Assets: | | | | |
| Cash | \$ 53,027 | \$ 53,027 | \$ 35,410 | \$ 35,410 |
| Short-Term Investments | 193,387 | 193,387 | 200,783 | 200,783 |
| Investment Securities | 306,038 | 306,038 | 309,731 | 309,731 |
| Loans, Net of Allowance for Loan Losses | | | | |
| | 1,628,041 | 1,548,426 | 1,723,235 | 1,675,997 |
| Total Financial Assets | \$ 2,180,493 | \$ 2,100,878 | \$ 2,269,159 | \$ 2,221,921 |
| Financial Liabilities: | | | | |
| Deposits | \$ 2,043,798 | \$ 2,044,732 | \$ 2,103,976 | \$ 2,105,568 |
| Short-Term Borrowings | 47,508 | 46,026 | 92,928 | 89,287 |
| Subordinated Notes Payable | 62,887 | 62,893 | 62,887 | 62,884 |
| Long-Term Borrowings | 45,389 | 48,660 | 50,101 | 52,302 |
| Derivative Instrument – Fair Value Swap | 455 | 455 | - | - |
| Total Financial Liabilities | \$ 2,200,037 | \$ 2,202,766 | \$ 2,309,892 | \$ 2,310,041 |

All non-financial instruments are excluded from the above table. The disclosures also do not include certain intangible assets such as client relationships, deposit base intangibles and goodwill. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

NOTE 11 – NEW AUTHORITATIVE ACCOUNTING GUIDANCE

ASU No. 2010-20, "Receivables (Topic 310) - Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." ASU 2010-20 requires entities to provide disclosures designed to facilitate financial statement users' evaluation of (i) the nature of credit risk inherent in the entity's portfolio of financing receivables, (ii) how that risk is analyzed and assessed in arriving at the allowance for credit losses and (iii) the changes and reasons for those changes in the allowance for credit losses. Disclosures must be disaggregated by portfolio segment, the level at which an entity develops and documents a systematic method for determining its allowance for credit losses, and class of financing receivable, which is generally a disaggregation of portfolio segment. The required disclosures include, among other things, a roll-forward of the allowance for credit losses as well as information about modified, impaired, non-accrual and past due loans and credit quality indicators. ASU 2010-20 became effective for the Company's financial statements as of December 31, 2010, as it relates to disclosures required as of the end of a reporting period. Disclosures that relate to activity during a reporting period became effective for the Company's financial statements beginning on January 1, 2011. ASU 2011-01, "Receivables (Topic 310) - Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20," temporarily deferred the effective date for disclosures related to troubled debt restructurings to coincide with the effective date of the then proposed ASU 2011-02, "Receivables (Topic 310) - A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring," which is further discussed below. Adoption of ASU 2010-20 is not expected have a significant impact on the Company's financial statements.

ASU No. 2010-28, "Intangibles - Goodwill and Other (Topic 350) - When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts." ASU 2010-28 modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an

entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist such as if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. ASU 2010-28 became effective for the Company on January 1, 2011 and did not have a significant impact on the Company's financial statements.

ASU No. 2011-02, "Receivables (Topic 310) - A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring." ASU 2011-02 clarifies which loan modifications constitute troubled debt restructurings and is intended to assist creditors in determining whether a modification of the terms of a receivable meets the criteria to be considered a troubled debt restructuring, both for purposes of recording an impairment loss and for disclosure of troubled debt restructurings. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude, under the guidance clarified by ASU 2011-02, that both of the following exist: (a) the restructuring constitutes a concession; and (b) the debtor is experiencing financial difficulties. ASU 2011-02 became effective for the Company on July 1, 2011, and applies retrospectively to restructurings occurring on or after January 1, 2011 (See Note 3 – Loans). Although the adoption of the ASU did not have a material impact on the unaudited financial statements, the clarification in this ASU may result in the Company identifying more loan modifications as TDR's in future periods.

ASU No. 2011-03, "Transfers and Servicing (Topic 860) - Reconsideration of Effective Control for Repurchase Agreements." ASU 2011-03 is intended to improve financial reporting of repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. ASU 2011-03 removes from the assessment of effective control (i) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (ii) the collateral maintenance guidance related to that criterion. ASU 2011-03 will be effective for the Company on January 1, 2012 and is not expected to have a significant impact on the Company's financial statements.

ASU 2011-04, "Fair Value Measurement (Topic 820) - Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." ASU 2011-04 amends Topic 820, "Fair Value Measurements and Disclosures," to converge the fair value measurement guidance in U.S. generally accepted accounting principles and International Financial Reporting Standards. ASU 2011-04 clarifies the application of existing fair value measurement requirements, changes certain principles in Topic 820 and requires additional fair value disclosures. ASU 2011-04 is effective for annual periods beginning after December 15, 2011, and is not expected to have a significant impact on the Company's financial statements.

ASU 2011-05, "Comprehensive Income (Topic 220) - Presentation of Comprehensive Income." ASU 2011-05 amends Topic 220, "Comprehensive Income," to require that all non-owner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, ASU 2011-05 requires entities to present, on the face of the financial statements, reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement or statements where the components of net income and the components of other comprehensive income are presented. The option to present components of other comprehensive income as part of the statement of changes in stockholders' equity was eliminated. ASU 2011-05 is effective for annual periods beginning after December 15, 2011, and is not expected to have a significant impact on the Company's financial statements.

ASU 2011-08, "Intangibles - Goodwill and Other (Topic 350) - Testing Goodwill for Impairment." ASU 2011-08 amends Topic 350, "Intangibles - Goodwill and Other," to give entities the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. ASU 2011-08 is effective for annual and interim impairment tests beginning after December 15, 2011, and is not expected to have a significant impact on the Company's financial statements.

QUARTERLY FINANCIAL DATA (UNAUDITED)

| (Dollars and Shares in Thousands) | 2011 | | | | 2010 | | | |
|---|-----------|-----------|-----------|-----------|-----------|-----------|------------|------------|
| | Third | Second | First(1) | Fourth | Third | Second | First | |
| Summary of Operations: | | | | | | | | |
| Interest Income | \$ 24,891 | \$ 25,467 | \$ 25,189 | \$ 26,831 | \$ 27,576 | \$ 27,934 | \$ 28,154 | \$ 28,154 |
| Interest Expense | 1,791 | 2,028 | 2,203 | 2,473 | 2,792 | 3,565 | 4,132 | 4,132 |
| Net Interest Income | 23,100 | 23,439 | 22,986 | 24,358 | 24,784 | 24,369 | 24,022 | 24,022 |
| Provision for Loan Losses | 3,718 | 3,545 | 4,133 | 3,783 | 5,668 | 3,633 | 10,740 | 10,740 |
| Net Interest Income After Provision for Loan Losses | 19,382 | 19,894 | 18,853 | 20,575 | 19,116 | 20,736 | 13,282 | 13,282 |
| Noninterest Income | 14,193 | 14,448 | 16,334 | 14,735 | 13,449 | 14,674 | 13,967 | 13,967 |
| Noninterest Expense | 30,647 | 31,167 | 33,331 | 33,540 | 32,363 | 34,629 | 33,384 | 33,384 |
| Income (Loss) Before Income Taxes | 2,928 | 3,175 | 1,856 | 1,770 | 202 | 781 | (6,135) | (6,135) |
| Income Tax (Benefit) Expense | 951 | 1,030 | 546 | (148) | (199) | 50 | (2,672) | (2,672) |
| Net Income (Loss) | \$ 1,977 | \$ 2,145 | \$ 1,310 | \$ 1,918 | \$ 401 | \$ 731 | \$ (3,463) | \$ (3,463) |
| Net Interest Income (FTE) | \$ 23,326 | \$ 23,704 | \$ 23,257 | \$ 24,654 | \$ 25,116 | \$ 24,738 | \$ 24,473 | \$ 24,473 |
| Per Common Share: | | | | | | | | |
| Net Income (Loss) Basic | \$ 0.12 | \$ 0.12 | \$ 0.08 | \$ 0.12 | \$ 0.02 | \$ 0.04 | \$ (0.20) | \$ (0.20) |
| Net Income (Loss) Diluted | 0.12 | 0.12 | 0.08 | 0.12 | 0.02 | 0.04 | (0.20) | (0.20) |
| Dividends Declared | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.19 | 0.19 |
| Diluted Book Value | 15.20 | 15.20 | 15.13 | 15.15 | 15.25 | 15.32 | 15.34 | 15.34 |
| Market Price: | | | | | | | | |
| High | 11.18 | 13.12 | 13.80 | 14.19 | 14.24 | 18.25 | 14.61 | 14.61 |
| Low | 9.81 | 9.84 | 11.87 | 11.56 | 10.76 | 12.36 | 11.57 | 11.57 |
| Close | 10.38 | 10.26 | 12.68 | 12.60 | 12.14 | 12.38 | 14.25 | 14.25 |

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Selected
Average
Balances:

| | | | | | | | |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Loans, Net | \$ 1,667,720 | \$ 1,704,348 | \$ 1,730,330 | \$ 1,782,916 | \$ 1,807,483 | \$ 1,841,379 | \$ 1,886,367 |
| Earning Assets | 2,202,927 | 2,258,931 | 2,278,602 | 2,218,049 | 2,273,198 | 2,329,365 | 2,358,288 |
| Total Assets | 2,563,251 | 2,618,287 | 2,643,017 | 2,576,793 | 2,626,758 | 2,678,488 | 2,698,419 |
| Deposits | 2,061,913 | 2,107,301 | 2,125,379 | 2,115,867 | 2,172,165 | 2,234,178 | 2,248,760 |
| Shareowners' Equity | 263,902 | 262,371 | 261,603 | 262,622 | 263,742 | 263,873 | 268,555 |
| Common Equivalent Average Shares: | | | | | | | |
| Basic | 17,152 | 17,127 | 17,122 | 17,095 | 17,087 | 17,063 | 17,057 |
| Diluted | 17,167 | 17,139 | 17,130 | 17,096 | 17,088 | 17,074 | 17,070 |

Performance
Ratios:

| | | | | | | | |
|--|-------|-------|-------|-------|-------|-------|---------|
| Return on Average Assets | % | % | | | | | |
| | 0.31 | 0.33 | 0.20% | 0.30% | 0.06% | 0.11% | (0.52)% |
| Return on Average Equity | | | | | | | |
| | 2.97 | 3.28 | 2.03 | 2.90 | 0.60 | 1.11 | (5.23) |
| Net Interest Margin (FTE) | | | | | | | |
| | 4.20 | 4.21 | 4.14 | 4.41 | 4.38 | 4.26 | 4.21 |
| Noninterest Income as % of Operating Revenue | | | | | | | |
| | 38.14 | 38.13 | 41.54 | 37.69 | 35.17 | 37.58 | 36.77 |
| Efficiency Ratio | | | | | | | |
| | 81.40 | 81.41 | 83.30 | 83.75 | 82.08 | 86.06 | 85.00 |

Asset Quality:

| | | | | | | | |
|--------------------------------------|---------|---------|---------|---------|---------|---------|---------|
| Allowance for Loan Losses ("ALLL") | | | | | | | |
| | 29,658 | 31,080 | 33,873 | 35,436 | 37,720 | 38,442 | 41,199 |
| ALLL to Loans | % | % | | | | | |
| | 1.79 | 1.84 | 1.98% | 2.01% | 2.10% | 2.11% | 2.23% |
| Nonperforming Assets | | | | | | | |
| | 142,996 | 145,674 | 153,346 | 145,286 | 145,643 | 149,814 | 153,669 |
| Nonperforming Assets to Loans + ORE | | | | | | | |
| | 8.32 | 8.33 | 8.66 | 8.00 | 7.86 | 8.01 | 8.10 |
| Nonperforming Assets to Total Assets | | | | | | | |
| | 5.67 | 5.60 | 5.76 | 5.54 | 5.65 | 5.65 | 5.66 |
| ALLL to Non-Performing Loans | | | | | | | |
| | 36.26 | 36.71 | 34.57 | 40.57 | 39.94 | 37.80 | 38.42 |
| Net Charge-Offs to Average Loans | | | | | | | |
| | 1.22 | 1.49 | 1.33 | 1.35 | 1.40 | 1.39 | 2.91 |

Capital Ratios:

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| | | | | | | | |
|------------------------------|-------|-------|--------|--------|--------|--------|--------|
| Tier 1 Capital Ratio | % | % | | | | | |
| | 14.05 | 13.83 | 13.46% | 13.24% | 12.93% | 12.78% | 12.81% |
| Total Capital Ratio | | | | | | | |
| | 15.41 | 15.19 | 14.82 | 14.59 | 14.29 | 14.14 | 14.16 |
| Tangible Common Equity Ratio | | | | | | | |
| | 7.19 | 6.96 | 6.73 | 6.82 | 6.98 | 6.80 | 6.62 |
| Leverage Ratio | | | | | | | |
| | 10.20 | 9.95 | 9.74 | 10.10 | 9.75 | 9.58 | 9.64 |

(1) Includes a \$2.6 million (net) pre-tax gain from sale of Visa shares – \$3.2 million gain less \$0.6 million related swap liability.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis ("MD&A") provides supplemental information, which sets forth the major factors that have affected our financial condition and results of operations and should be read in conjunction with the Consolidated Financial Statements and related notes. The MD&A is divided into subsections entitled "Business Overview," "Financial Overview," "Results of Operations," "Financial Condition," "Market Risk and Interest Rate Sensitivity," "Liquidity and Capital Resources," "Off-Balance Sheet Arrangements," and "Critical Accounting Policies." The following information should provide a better understanding of the major factors and trends that affect our earnings performance and financial condition, and how our performance during 2011 compares with prior years. Throughout this section, Capital City Bank Group, Inc., and subsidiaries, collectively, are referred to as "CCBG," "Company," "we," "us," or "our."

In this MD&A, we present an operating efficiency ratio which is not calculated based on accounting principles generally accepted in the United States ("GAAP"), but that we believe provides important information regarding our results of operations. Our calculation of the operating efficiency ratio is computed by dividing noninterest expense less intangible amortization, by the sum of tax equivalent net interest income and noninterest income. Management uses this non-GAAP measure as part of its assessment of its performance in managing noninterest expenses. We believe that excluding intangible amortization and merger expenses in our calculations better reflect our periodic expenses and is more reflective of normalized operations.

Although we believe the above-mentioned non-GAAP financial measure enhances investors' understanding of our business and performance this non-GAAP financial measure should not be considered an alternative to GAAP. In addition, there are material limitations associated with the use of this non-GAAP financial measure such as the risks that readers of our financial statements may disagree as to the appropriateness of items included or excluded in this measure and that our measure may not be directly comparable to other companies that calculate this measure differently. Our management compensates for this limitation by providing a detailed reconciliation between GAAP information and the non-GAAP financial measure as detailed below.

Reconciliation of operating efficiency ratio to efficiency ratio:

| | Three Months Ended | | | | | | Nine Months Ended | | | |
|--|--------------------|----|------------------|----|------------------|----|-------------------|----|------------------|----|
| | Sept 30, 2011 | | June 30, 2011 | | Sept 30, 2010 | | Sept 30, 2011 | | Sept 30, 2010 | |
| Efficiency ratio | 81.68 | % | 81.69 | % | 83.92 | % | 82.55 | % | 86.22 | % |
| Effect of intangible amortization expense | (0.28) |)% | (0.28) |)% | (1.84) |)% | (0.48) |)% | (1.83) |)% |
| Operating efficiency ratio | 81.40 | % | 81.41 | % | 82.08 | % | 82.07 | % | 84.39 | % |

The following discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto included in this Quarterly Report on Form 10-Q.

CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including this MD&A section, contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, among others, statements about our beliefs, plans, objectives, goals, expectations, estimates and intentions that are subject to significant risks and uncertainties and are subject to change based on various factors, many of which are beyond our control. The words "may," "could," "should," "would," "believe," "anticipate," "estimate," "expect," "intend," "plan," "target," "goal," and similar expressions are intended to identify forward-looking statements.

All forward-looking statements, by their nature, are subject to risks and uncertainties. Our actual future results may differ materially from those set forth in our forward-looking statements. Please see the Introductory Note and Item 1A. Risk Factors of our 2010 Report on Form 10-K, as updated in our subsequent quarterly reports filed on Form 10-Q, and in our other filings made from time to time with the SEC after the date of this report.

However, other factors besides those listed in our Quarterly Report or in our Annual Report also could adversely affect our results, and you should not consider any such list of factors to be a complete set of all potential risks or uncertainties. Any forward-looking statements made by us or on our behalf speak only as of the date they are made. We do not undertake to update any forward-looking statement, except as required by applicable law.

BUSINESS OVERVIEW

Our Business

We are a bank holding company headquartered in Tallahassee, Florida, and we are the parent of our wholly-owned subsidiary, Capital City Bank (the "Bank" or "CCB"). The Bank offers a broad array of products and services through a total of 70 full-service offices located in Florida, Georgia, and Alabama. The Bank offers commercial and retail banking services, as well as trust and asset management, retail securities brokerage and data processing services.

Our profitability, like most financial institutions, is dependent to a large extent upon net interest income, which is the difference between the interest received on earning assets, such as loans and securities, and the interest paid on interest-bearing liabilities, principally deposits and borrowings. Results of operations are also affected by the provision for loan losses, operating expenses such as salaries and employee benefits, occupancy and other operating expenses including income taxes, and noninterest income such as service charges on deposit accounts, asset management and trust fees, retail securities brokerage fees, mortgage banking fees, bank card fees, and data processing fees. Our noninterest income from these fees, including a description of the effects of recent enacted regulations on our fee income, is further described in our 2010 Form 10-K, Part I, Item 1, Business. As a result of recent consumer protection related initiatives, we anticipate that there is a high likelihood that additional laws, rules, and regulations may be enacted or adopted by certain governmental regulatory agencies, such as the Consumer Financial Protection Bureau, which could adversely affect our ability to generate fee-based income in future periods. We will continue to monitor the regulatory environment for changes that could affect our future business operations.

Much of our lending operations, approximately 78%, are within the State of Florida, which had been particularly hard hit in the recent economic recession. Evidence of the economic downturn in Florida is particularly reflected in current unemployment statistics and real estate property devaluation. According to the U.S. Department of Labor, the Florida unemployment rate (seasonally adjusted) at September 30, 2011 was 10.6% compared to 12.0% at the end of 2010,

11.8% at the end of 2009, and 7.6% at the end of 2008. While our larger Florida markets have generally realized an unemployment rate below the Florida rate, they have been adversely impacted as evidenced by layoffs and business closings, as well as wealth reduction due to depressed markets. We have also realized an increasing trend in the number of bankruptcy filings in Florida and Georgia. Generally, bankruptcy filings in those states have increased approximately 9% in the aggregate from 2009 to 2010 with the most significant increases resulting from non-business bankruptcy filings. Based on data from the U.S. Census Bureau, since 2006, median household income has decreased by 3.1% and 10.6% in Florida and Georgia, respectively. Additionally, real estate property valuations continue to be depressed during the economic downturn as evidenced by our higher level of problem assets and credit related costs. Higher unemployment, increased non-business bankruptcy filings, decreased median household income, and depressed real estate values all affect the value of our loan portfolios and the associated risks. An extended continuation of the recession in Florida would likely exacerbate the adverse effects of these difficult market conditions on our clients, which would likely have a negative impact on our financial results.

FINANCIAL OVERVIEW

A summary overview of our financial performance is provided below.

Financial Performance Highlights –

- Net income for the third quarter of 2011 totaled \$2.0 million, or \$0.12 per diluted share, compared to \$2.1 million, or \$0.12 per diluted share for the second quarter of 2011, and \$0.4 million, or \$0.02 per diluted share, for the third quarter of 2010. Net income for the nine month period ended September 30, 2011 was \$5.4 million, or \$0.32 per diluted share, compared to a net loss of \$2.3 million, or \$0.14 per diluted share for the same period in 2010. Performance in 2011 also reflects the sale of our Visa stock in the first quarter which resulted in a net pre-tax gain of \$2.6 million.
- Net income for the third quarter of 2011 reflects total credit related costs (loan loss provision and other real estate owned (“OREO”) costs) of \$6.3 million, compared to \$6.6 million for the second quarter of 2011 and \$9.0 million for the third quarter of 2010. Credit related costs were \$20.6 million for the first nine months of 2011 compared to \$30.3 million for the same period in 2010.
- Tax equivalent net interest income for the third quarter of 2011 was \$23.3 million compared to \$23.7 million for the second quarter of 2011 and \$25.1 million for the third quarter of 2010. For the nine month period ended September 30, 2011, tax equivalent net interest income totaled \$70.3 million compared to \$74.3 million for the same period in 2010. The decline for each period primarily reflects lower loan portfolio balances.
- Loan loss provision for the third quarter of 2011 was \$3.7 million compared to \$3.5 million for the second quarter of 2011 and \$5.7 million for the third quarter of 2010. For the first nine months of 2011, the loan loss provision was \$11.4 million compared to \$20.0 million for the same period in 2010. For the nine month period, the reduction is attributable to a lower level of impaired loans and related reserves as well as a lower general reserve, primarily reflective of a 14% reduction in the level of internally classified loans, and lower loss rates. As of September 30, 2011, the allowance for loan losses was 1.79% of total loans and provided coverage of 36% of nonperforming loans compared to 2.01% and 41%, respectively, at year-end 2010.
- Noninterest income for the third quarter of 2011 totaled \$14.2 million, a decrease of \$0.3 million from the second quarter of 2011 and an increase of \$0.7 million over the third quarter of 2010. A lower level of gains from OREO property sales drove the decline from the second quarter of 2011. Higher deposit fees and bank card fees drove the favorable variance versus the third quarter of 2010. For the first nine months of 2011, noninterest income totaled \$45.0 million, an increase of \$2.9 million over the same period in 2010 primarily attributable to the gain on the sale of our Visa shares as noted above.
- Noninterest expense for the third quarter of 2011 totaled \$30.6 million, a decrease of \$0.5 million from the second quarter of 2011 and \$1.7 million from the third quarter of 2010. The decline from the second quarter of 2011 quarter was primarily due to lower OREO costs. Lower OREO costs, intangible amortization, FDIC insurance, and occupancy costs drove the reduction compared to the third quarter of 2010. For the first nine months of 2011, noninterest expense totaled \$95.1 million, a \$5.2 million decline from the same period of 2010 primarily attributable to expense for FDIC insurance, intangible amortization, and OREO costs.
- Average earning assets were \$2.203 billion for the third quarter of 2011, a decrease of \$15.1 million from the fourth quarter of 2010 attributable to a lower loan portfolio, partially offset by increases in the overnight funds position and the investment portfolio that were funded primarily through higher repurchase agreement balances.

- As of September 30, 2011, we are well-capitalized with a risk based capital ratio of 15.41% and a tangible common equity ratio of 7.19% compared to 14.50% and 6.82%, respectively, at December 31, 2010.

RESULTS OF OPERATIONS

Net Income

Net income for the third quarter of 2011 totaled \$2.0 million, or \$0.12 per diluted share, compared to \$2.1 million, or \$0.12 per diluted share, for the second quarter of 2011, and \$0.4 million, or \$0.02 per diluted share, for the third quarter of 2010. Net income for the nine month period ended September 30, 2011 was \$5.4 million, or \$0.32 per diluted share, compared to a net loss of \$2.3 million, or \$0.14 per diluted share, for the same period in 2010.

Compared to the second quarter of 2011, third quarter 2011 earnings reflect lower operating revenues of \$0.6 million and a \$0.2 million increase in the loan loss provision, which is partially offset by a \$0.5 million decline in noninterest expense and lower income tax expense of \$0.1 million. A \$1.9 million decline in the loan loss provision and a \$1.7 million reduction in noninterest expense, which is partially offset by lower operating revenues of \$0.9 million and higher income taxes of \$1.1 million, drove the improvement in earnings compared to the third quarter of 2010.

The increase in earnings for the nine month period ended September 30, 2011 is attributable to an \$8.6 million reduction in the loan loss provision and lower noninterest expense of \$5.2 million, which is partially offset by a \$0.8 million decline in operating revenues and higher income taxes of \$5.2 million. 2011 performance also reflects the sale of our Visa Class B shares of stock during the first quarter which resulted in a net pre-tax gain of \$2.6 million (i.e., \$3.2 million pre-tax included in noninterest income and a swap liability of \$0.6 million included in noninterest expense).

A condensed earnings summary of each major component of our financial performance is provided below:

| (Dollars in Thousands, except per share data) | Three Months Ended | | | Nine Months Ended | |
|---|--------------------|---------------|---------------|-------------------|---------------|
| | Sept 30, 2011 | June 30, 2011 | Sept 30, 2010 | Sept 30, 2011 | Sept 30, 2010 |
| Interest Income | \$ 24,891 | \$ 25,467 | \$ 27,576 | \$ 75,547 | \$ 83,664 |
| Taxable equivalent Adjustments | 226 | 265 | 331 | 762 | 1,151 |
| Total Interest Income (FTE) | 25,117 | 25,732 | 27,907 | 76,309 | 84,815 |
| Interest Expense | 1,791 | 2,028 | 2,792 | 6,022 | 10,489 |
| Net Interest Income (FTE) | 23,326 | 23,704 | 25,115 | 70,287 | 74,326 |
| Provision for Loan Losses | 3,718 | 3,545 | 5,668 | 11,396 | 20,041 |
| Taxable Equivalent Adjustments | 226 | 265 | 331 | 762 | 1,151 |
| Net Interest Income After provision for Loan Losses | 19,382 | 19,894 | 19,116 | 58,129 | 53,134 |
| Noninterest Income | 14,193 | 14,448 | 13,449 | 44,975 | 42,090 |
| Noninterest Expense | 30,647 | 31,167 | 32,363 | 95,145 | 100,376 |
| Income (Loss) Before Income Taxes | 2,928 | 3,175 | 202 | 7,959 | (5,152) |
| Income Tax Expense (Benefit) | 951 | 1,030 | (199) | 2,527 | (2,821) |
| Net Income (Loss) | \$ 1,977 | \$ 2,145 | \$ 401 | \$ 5,432 | \$ (2,331) |
| Basic Net Income (Loss) Per Share | \$ 0.12 | \$ 0.12 | \$ 0.02 | \$ 0.32 | \$ (0.14) |
| Diluted Net Income (Loss) Per Share | \$ 0.12 | \$ 0.12 | \$ 0.02 | \$ 0.32 | \$ (0.14) |
| Return on Average Equity | 2.97% | 3.28% | 0.60% | 2.77% | (1.17)% |
| Return on Average Assets | 0.31% | 0.33% | 0.06% | 0.28% | (0.12)% |

Net Interest Income

Net interest income represents our single largest source of earnings and is equal to interest income and fees generated by earning assets less interest expense paid on interest bearing liabilities. This information is provided on a "taxable equivalent" basis to reflect the tax-exempt status of income earned on certain loans and investments, the majority of which are state and local government debt obligations. We provide an analysis of our net interest income including average yields and rates in Table I on page 38.

Tax equivalent net interest income for the third quarter of 2011 was \$23.3 million compared to \$23.7 million for the second quarter of 2011 and \$25.1 million for the third quarter of 2010. For the nine month period ended September 30, 2011, tax equivalent net interest income totaled \$70.3 million compared to \$74.3 million for the same period in 2010.

The decrease of \$0.4 million in tax equivalent net interest income from the second quarter of 2011 was due to lower loan balances, declining loan fees and lower earning asset yields, partially offset by a reduction in the costs of funds, an additional calendar day and a lower level of foregone interest on nonaccrual loans. The decrease in tax equivalent net interest income of \$1.8 million and \$4.0 million, for the three and nine month periods ended September 30, 2011, respectively, as compared to the same periods in 2010, resulted from an unfavorable change in earning asset mix and yield, partially offset by a reduction in interest expense and lower level of foregone interest on nonaccrual loans.

Tax equivalent interest income for the third quarter of 2011 was \$25.1 million compared to \$25.7 million for the second quarter of 2011 and \$27.9 million for the third quarter of 2010. The decrease in interest income when compared to both periods resulted primarily from unfavorable asset re-pricing and a change in the earning asset mix attributable to declining loan balances.

Interest expense for the third quarter of 2011 was \$1.8 million compared to \$2.0 million for the second quarter of 2011 and \$2.8 million for the third quarter in 2010. The lower cost of funds when compared to the second quarter of 2011 was a result of continued rate reductions on certificates of deposits and money market accounts. The lower costs of funds when compared to the third quarter of 2010 resulted from rate reductions on non-maturity deposits, certificates of deposit and subordinated notes. The rate reductions on deposits reflect management's decision not to compete with higher rate paying institutions and to continue our focus on core banking relationships. The lower rate on subordinated notes was due to one note changing to a variable rate from a fixed rate, which occurred in the second half of 2010.

The decline in loans, coupled with the low rate environment, continues to put pressure on our net interest income. Lowering our costs of funds, to the extent we can, and continuing to shift the mix of our deposits should help to mitigate the unfavorable impact of weak loan demand and re-pricing.

The net interest margin in the third quarter of 2011 was 4.20%, a decrease of one basis point over the linked quarter and a decline of 18 basis points from the third quarter of 2010. Year over year, for the nine month period, the margin declined 11 basis points to 4.18%. The decrease in the margin for all comparable periods is attributable to the shift in our earning asset mix and unfavorable asset re-pricing, which is partially offset by a favorable variance in our average cost of funds.

Provision for Loan Losses

The provision for loan losses for the third quarter of 2011 was \$3.7 million compared to \$3.5 million in the second quarter of 2011 and \$5.7 million for the third quarter of 2010. For the nine month period ended September 30, 2011,

the loan loss provision totaled \$11.4 million compared to \$20.0 million for the same period in 2010. This change was driven by a reduction in impaired loans and related reserves as well as a lower general reserve, which is primarily reflective of a 14% reduction in the level of internally classified loans, and lower loss rates. Net charge-offs for the third quarter of 2011 totaled \$5.1 million, or 1.22%, of average loans compared to \$6.3 million, or 1.49%, for the second quarter of 2011 and \$6.4 million, or 1.40%, in the third quarter of 2010. For the nine month period ended September 30, 2011, net charge-offs totaled \$17.2 million, or 1.35%, of average loans compared to \$26.3 million, or 1.91%, for the same period of 2010. At quarter-end, the allowance for loan losses of \$29.7 million was 1.79% of outstanding loans (net of overdrafts) and provided coverage of 36% of nonperforming loans compared to 1.84% and 37%, respectively, at June 30, 2011, and 2.01% and 41%, respectively, at December 31, 2010.

Charge-off activity for the respective periods is set forth below:

| (Dollars in Thousands, except per share data) | Three Months Ended | | | Nine Months Ended | |
|---|--------------------|-----------------|-----------------|-------------------|------------------|
| | Sept 30, 2011 | June 30, 2011 | Sept 30, 2010 | Sept 30, 2011 | Sept 30, 2010 |
| CHARGE-OFFS | | | | | |
| Commercial, Financial and Agricultural | \$ 186 | \$ 301 | \$ 242 | \$ 1,208 | \$ 1,489 |
| Real Estate - Construction | 75 | 14 | 701 | 90 | 5,643 |
| Real Estate - Commercial Mortgage | 1,031 | 2,808 | 1,741 | 4,270 | 7,292 |
| Real Estate - Residential | 3,287 | 2,371 | 2,988 | 9,115 | 9,125 |
| Real Estate - Home Equity | 580 | 944 | 187 | 2,513 | 2,501 |
| Consumer | 832 | 606 | 1,057 | 2,055 | 2,923 |
| Total Charge-offs | 5,991 | 7,044 | 6,916 | 19,251 | 28,973 |
| RECOVERIES | | | | | |
| Commercial, Financial and Agricultural | 33 | 43 | 65 | 145 | 322 |
| Real Estate - Construction | - | 5 | - | 15 | 8 |
| Real Estate - Commercial Mortgage | 37 | 115 | 6 | 164 | 207 |
| Real Estate - Residential | 271 | 113 | 179 | 444 | 405 |
| Real Estate - Home Equity | 108 | 57 | 2 | 201 | 527 |
| Consumer | 402 | 373 | 274 | 1,108 | 1,184 |
| Total Recoveries | 851 | 706 | 526 | 2,077 | 2,653 |
| Net Charge-offs | \$ 5,140 | \$ 6,338 | \$ 6,390 | \$ 17,174 | \$ 26,320 |
| Net Charge - Offs (Annualized) as a percent of Average Loans Outstanding, Net of Unearned Interest | 1.22% | 1.49% | 1.40% | 1.35% | 1.91% |

Noninterest Income

Noninterest income for the third quarter of 2011 totaled \$14.2 million, a decrease of \$0.3 million, or 1.8%, from the second quarter of 2011 and an increase of \$0.7 million, or 5.5% over the third quarter of 2010. A \$0.5 million reduction in other income drove the decline from the second quarter of 2011 and reflects a lower level of gains from the sale of ORE properties. Partially offsetting the lower level of other income was a \$0.3 million increase in deposit fees. The favorable variance compared to the third quarter of 2010 was primarily due to higher deposit and bank card fees of \$0.2 million and \$0.3 million, respectively. For the nine month period ended September 30, 2011, noninterest income totaled \$45.0 million, an increase of \$2.9 million, or 6.8%, from the same period in 2010. The increase was primarily due to a \$3.2 million pre-tax gain from the sale of our Class B shares of Visa stock during the first quarter of 2011, and higher retail brokerage and bank card fees of \$0.4 million and \$0.8 million, respectively. Partially offsetting these favorable variances was a \$1.1 million reduction in deposit fees.

Noninterest income represented 38.1% of operating revenues for the third quarter of 2011 compared to 38.1% for the second quarter of 2011 and 35.2% for the third quarter of 2010. For the first nine months of 2011, noninterest income represented 39.4% of operating revenues compared to 36.5% for the same period of 2010. The higher ratio for the first nine months of 2011 reflects the gain from the sale of our Visa stock.

The table below reflects the major components of noninterest income.

| (Dollars in Thousands) | Three Months Ended | | | Nine Months Ended | |
|-------------------------------------|--------------------|------------------|------------------|-------------------|------------------|
| | Sept 30, 2011 | June 30, 2011 | Sept 30, 2010 | Sept 30, 2011 | Sept 30, 2010 |
| Noninterest Income: | | | | | |
| Service Charges on Deposit Accounts | \$ 6,629 | \$ 6,309 | \$ 6,399 | \$ 18,921 | \$ 20,066 |
| Data Processing Fees | 749 | 764 | 911 | 2,487 | 2,730 |
| Asset Management Fees | 1,080 | 1,080 | 1,040 | 3,240 | 3,140 |
| Retail Brokerage Fees | 807 | 939 | 671 | 2,475 | 2,082 |
| Investment Security Gains | - | - | 3 | - | 8 |
| Mortgage Banking Fees | 645 | 568 | 772 | 1,830 | 1,921 |
| Interchange Fees (1) | 1,420 | 1,443 | 1,291 | 4,223 | 3,792 |
| ATM/Debit Card Fees (1) | 1,170 | 1,115 | 1,036 | 3,421 | 3,072 |
| Gain on Sale of Visa Stock | - | - | - | 3,172 | - |
| Other | 1,693 | 2,230 | 1,326 | 5,206 | 5,279 |
| Total Noninterest Income | \$ 14,193 | \$ 14,448 | \$ 13,449 | \$ 44,975 | \$ 42,090 |

(1) Together referred to as "Bank Card Fees"

Significant components of noninterest income are discussed in more detail below.

Service Charges on Deposit Accounts. Deposit service charge fees increased \$320,000, or 5.1%, over the second quarter of 2011 and \$230,000, or 3.6%, over the third quarter of 2010. For the first nine months of 2011, deposit service charge fees declined by \$1.1 million, or 5.7%, from the comparable period in 2010. The increase over the second quarter of 2011 and third quarter of 2010 was due to higher overdraft fees reflective of a fee increase implemented early in the third quarter of 2011. For the nine month period ended September 30, 2011, a lower level of overdraft fees drove the decline from the same period of 2010. The decline in overdraft fees was due to reduced activity as well as the implementation of new rules under Regulation E.

Data Processing Fees. Fees from data processing services totaled \$750,000 for the third quarter of 2011, which is comparable to the second quarter of 2011, and a decrease of \$162,000, or 17.8%, from the third quarter of 2010. For the first nine months of 2011, fees decreased by \$243,000, or 8.9%, due to a reduction in the number of banks we process for as two of our client banks were acquired and migrated to a new processor in the second quarter of 2011. The annualized impact on our data processing fees will be approximately \$1.2 million.

Asset Management Fees. Fees from asset management activities totaled \$1.1 million for the third quarter of 2011, which is comparable to the second quarter of 2011, and an increase of \$40,000 over the third quarter of 2010. For the first nine months of 2011, fees totaled \$3.2 million, a \$100,000 increase over the comparable period of 2010. At September 30, 2011, assets under management totaled \$640.4 million compared to \$677.1 million at June 30, 2011 and \$719.1 million at September 30, 2010. The distribution of a large estate account early in the third quarter of 2011 was the primary reason for the decline in assets under management compared to both the second quarter of 2011 and third quarter of 2010. To a lesser extent, lower account values due to market conditions in 2011 also contributed to the year over year reduction in assets under management.

Retail Brokerage Fees. Fees from the sale of retail investment and insurance products decreased \$132,000, or 14.1%, from the second quarter of 2011 and increased \$136,000, or 20.3%, over the third quarter of 2010. For the first nine

months of 2011, fees increased by \$394,000, or 18.9%, over the same period in 2010. The increase over the three and nine month periods of 2010 reflects both increased trading activity by existing clients and new business. A large annuity account opened in the second quarter of 2011 also contributed to the favorable variance. The opening of this account was also the primary reason for the unfavorable variance for the third quarter of 2011 versus the second quarter of 2011.

Mortgage Banking Fees. Mortgage banking fees increased \$76,000, or 13.4%, over the second quarter of 2011 and decreased \$128,000, or 16.6%, from the third quarter of 2010. For the first nine months of 2011, fees were \$91,000, or 4.7%, lower than the comparable period of 2010. The slight increase compared to the second quarter of 2011 was due to higher home purchase activity in our Tallahassee market. Compared to both the three and nine month periods of 2010, loan production has been negatively impacted by a slowdown in new home purchase activity in our Tallahassee market which is attributable in part to consumer uncertainty regarding state government job cuts.

Bank Card Fees. Bank card fees (including interchange fees and ATM/debit card fees) increased \$33,000, or 1.3%, over the second quarter of 2011 and \$264,000, or 11.3%, over the third quarter of 2010. For the first nine months of 2011, fees increased \$780,000, or 11.4%, over the comparable period of 2010. The increase for all periods reflects higher card utilization. An ATM fee increase and a debit card promotion also contributed to the favorable variance versus the periods in 2010.

Other. Other income decreased by \$537,000, or 24.1%, from the second quarter of 2011 and increased by \$367,000, or 27.7%, over the third quarter of 2010. For the first nine months of 2011, other income decreased by \$74,000, or 1.4%, from the comparable period of 2010. The unfavorable variance compared to the second quarter of 2011 reflects a decrease in gains from the sale of OREO properties. The increase over the third quarter of 2010 reflects a higher level of gains from the sale of OREO properties. For the first nine months of 2011, the slight unfavorable variance reflects lower merchant fees that were partially offset by higher gains from ORE sales. The decline in our merchant fees is substantially offset by a reduction in processing costs, which are reflected as interchange fees in noninterest expense.

Noninterest Expense

Noninterest expense for the third quarter of 2011 totaled \$30.6 million, a decrease of \$0.5 million, or 1.7%, from the second quarter of 2011 and \$1.7 million, or 5.3%, from the third quarter of 2010. The decline from the second quarter of 2011 was primarily due to a \$0.5 million reduction in OREO expense reflective of both a reduction in valuation adjustments and losses from the sale of properties. Compared to the third quarter of 2010, the favorable variance was due to lower OREO expense of \$0.8 million, intangible amortization expense of \$0.6 million, FDIC insurance of \$0.5 million, and occupancy expense of \$0.3 million, which was partially offset by higher compensation expense of \$0.8 million.

For the nine month period ended September 30, 2011, noninterest expense totaled \$95.1 million, a \$5.2 million, or 5.2%, decline from the same period of 2010. This expense reduction was attributable to lower intangible amortization expense of \$1.6 million, FDIC insurance of \$1.3 million, OREO expense of \$1.0 million, professional fees of \$0.5 million, and miscellaneous expense of \$0.8 million. Partially offsetting the aforementioned favorable variances was a \$1.0 million increase in compensation.

The table below reflects the major components of noninterest expense.

| (Dollars in Thousands) | Three Months Ended | | | Nine Months Ended | |
|-----------------------------|--------------------|------------------|------------------|-------------------|------------------|
| | Sept 30, 2011 | June 30, 2011 | Sept 30, 2010 | Sept 30, 2011 | Sept 30, 2010 |
| Noninterest Expense: | | | | | |
| Salaries | \$ 12,609 | \$ 12,509 | \$ 12,297 | \$ 38,054 | \$ 37,879 |
| Associate Benefits | 3,196 | 3,491 | 2,706 | 10,328 | 9,487 |
| Total Compensation | 15,805 | 16,000 | 15,003 | 48,382 | 47,366 |
| Premises | 2,495 | 2,447 | 2,611 | 7,338 | 7,604 |
| Equipment | 2,118 | 2,117 | 2,288 | 6,461 | 6,661 |
| Total Occupancy | 4,613 | 4,564 | 4,899 | 13,799 | 14,265 |
| Legal Fees | 983 | 1,048 | 1,044 | 3,138 | 3,199 |
| Professional Fees | 952 | 910 | 1,101 | 2,707 | 3,196 |
| Processing Services | 886 | 939 | 908 | 2,775 | 2,770 |

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|---------------------------|-----------|-----------|-----------|-----------|------------|
| Advertising | 480 | 664 | 380 | 1,702 | 1,934 |
| Travel and Entertainment | 214 | 200 | 245 | 625 | 720 |
| Printing and Supplies | 338 | 284 | 386 | 970 | 1,109 |
| Telephone | 503 | 498 | 593 | 1,442 | 1,660 |
| Postage | 471 | 387 | 436 | 1,332 | 1,333 |
| Insurance - Other | 1,049 | 1,076 | 1,595 | 3,505 | 4,767 |
| Intangible Amortization | 108 | 107 | 709 | 568 | 2,129 |
| Courier Service | 128 | 124 | 117 | 372 | 348 |
| Other Real Estate | 2,542 | 3,033 | 3,306 | 9,252 | 10,213 |
| Miscellaneous | 1,575 | 1,333 | 1,641 | 4,576 | 5,367 |
| Total Other | 10,229 | 10,603 | 12,461 | 32,964 | 38,745 |
| Total Noninterest Expense | \$ 30,647 | \$ 31,167 | \$ 32,363 | \$ 95,145 | \$ 100,376 |

-29-

Significant components of noninterest expense are discussed in more detail below.

Compensation. Compensation expense decreased \$195,000, or 1.2%, from the second quarter of 2011 and increased \$802,000, or 5.3%, over the third quarter of 2010. The decrease compared to the second quarter of 2011 was due to lower expense for our associate benefits due to lower pension plan expense which reflects the finalization of our 2011 actuarial work during the quarter. Compared to the third quarter of 2010, salary expense increased by \$312,000, or 2.5%, and associate benefit expense increased by \$490,000, or 18.1%. For the first nine months of 2011, compensation expense increased \$1.0 million, or 2.1%, over the comparable period of 2010 reflecting higher salary expense of \$175,000 and associate benefits of \$841,000. Compared to the three and nine month periods of 2010, the increase realized in salary expense was primarily due to an increased level of performance pay for associates and the increase in associate benefit expense reflects higher pension expense and stock compensation expense. Both performance pay and stock compensation increased due to improved company performance versus the prior year.

Occupancy. Occupancy expense (including premises and equipment) increased \$49,000, or 1.1%, over the second quarter of 2011, and decreased \$286,000, or 5.8%, from the third quarter of 2010. For the first nine months of 2011, occupancy expense declined by \$466,000, or 3.3%, compared to the same period of 2010. Higher utility expense drove the increase over the second quarter of 2010. Compared to the three and nine month periods of 2010, lower expense for bank premises rental drove the favorable variance and reflects the expiration of leases for two re-located offices.

Other. Other noninterest expense decreased \$374,000, or 3.5%, from the second quarter of 2011. The decrease was due to lower OREO expense of \$643,000 and advertising expense of \$184,000, partially offset by higher miscellaneous expense of \$242,000. The lower level of OREO expense primarily reflects a reduction in the level of losses recognized on the sale of OREO. Advertising expense was lower due to a reduction in public relations and general advertising activities. Miscellaneous expense increased due to a higher level of debit card fraud losses.

Other noninterest expense decreased \$2.2 million, or 17.9%, from the third quarter of 2010 and \$5.8 million, or 14.9%, from the comparable nine month period of 2010. The decrease from the third quarter of 2010 was due to lower OREO expense of \$764,000, intangible amortization of \$601,000, and FDIC insurance of \$546,000. For the nine month period, the decrease primarily reflects lower OREO expense of \$1.0 million, intangible amortization expense of \$1.6 million, FDIC insurance of \$1.3 million, professional fees of \$0.5 million, and miscellaneous expense of \$0.8 million. The reduction in OREO expense for both the three and nine-month periods is attributable to a reduction in valuation adjustments and property carrying costs. Intangible amortization expense declined for both periods due to full amortization of core deposit intangibles related to several past acquisitions. The reductions in FDIC insurance expense reflect a lower rate due to changes to the FDIC premium structure required by Dodd-Frank. The decline in professional fees for the nine-month period was due to lower consulting fees. Miscellaneous expense declined for both the three and nine month periods due to a reduction in interchange fees attributable to the sale of our merchant processing business as noted above in our discussion of noninterest income.

Our operating efficiency ratio (expressed as noninterest expense, excluding intangible amortization expense and merger expenses, as a percent of the sum of taxable-equivalent net interest income plus noninterest income) was 81.40% for the third quarter of 2011 compared to 81.41% for the second quarter of 2011 and 82.08% for the third quarter of 2010. For the first nine months of 2011, this ratio was 82.07% compared to 84.39% for the comparable period of 2010. The reduction in this ratio relative to the comparable periods in 2010 was primarily due to the gain on sale of Visa stock. Lower noninterest expense also contributed to the improvement for all comparable periods.

Income Taxes

Income tax expense for the third quarter of 2011 totaled \$1.0 million, comparable to the second quarter of 2011 and an increase of \$1.2 million over the third quarter of 2010. For the first nine months of 2011, income tax expense totaled \$2.5 million compared to an income tax benefit of \$2.8 million for the comparable period of 2010. A higher level of book operating profit drove the higher level of tax expense compared to all prior year periods.

FINANCIAL CONDITION

Average earning assets were \$2.203 billion for the third quarter of 2011, a decrease of \$56.0 million, or 2.5%, from the second quarter of 2011 and a decrease of \$15.1 million, or 0.7%, from the fourth quarter of 2010. The lower level of earning assets over the second quarter of 2011 was primarily a result of decline in short-term investments attributable to a decrease in deposits and a lower loan portfolio. The decrease from the fourth quarter of 2010 is attributable to the lower loan portfolio, partially offset by increases in the overnight funds position and the investment portfolio, which were funded primarily through higher repurchase agreement balances.

Investment Securities

In the third quarter of 2011, our average investment portfolio of \$303.5 million decreased \$2.0 million, or 0.6%, from the second quarter of 2011 and increased \$41.1 million, or 13.5%, from the fourth quarter of 2010. The average balance of the investment portfolio compared to the second quarter of 2011 decreased as maturing municipal bonds exceeded purchases. Declines were also experienced in U.S. Treasury securities and mortgage-backed securities, which were only partially offset with purchases of floating rate SBA securities. The increase in the investment portfolio compared to the fourth quarter of 2010 was a result of an investment strategy which utilized a portion of our excess liquidity to attain a higher yield than overnight funds. A majority of these investments were U.S. Treasury securities which were also largely used for pledging purposes, and were partially offset by a decline in municipal bond balances. As a percentage of average earning assets, the investment portfolio represented 13.8% in the third quarter of 2011, compared to 13.5% in the second quarter of 2011 and 11.8% in the fourth quarter of 2010. If appropriate, we will continue to look to deploy a portion of the overnight funds position in the investment portfolio during the fourth quarter.

The investment portfolio is a significant component of our operations and, as such, it functions as a key element of liquidity and asset/liability management. As of September 30, 2011, all securities were classified as available-for-sale, which offers management full flexibility in managing our liquidity and interest rate sensitivity without adversely impacting our regulatory capital levels. It is neither management's intent nor practice to participate in the trading of investment securities for the purpose of recognizing gains and therefore we do not maintain a trading portfolio. Securities in the available-for-sale portfolio are recorded at fair value with unrealized gains and losses associated with these securities recorded net of tax, in the accumulated other comprehensive income (loss) component of shareowners' equity.

At September 30, 2011, the investment portfolio maintained a net pre-tax unrealized gain of \$1.8 million compared to \$2.2 million at September 30, 2011 and \$1.1 million at December 31, 2010. Although the yield curve has flattened compared to the last quarter, most of the price increases in bonds were in longer dated securities, resulting in little change to the unrealized gains on shorter U.S. Treasury securities and municipal bonds. The decline in unrealized gains compared to the fourth quarter of 2010 was primarily attributable to lower prices on the GNMA mortgage-backed securities, resulting from concerns that prepayment speeds will pick up considerably given a lower rate environment. Approximately \$27.0 million of our investment securities have an unrealized loss totaling \$0.8 million. These securities are primarily in a loss position because they were acquired when the general level of interest rates was lower than that on September 30, 2011. We believe that the losses in these securities are temporary in nature and that the full principal will be collected as anticipated. Because the declines in the market value of these investments are attributable to changes in interest rates and not credit quality and because we have the ability and intent to hold these investments until there is a recovery in fair value, which may be at maturity, we do not consider these investments to be other-than-temporarily impaired at September 30, 2011. One preferred bank stock issue for \$0.6 million has been in a loss position for greater than 12 months. We continue to closely monitor the fair value of this security as the subject bank continues to experience negative operating trends.

Loans

Average loans decreased \$36.6 million, or 2.2%, from the second quarter of 2011 and \$115.2 million, or 6.5%, from the fourth quarter of 2010. The continued decline of the loan portfolio, when compared to both periods was primarily driven by reductions in the commercial, commercial real estate, residential and construction loan categories. With the exception of commercial, the reduction in these loan categories was due in large part to loan charge-offs and the transfer of loans to OREO. The portfolio continues to be impacted by weak loan demand attributable to the sluggish economy.

During the third quarter, loan charge-offs and transfers to OREO accounted for \$13.5 million, or 45%, of a net reduction in total loans of \$29.9 million from the second quarter 2011. Loan charge-offs and the migration of loans to OREO have accounted for \$44.5 million, or 44%, of the net reduction of \$101.0 million from the fourth quarter of 2010. The aforementioned impacts of loan charge-offs and loans transferred to OREO are based on "as of" balances, not averages.

Our bankers continue to try to reach clients who are interested in moving or expanding their banking relationships. While we strive to identify opportunities to increase loans outstanding and enhance the portfolio's overall contribution to earnings, we will only do so by adhering to sound lending principles applied in a prudent and consistent manner. Thus, we will not relax our underwriting standards in order to achieve designated growth goals and, where appropriate, have adjusted our standards to reflect risks inherent in the current economic environment.

We will from time to time, consider loan refinance requests and other modifications for our borrower's. These requests are evaluated in accordance with existing policies to determine whether or not a restructured ("TDR") classification is warranted. A TDR is deemed to have occurred when we have, for economic or legal reasons related to a borrower's financial difficulties, granted a concession to the client that it would not otherwise consider. Typically, the concessions granted are given in order to protect as much of the loan investment as possible and will only be provided to those borrowers that show both the character and capacity to perform under the modified terms. Discussion of our TDR portfolio is included in the section below.

Nonperforming Assets

Nonperforming assets (including nonaccrual loans, restructured loans (“TDRs”), and OREO) totaled \$143.0 million at the end of the third quarter of 2011, a decrease of \$2.7 million from the second quarter of 2011 and a decrease of \$2.3 million from the fourth quarter of 2010. Nonaccrual loans decreased \$7.7 million from the second quarter of 2011 to \$53.4 million, primarily reflecting migration of loans into the restructured loan category and the transfer of loans to OREO. Nonaccrual loan inflow for the third quarter of 2011 was comparable to the second quarter of 2011. Compared to the fourth quarter of 2010, nonaccrual loans declined by \$12.3 million reflecting the movement of loans to the OREO category and, to a lesser extent, migration to the restructured loan category. Restructured loans totaled \$28.4 million at the end of the third quarter, a \$4.8 million increase over the second quarter of 2011 and a \$6.8 million increase over the fourth quarter of 2010. The balance of OREO totaled \$61.2 million at the end of the third quarter, a slight increase of \$0.2 million from the second quarter of 2011. For 2011, we have realized a slower pace of loan defaults, momentum in working loans through the collection cycle, and progress in our property disposition efforts, which has contributed to the overall improvement in our nonperforming asset portfolio. So far in 2011, we have sold OREO properties totaling \$25.2 million, which compares to \$18.0 million for the full year 2010. Nonperforming assets represented 5.67% of total assets at September 30, 2011 compared to 5.60% at June 30, 2011 and 5.54% at December 31, 2010.

Non-performing assets are summarized as follows.

| (Dollars in Thousands) | Sept 30, 2011 | June 30, 2011 | December 31, 2010 |
|---|------------------|------------------|----------------------|
| Nonaccruing Loans | \$ 53,396 | \$ 61,076 | \$ 65,700 |
| Restructured Loans | 28,404 | 23,582 | 21,649 |
| Total Nonperforming Loans | 81,800 | 84,658 | 87,349 |
| Other Real Estate Owned | 61,196 | 61,016 | 57,937 |
| Total Nonperforming Assets | \$ 142,996 | \$ 145,674 | \$ 145,286 |
| Past Due 30-89 Days or More | \$ 17,053 | \$ 18,103 | \$ 24,193 |
| Past Due 90 Days or More (and still accruing) | \$ 26 | \$ 271 | \$ 159 |
| Nonperforming Loans/Loans | 4.93% | 5.02% | 4.97% |
| Nonperforming Assets/Total Assets | 5.67% | 5.60% | 5.54% |
| Nonperforming Assets/Loans Plus Other Real Estate | 8.32% | 8.33% | 8.00% |
| Nonperforming Assets/Capital(1) | 49.21% | 49.95% | 49.34% |
| Allowance/Nonperforming Loans | 36.26% | 36.71% | 40.57% |

(1) For computation of this percentage, "Capital" refers to shareowners' equity plus the allowance for loan losses.

Allowance for Loan Losses

We maintain an allowance for loan losses at a level sufficient to provide for the estimated loan losses inherent in the loan portfolio as of the balance sheet date. Credit losses arise from borrowers' inability or unwillingness to repay, and from other risks inherent in the lending process, including collateral risk, operations risk, concentration risk and economic risk. All related risks of lending are considered when assessing the adequacy of the loan loss reserve. The allowance for loan losses is established through a provision charged to expense. Loans are charged against the allowance when management believes collection of the principal is unlikely. The allowance for loan losses is based on management's judgment of overall loan quality. This is a significant estimate based on a detailed analysis of the loan portfolio. The balance can and will change based on changes in the assessment of the portfolio's overall credit

quality. We evaluate the adequacy of the allowance for loan losses on a quarterly basis.

The allowance for loan losses was \$29.7 million at September 30, 2011 compared to \$33.9 million at December 31, 2010. The allowance for loan losses was 1.79% of outstanding loans (net of overdrafts) and provided coverage of 36% of nonperforming loans at September 30, 2011 compared to 2.01% and 41%, respectively, at December 31, 2010. The decline in the allowance is due to a lower level of impaired loan reserves as well as a reduction in general reserves, primarily due to a 14% reduction in the level of internally classified loans and lower loss rates. It is management's opinion that the allowance at September 30, 2011 is adequate to absorb losses inherent in the loan portfolio at quarter-end.

Deposits

Average total deposits were \$2.061 billion for the third quarter, a decrease of \$45.4 million, or 2.2%, from the second quarter of 2011 and \$53.9 million, or 2.6%, from the fourth quarter of 2010. Deposits decreased when compared to the second quarter of 2011 driven primarily by a reduction in public funds and certificates of deposit. When compared to the fourth quarter of 2010, deposits declined attributable to a lower level of certificates of deposit. Additionally, a decrease resulting from existing clients moving from our Guaranteed Now Account product to repurchase agreements occurred late in the fourth quarter of 2010 as further discussed below. Public funds balances increased as anticipated from the fourth quarter of 2010, but have declined from the second quarter level, which reflects the seasonality within this deposit category. Noninterest bearing demand and savings accounts increased in both periods, partially offsetting the above mentioned decline.

Pursuant to changes in the FDIC's Temporary Liquidity Guarantee Program, our government guaranteed NOW product was discontinued during the fourth quarter. As of December 31, 2010, approximately \$95.0 million in balances from this product remained in the NOW category, \$95.0 million migrated to the noninterest bearing DDA category, and \$60.0 million moved into repurchase agreements.

We continue to pursue prudent pricing discipline to manage the mix of our deposits. Therefore, we are not attempting to compete with higher rate paying competitors for deposits.

We continue to experience a favorable shift in the mix of our deposits as higher cost certificates of deposit balances are replaced with lower rate nonmaturity deposits and noninterest bearing demand accounts.

MARKET RISK AND INTEREST RATE SENSITIVITY

Market Risk and Interest Rate Sensitivity

Overview. Market risk management arises from changes in interest rates, exchange rates, commodity prices, and equity prices. We have risk management policies to monitor and limit exposure to market risk and do not participate in activities that give rise to significant market risk involving exchange rates, commodity prices, or equity prices. In asset and liability management activities, our policies are designed to minimize structural interest rate risk.

Interest Rate Risk Management. Our net income is largely dependent on net interest income. Net interest income is susceptible to interest rate risk to the degree that interest-bearing liabilities mature or re-price on a different basis than interest-earning assets. When interest-bearing liabilities mature or re-price more quickly than interest-earning assets in a given period, a significant increase in market rates of interest could adversely affect net interest income. Similarly, when interest-earning assets mature or re-price more quickly than interest-bearing liabilities, falling interest rates could result in a decrease in net interest income. Net interest income is also affected by changes in the portion of interest-earning assets that are funded by interest-bearing liabilities rather than by other sources of funds, such as noninterest-bearing deposits and shareowners' equity.

We have established a comprehensive interest rate risk management policy, which is administered by management's Asset/Liability Management Committee (ALCO). The policy establishes limits of risk, which are quantitative measures of the percentage change in net interest income (a measure of net interest income at risk) and the fair value of equity capital (a measure of economic value of equity ("EVE") at risk) resulting from a hypothetical change in interest rates for maturities from one day to 30 years. We measure the potential adverse impacts that changing interest rates may have on our short-term earnings, long-term value, and liquidity by employing simulation analysis through the use of computer modeling. The simulation model captures optionality factors such as call features and interest rate

caps and floors imbedded in investment and loan portfolio contracts. As with any method of gauging interest rate risk, there are certain shortcomings inherent in the interest rate modeling methodology used by us. When interest rates change, actual movements in different categories of interest-earning assets and interest-bearing liabilities, loan prepayments, and withdrawals of time and other deposits, may deviate significantly from assumptions used in the model. Finally, the methodology does not measure or reflect the impact that higher rates may have on adjustable-rate loan clients' ability to service their debts, or the impact of rate changes on demand for loan, and deposit products.

We prepare a current base case and three alternative simulations, at least once a quarter, and report the analysis to the Board of Directors. In addition, more frequent forecasts may be produced when interest rates are particularly uncertain or when other business conditions so dictate.

Our interest rate risk management goal is to avoid unacceptable variations in net interest income and capital levels due to fluctuations in market rates. Management attempts to achieve this goal by balancing, within policy limits, the volume of floating-rate liabilities with a similar volume of floating-rate assets, by keeping the average maturity of fixed-rate asset and liability contracts reasonably short and matched, by maintaining a pool of administered core deposits, and by adjusting pricing rates to market conditions on a continuing basis.

The balance sheet is subject to testing for interest rate shock possibilities to indicate the inherent interest rate risk. Average interest rates are shocked by plus or minus 100, 200, and 300 basis points ("bp"), although we may elect not to use particular scenarios that we determined are impractical in a current rate environment. It is management's goal to structure the balance sheet so that net interest earnings at risk over a 12-month period and the economic value of equity at risk do not exceed policy guidelines at the various interest rate shock levels.

We augment our quarterly interest rate shock analysis with alternative external interest rate scenarios on a monthly basis. These alternative interest rate scenarios may include non-parallel rate ramps.

Analysis. Measures of net interest income at risk produced by simulation analysis are indicators of an institution's short-term performance in alternative rate environments. These measures are typically based upon a relatively brief period, usually one year. They do not necessarily indicate the long-term prospects or economic value of the institution.

Estimated Changes in Net Interest Income (1)

| Changes in Interest Rates | +300 bp | +200 bp | +100 bp | -100 bp |
|---------------------------|---------|---------|---------|---------|
| Policy Limit (\pm) | 10.0% | 7.5% | 5.0% | 5.0% |
| September 30, 2011 | -5.2% | -2.2% | -0.1% | 0.2% |
| June 30, 2011 | -7.2% | -3.5% | -0.8% | -0.1% |

The Net Interest Income at Risk position improved for the third quarter of 2011, when compared to the prior quarter-end, for all rate scenarios. Our largest exposure is at the +300 bp level, with a measure of -5.2%, which is still within our policy limit of -10.0%. This is an improvement when compared to the linked quarter, as the favorable variances were attributable to a lower level of interest bearing deposit accounts and repurchase agreements, which were partially offset by a reduction in the overnight funds balance. All measures of net interest income at risk are within our prescribed policy limits.

The measures of equity value at risk indicate our ongoing economic value by considering the effects of changes in interest rates on all of our cash flows, and discounting the cash flows to estimate the present value of assets and liabilities. The difference between these discounted values of the assets and liabilities is the economic value of equity, which, in theory, approximates the fair value of our net assets.

Estimated Changes in Economic Value of Equity (1)

| Changes in Interest Rates | +300 bp | +200 bp | +100 bp | -100 bp |
|---------------------------|---------|---------|---------|---------|
| Policy Limit (\pm) | 12.5% | 10.0% | 7.5% | 7.5% |
| September 30, 2011 | 0.1% | 4.2% | 4.9% | -5.6% |
| June 30, 2011 | -1.1% | 2.8% | 3.9% | -5.4% |

Our risk profile, as measured by EVE, improved for the third quarter of 2011 when compared to the linked quarter-end. In the rising rate scenarios, our largest exposure is at the up 300 bp scenario, with a measure of 0.1%, which is well within our policy limit of +/-12.5%. The favorable variance from the prior quarter is attributable to a positive change to driver rates and spreads reflecting the current rate environment in our markets. Partially offsetting this improvement was a decrease in both the Treasury curve and FHLB curve, resulting in lower loan and deposit valuation discount rates. All measures of economic value of equity are within our prescribed policy limits.

(1)Down 200 and 300 rate scenarios have been excluded due to the current historically low interest rate environment.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

In general terms, liquidity is a measurement of our ability to meet our cash needs. Our objective in managing our liquidity is to maintain our ability to meet loan commitments, purchase securities or repay deposits and other liabilities in accordance with their terms, without an adverse impact on our current or future earnings. Our liquidity strategy is guided by policies that are formulated and monitored by our ALCO and senior management, and which take into account the marketability of assets, the sources and stability of funding and the level of unfunded commitments. We regularly evaluate all of our various funding sources with an emphasis on accessibility, stability, reliability and cost-effectiveness. Our principal source of funding has been our client deposits, supplemented by our short-term and long-term borrowings, primarily from securities sold under repurchase agreements, federal funds purchased and FHLB borrowings. We believe that the cash generated from operations, our borrowing capacity and our access to capital resources are sufficient to meet our future operating capital and funding requirements.

Overall, we have the ability to generate \$739.8 million in additional liquidity through all of our available resources. In addition to primary borrowing outlets mentioned above, we also have the ability to generate liquidity by borrowing from the Federal Reserve Discount Window and through brokered deposits. Management recognizes the importance of maintaining liquidity and has developed a Contingency Liquidity Plan, which addresses various liquidity stress levels and our response and action based on the level of severity. We periodically test our credit facilities for access to the funds, but also understand that as the severity of the liquidity level increases that certain credit facilities may no longer be available. The liquidity currently available to us is considered sufficient to meet the ongoing needs.

We view our investment portfolio as a liquidity source and have the option to pledge the portfolio as collateral for borrowings or deposits, and/or sell selected securities. The portfolio consists of debt issued by the U.S. Treasury, U.S. governmental agencies, and municipal governments. The weighted average life of the portfolio is approximately 1.64 years and as of quarter-end had a net unrealized pre-tax gain of \$1.8 million.

We maintained an average net overnight funds (deposits with banks plus fed funds sold less fed funds purchased) sold position of \$231.7 million during the third quarter of 2011 compared to an average overnight funds sold position of \$249.1 million in the second quarter of 2011 and \$164.9 million in the fourth quarter of 2010. The lower balance when compared to the second quarter of 2011 primarily reflects declining deposits mentioned above and lower levels of short-term borrowings, partially offset by a decrease in the loan portfolio. The favorable variance as compared to the fourth quarter of 2010 is primarily attributable to a net reduction in loans and an increase in repurchase agreements, partially offset by a decline in deposits and the deployment of funds to the investment portfolio.

Capital expenditures are expected to approximate \$4.0 million over the next 12 months, which consist primarily of office remodeling, office equipment and furniture, and technology purchases. Management believes that these capital expenditures will be funded with existing resources without impairing our ability to meet our on-going obligations.

Borrowings

At September 30, 2011, advances from the FHLB totaled \$45.4 million in outstanding debt and consisted of 47 notes. During the first nine months of 2011, the Bank made FHLB advance payments totaling approximately \$15.5 million, which includes one \$10 million general funding advance that matured in the third quarter, and obtained one new FHLB advance totaling \$0.8 million. The FHLB notes are collateralized by a blanket floating lien on all of our 1-4 family residential mortgage loans, commercial real estate mortgage loans, and home equity mortgage loans.

We have issued two junior subordinated deferrable interest notes to wholly owned Delaware statutory trusts. The first note for \$30.9 million was issued to CCBG Capital Trust I in November 2004. The second note for \$32.0 million was issued to CCBG Capital Trust II in May 2005. The interest payments for the CCBG Capital Trust I borrowing are due quarterly at a variable rate of LIBOR plus a margin of 1.90%. The rate for the third quarter was 2.15%. This note matures on December 31, 2034. The interest payment for the CCBG Capital Trust II borrowing adjusts quarterly to a variable rate of LIBOR plus a margin of 1.80%. The rate for the third quarter was 2.05%. This note matures on June 15, 2035. The proceeds of these borrowings were used to partially fund acquisitions.

In accordance with certain Federal Reserve Resolutions (discussed in further detail within our 2010 Form 10-K), CCBG must receive approval from the Federal Reserve prior to incurring new debt, refinancing existing debt, or making interest payments on its trust preferred securities. Under the terms of each trust preferred securities note, in the event of default or if we elect to defer interest on the note, we may not, with certain exceptions, declare or pay dividends or make distributions on our capital stock or purchase or acquire any of our capital stock.

Capital

Equity capital was \$260.9 million as of September 30, 2011, compared to \$259.0 million as of December 31, 2010. Our leverage ratio was 10.20% and 10.10%, respectively, and our tangible common equity ratio was 7.19% and 6.82%, respectively, for the same periods. Our risk-adjusted capital ratio of 15.41% at September 30, 2011, exceeds the 10% threshold to be designated as “well-capitalized” under the risk-based regulatory guidelines. Management believes our strong capital base has offered protection during the course of the current economic downturn. We chose not to participate in the government’s TARP program and, to date, we have not initiated a capital raise.

During the first nine months of 2011, shareowners’ equity increased \$1.9 million, or 2.9%, on an annualized basis. During this same period, shareowners’ equity was positively impacted by net income of \$5.4 million, the issuance of stock totaling approximately \$0.7 million, accrual for performance shares of approximately \$0.4 million, and a \$0.5 million increase in our net unrealized gain on securities. Dividends paid of \$5.1 million reduced shareowners’ equity.

At September 30, 2011, our common stock had a book value of \$15.20 per diluted share compared to \$15.15 at December 31, 2010. Book value is impacted by changes in the amount of our net unrealized gain or loss on investment securities available-for-sale and changes to the amount of our unfunded pension liability, both of which are recorded through other comprehensive income. At September 30, 2011, the net unrealized gain on investment securities available for sale was \$1.1 million and the amount of our unfunded pension liability was \$16.4 million.

State and federal regulations place certain restrictions on the payment of dividends by both CCBG and the Bank. The Bank's aggregate net profits for the past two years are significantly less than the dividends declared and paid to CCBG over that same period. In addition, in accordance with the Federal Reserve Resolutions (discussed in further detail within our 2010 Form 10-K), the Bank must seek approval from the Federal Reserve prior to declaring or paying a dividend. As a result, the Bank must obtain approval from its regulators to issue and declare any further dividends to CCBG. The Bank may not receive the required approvals. As of September 30, 2011, we believe we have sufficient cash to fund shareowner dividends in 2011 should the Board choose to declare and pay a quarterly dividend during the year. Even if we have sufficient cash to pay dividends, we must seek approval from the Federal Reserve to pay dividends to our shareowners and may not receive the required approvals. We will continue to evaluate our dividend quarterly and consult with our regulators concerning matters relating to our overall dividend policy.

OFF-BALANCE SHEET ARRANGEMENTS

We do not currently engage in the use of derivative instruments to hedge interest rate risks. However, we are a party to financial instruments with off-balance sheet risks in the normal course of business to meet the financing needs of our clients.

At September 30, 2011, we had \$316.7 million in commitments to extend credit and \$12.1 million in standby letters of credit. Commitments to extend credit are agreements to lend to a client so long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Standby letters of credit are conditional commitments issued by us to guarantee the performance of a client to a third party. We use the same credit policies in establishing commitments and issuing letters of credit as we do for on-balance sheet instruments.

If commitments arising from these financial instruments continue to require funding at historical levels, management does not anticipate that such funding will adversely impact its ability to meet on-going obligations. In the event these commitments require funding in excess of historical levels, management believes current liquidity, advances available from the FHLB and the Federal Reserve, and investment security maturities provide a sufficient source of funds to meet these commitments.

CRITICAL ACCOUNTING POLICIES

The consolidated financial statements and accompanying Notes to Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States of America, which require us to make various estimates and assumptions (see Note 1 in the Notes to Consolidated Financial Statements). We believe that, of our significant accounting policies, the following may involve a higher degree of judgment and complexity.

Allowance for Loan Losses. The allowance for loan losses is established through a charge to the provision for loan losses. Provisions are made to reserve for estimated losses in loan balances. The allowance for loan losses is a significant estimate and is evaluated quarterly by us for adequacy. The use of different estimates or assumptions could produce a different required allowance, and thereby a larger or smaller provision recognized as expense in any given reporting period. A further discussion of the allowance for loan losses can be found in the section entitled "Allowance for Loan Losses" and Note 1 in the Notes to Consolidated Financial Statements in our 2010 Form 10-K.

Intangible Assets. Intangible assets consist primarily of goodwill, core deposit assets, and other identifiable intangibles that were recognized in connection with various acquisitions. Goodwill represents the excess of the cost of acquired businesses over the fair market value of their identifiable net assets. We perform an impairment review on an annual basis during the fourth quarter or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment testing requires management to make significant judgments and estimates relating to the fair value of its reporting unit. Significant changes to our estimates, when and if they occur, could result in a non-cash impairment charge and thus have a material impact on our operating results for any particular reporting period. A goodwill impairment charge would not adversely affect the calculation of our risk based and tangible capital ratios.

Because the book value of our equity exceeded our market capitalization as of September 30, 2011, we considered the guidelines set forth in ASC Topic 350 to discern whether further testing for potential impairment was needed. Based on this assessment, we performed an interim impairment test which consists of two steps. Step One compares the estimated fair value of the reporting unit to its carrying amount. If the carrying amount exceeds the estimated fair value, Step Two is performed by comparing the fair value of the reporting unit's implied goodwill to the carrying value of goodwill. If the carrying value of the reporting unit's goodwill exceeds the estimated fair value, an impairment charge is recorded equal to the excess. The Step One test we performed indicated that the carrying amount (including goodwill) of our reporting unit exceeded its estimated fair value. The Step Two test indicated the estimated fair value of our reporting unit's implied goodwill exceeded its carrying amount. Based on the results of the Step Two analysis, we concluded that goodwill was not impaired as of September 30, 2011. We will continue to test goodwill as defined by ASC Topic 350.

Core deposit assets represent the premium we paid for core deposits. Core deposit intangibles are amortized on the straight-line method over various periods ranging from 5-10 years. Generally, core deposits refer to nonpublic, non-maturing deposits including noninterest-bearing deposits, NOW, money market and savings. We make certain estimates relating to the useful life of these assets, and rate of run-off based on the nature of the specific assets and the client bases acquired. If there is a reason to believe there has been a permanent loss in value, management will assess these assets for impairment. Any changes in the original estimates may materially affect our operating results.

Pension Assumptions. We have a defined benefit pension plan for the benefit of substantially all of our associates. Our funding policy with respect to the pension plan is to contribute amounts to the plan sufficient to meet minimum funding requirements as set by law. Pension expense, reflected in the Consolidated Statements of Income in noninterest expense as "Salaries and Associate Benefits," is determined by an external actuarial valuation based on assumptions that are evaluated annually as of December 31, the measurement date for the pension obligation. The Consolidated Statements of Financial Condition reflect an accrued pension benefit cost due to funding levels and

unrecognized actuarial amounts. The most significant assumptions used in calculating the pension obligation are the weighted-average discount rate used to determine the present value of the pension obligation, the weighted-average expected long-term rate of return on plan assets, and the assumed rate of annual compensation increases. These assumptions are re-evaluated annually with the external actuaries, taking into consideration current market conditions and anticipated long-term market conditions.

The weighted-average discount rate is determined by matching the anticipated Retirement Plan cash flows to a long-term corporate Aa-rated bond index and solving for the underlying rate of return, which investing in such securities would generate. This methodology is applied consistently from year-to-year. We will utilize a 5.55% discount rate in 2011.

The weighted-average expected long-term rate of return on plan assets is determined based on the current and anticipated future mix of assets in the plan. The assets currently consist of equity securities, U.S. Government and Agency debt securities, and other securities (typically temporary liquid funds awaiting investment). We will utilize a rate of return on plan assets of 8.0% for 2011.

The assumed rate of annual compensation increases is based on expected trends in salaries and the employee base. We will utilize a compensation increase of 4.25% for 2011 reflecting current market trends. Information on components of our net periodic benefit cost is provided in Note 8 of the Notes to Consolidated Financial Statements included herein and Note 12 of the Notes to Consolidated Financial Statements in our 2010 Form 10-K.

TABLE I
AVERAGE BALANCES & INTEREST RATES

| (Taxable Equivalent Basis - Dollars in Thousands) | Three Months Ended September 30, | | | | | | Nine Months Ended Sep | | | |
|--|----------------------------------|-----------|----------|---------------------|-----------|----------|-----------------------|-----------|----------|---------------------|
| | 2011 | | 2010 | | 2010 | | 2011 | | 2011 | |
| Average | Average | Average | Average | Average | Average | Average | Average | Average | Average | Average |
| Balances | Interest | Rate | Balances | Interest | Rate | Balances | Interest | Rate | Balances | Rate |
| Assets: | | | | | | | | | | |
| Loans(1)(2) | \$ 1,667,720 | \$ 23,922 | 5.69% | \$ 1,807,483 | \$ 26,568 | 5.83% | \$ 1,700,570 | \$ 72,488 | 5.70% | \$ 1,807,483 |
| Taxable Securities(2) | 248,138 | 828 | 1.32 | 124,625 | 674 | 2.15 | 241,321 | 2,504 | 1.40 | 1,807,483 |
| Tax-Exempt Securities | 55,388 | 231 | 1.67 | 88,656 | 521 | 2.35 | 63,457 | 865 | 1.82 | 1,807,483 |
| Funds Sold | 231,681 | 136 | 0.23 | 252,434 | 144 | 0.22 | 241,195 | 452 | 0.25 | 2,307,483 |
| Total Earning Assets | 2,202,927 | 25,117 | 4.52% | 2,273,198 | 27,907 | 4.87% | 2,246,543 | 76,309 | 4.54% | 2,307,483 |
| Cash & Due From Banks | 47,252 | | | 50,942 | | | 48,539 | | | 2,307,483 |
| Allowance For Loan Losses | (30,969) | | | (39,584) | | | (32,914) | | | (30,969) |
| Other Assets | 344,041 | | | 342,202 | | | 345,725 | | | 344,041 |
| TOTAL ASSETS | \$ 2,563,251 | | | \$ 2,626,758 | | | \$ 2,607,893 | | | \$ 2,607,893 |
| Liabilities: | | | | | | | | | | |
| NOW Accounts | \$ 726,652 | \$ 222 | 0.12% | \$ 871,158 | \$ 326 | 0.15% | \$ 765,209 | \$ 742 | 0.13% | \$ 871,158 |
| Money Market Accounts | 282,378 | 95 | 0.13 | 293,434 | 145 | 0.20 | 281,798 | 362 | 0.17 | 282,378 |
| Savings Accounts | 153,748 | 19 | 0.05 | 133,690 | 17 | 0.05 | 150,357 | 53 | 0.05 | 153,748 |
| Other Time Deposits | 324,951 | 571 | 0.70 | 402,880 | 1,332 | 1.31 | 341,286 | 2,091 | 0.82 | 324,951 |
| Total Interest Bearing Deposits | 1,487,729 | 907 | 0.24 | 1,701,152 | 1,820 | 0.42 | 1,538,650 | 3,248 | 0.28 | 1,487,729 |
| Short-Term Borrowings | 64,160 | 78 | 0.48 | 23,388 | 31 | 0.54 | 75,976 | 299 | 0.53 | 64,160 |
| Subordinated Note Payable | 62,887 | 339 | 2.11 | 62,887 | 376 | 2.34 | 62,887 | 1,022 | 2.14 | 62,887 |
| Other Long-Term Borrowings | 46,435 | 467 | 3.99 | 54,258 | 565 | 4.13 | 48,795 | 1,453 | 3.98 | 46,435 |
| Total Interest Bearing Liabilities | 1,661,211 | 1,791 | 0.43% | 1,841,685 | 2,792 | 0.60% | 1,726,308 | 6,022 | 0.47% | 1,661,211 |
| Noninterest Bearing Deposits | 574,184 | | | 471,013 | | | 559,316 | | | 574,184 |
| Other Liabilities | 63,954 | | | 50,319 | | | 59,635 | | | 63,954 |
| TOTAL LIABILITIES | 2,299,349 | | | 2,363,016 | | | 2,345,259 | | | 2,345,259 |

| | | | | |
|---|--------------|--------------|--------------|--------|
| TOTAL SHAREOWNERS' EQUITY | 263,902 | 263,742 | 262,634 | 2 |
| TOTAL LIABILITIES AND SHAREOWNERS' EQUITY | \$ 2,563,251 | \$ 2,626,758 | \$ 2,607,893 | \$ 2,6 |
| Interest Rate Spread | | 4.09% | 4.27% | 4.07% |
| Net Interest Income | \$ 23,326 | \$ 25,115 | \$ 70,287 | |
| Net Interest Margin(3) | | 4.20% | 4.36% | 4.18% |

(1) Average balances include nonaccrual loans. Interest income includes fees on loans of \$345,000 and \$1.1 million for the three and nine months ended September 30, 2011 versus \$426,000 and \$1.2 million for the comparable periods ended September 30, 2010.

(2) Interest income includes the effects of taxable equivalent adjustments using a 35% tax rate.

(3) Taxable equivalent net interest income divided by average earning assets.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See “Market Risk and Interest Rate Sensitivity” in Management’s Discussion and Analysis of Financial Condition and Results of Operations, above, which is incorporated herein by reference. Management has determined that no additional disclosures are necessary to assess changes in information about market risk that have occurred since December 31, 2010.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of September 30, 2011, the end of the period covered by this Form 10-Q, our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer each concluded that as of September 30, 2011, the end of the period covered by this Form 10-Q, we maintained effective disclosure controls and procedures.

Changes in Internal Control over Financial Reporting

Our management, including the Chief Executive Officer and Chief Financial Officer, has reviewed our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934). There have been no significant changes in our internal control over financial reporting during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are party to lawsuits arising out of the normal course of business. In management's opinion, there is no known pending litigation, the outcome of which would, individually or in the aggregate, have a material effect on our consolidated results of operations, financial position, or cash flows.

Item 1A. Risk Factors

Risks Related to Our Business

An inadequate allowance for loan losses would reduce our earnings.

We are exposed to the risk that our clients will be unable to repay their loans according to their terms and that any collateral securing the payment of their loans will not be sufficient to assure full repayment. This will result in credit losses that are inherent in the lending business. We evaluate the collectability of our loan portfolio and provide an allowance for loan losses that we believe is adequate based upon such factors as:

§ the risk characteristics of various classifications of loans;

§ previous loan loss experience;

§ specific loans that have loss potential;

§ delinquency trends;

§ estimated fair market value of the collateral;

§ current economic conditions; and

§ geographic and industry loan concentrations.

As of September 30, 2011, the Bank's allowance for loan losses was \$29.7 million, which represented approximately 1.79% of its total amount of loans. The Bank had \$53.4 million in non-accruing loans as of September 30, 2011. The allowance may not prove sufficient to cover future loan losses. Although management uses the best information available to make determinations with respect to the allowance for loan losses, future adjustments may be necessary if economic conditions differ substantially from the assumptions used or adverse developments arise with respect to the Bank's non-performing or performing loans. If management's assumptions are not accurate, our current allowance may be insufficient and we may be required to increase our allowance for loan losses. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require us to recognize additional losses based on their judgments about information available to them at the time of their examination. Accordingly, the allowance for loan losses may not be adequate to cover loan losses or significant increases to the allowance may be required in the future if economic conditions should worsen. Material additions to the Bank's allowance for loan losses would adversely impact our net income and capital.

If our nonperforming assets continue to increase, our earnings will suffer.

At September 30, 2011, our non-performing loans (which consist of non-accrual loans and troubled debt restructurings) totaled \$81.8 million, or 4.93% of the total loan portfolio, which is an increase of \$56.7 million over non-performing loans at December 31, 2007. At September 30, 2011, our nonperforming assets (which include foreclosed real estate) were \$143.0 million, or 5.67% of total assets. In addition, the Bank had approximately \$17.1 million in accruing loans that were 30-89 days delinquent as of September 30, 2011. Our non-performing assets adversely affect our net income in various ways. We do not record interest income on non-accrual loans or real estate owned. In addition, if our estimate for the recorded allowance for loan losses proves to be inadequate, we will have to increase the allowance accordingly. In addition, the resolution of non-performing assets requires the active involvement of management, which can distract them from more profitable activity.

Our loan portfolio includes loans with a higher risk of loss which could lead to higher loan losses and nonperforming assets.

We originate commercial real estate loans, commercial loans, construction loans, vacant land loans, consumer loans, and residential mortgage loans primarily within our market area. Commercial real estate, commercial, construction, vacant land, and consumer loans may expose a lender to greater credit risk than loans secured by single-family residential real estate because the collateral securing these loans may not be sold as easily as single-family residential real estate. In addition, these loan types tend to involve larger loan balances to a single borrower or groups of related borrowers and are more susceptible to a risk of loss during a downturn in the business cycle. These loans also have historically had greater credit risk than other loans for the following reasons:

- § Commercial Real Estate Loans. Repayment is dependent on income being generated in amounts sufficient to cover operating expenses and debt service. These loans also involve greater risk because they are generally not fully amortizing over a loan period, but rather have a balloon payment due at maturity. A borrower's ability to make a balloon payment typically will depend on being able to either refinance the loan or timely sell the underlying property.
- § Commercial Loans. Repayment is generally dependent upon the successful operation of the borrower's business. In addition, the collateral securing the loans may depreciate over time, be difficult to appraise, be illiquid, or fluctuate in value based on the success of the business.
- § Construction Loans. The risk of loss is largely dependent on our initial estimate of whether the property's value at completion equals or exceeds the cost of property construction and the availability of take-out financing. During the construction phase, a number of factors can result in delays or cost overruns. If our estimate is inaccurate or if actual construction costs exceed estimates, the value of the property securing our loan may be insufficient to ensure full repayment when completed through a permanent loan, sale of the property, or by seizure of collateral.
- § Vacant Land Loans. Because vacant or unimproved land is generally held by the borrower for investment purposes or future use, payments on loans secured by vacant or unimproved land will typically rank lower in priority to the borrower than a loan the borrower may have on their primary residence or business. These loans are susceptible to adverse conditions in the real estate market and local economy.
- § Consumer Loans. Consumer loans (such as personal lines of credit) are collateralized, if at all, with assets that may not provide an adequate source of payment of the loan due to depreciation, damage, or loss.

The increased risks associated with these types of loans result in a correspondingly higher probability of default on such loans (as compared to single-family real estate loans). Loan defaults would likely increase our loan losses and

nonperforming assets and could adversely affect our allowance for loan losses.

Should our financial condition continue to deteriorate, we may need additional capital resources in the future and these capital resources may not be available on acceptable terms or at all. If we do raise additional capital, your ownership could be diluted.

Should our financial condition continue to deteriorate, we may need to incur additional debt or equity financing in the future to maintain required minimum capital ratios, make strategic acquisitions or investments, or for future growth. Such financing may not be available to us on acceptable terms or at all. Prior to issuing new or refinancing existing debt, we must obtain approval from the Federal Reserve pursuant to the Federal Reserve Resolutions.

-40-

Further, our Articles of Incorporation do not provide shareowners with preemptive rights and such shares may be offered to investors other than shareowners at the discretion of the Board. If we do sell additional shares of common stock to raise capital, the sale could reduce market price per share of common stock and dilute your ownership interest and such dilution could be substantial.

We may incur losses if we are unable to successfully manage interest rate risk.

Our profitability depends to a large extent on the Bank's net interest income, which is the difference between income on interest-earning assets such as loans and investment securities, and expense on interest-bearing liabilities such as deposits and borrowings. We are unable to predict changes in market interest rates, which are affected by many factors beyond our control including inflation, recession, unemployment, money supply, domestic and international events and changes in the United States and other financial markets. Our net interest income may be reduced if: (i) more interest-earning assets than interest-bearing liabilities reprice or mature during a time when interest rates are declining or (ii) more interest-bearing liabilities than interest-earning assets reprice or mature during a time when interest rates are rising.

Changes in the difference between short- and long-term interest rates may also harm our business. For example, short-term deposits may be used to fund longer-term loans. When differences between short-term and long-term interest rates shrink or disappear, as has occurred in the current near zero interest rate policy environment, the spread between rates paid on deposits and received on loans could narrow significantly, decreasing our net interest income.

If market interest rates rise rapidly, interest rate adjustment caps may limit increases in the interest rates on adjustable rate loans, thereby limiting the incremental income generated by those loans in any one year. Changes in interest rates also can affect: (i) our ability to originate or sell loans; (ii) the value of interest-earning assets, which would negatively impact shareowners' equity, and our ability to realize gains from the sale of such assets; (iii) our ability to obtain and retain deposits in competition with other available investment alternatives; and (iv) the ability of our borrowers to repay adjustable or variable rate loans. Interest rates are highly sensitive to many factors, including government monetary policies, domestic and international economic and political conditions and other factors beyond our control. If we are unable to manage interest rate risk effectively, our business, financial condition and results of operations could be materially harmed.

Since we engage in lending secured by real estate and may be forced to foreclose on the collateral property and own the underlying real estate, we may be subject to the increased costs associated with the ownership of real property, which could result in reduced net income.

Since we originate loans secured by real estate, we may have to foreclose on the collateral property to protect our investment and may thereafter own and operate such property, in which case we are exposed to the risks inherent in the ownership of real estate.

The amount that we, as a mortgagee, may realize after a default is dependent upon factors outside of our control, including, but not limited to:

§ general or local economic conditions;

§ environmental cleanup liability;

§ neighborhood values;

§ interest rates;

- § real estate tax rates;
- § operating expenses of the mortgaged properties;
- § supply of and demand for rental units or properties;
- § ability to obtain and maintain adequate occupancy of the properties;
- § zoning laws;
- § governmental rules, regulations and fiscal policies; and
- § acts of God.

Certain expenditures associated with the ownership of real estate, principally real estate taxes and maintenance costs, may adversely affect the income from the real estate. Therefore, the cost of operating real property may exceed the rental income earned from such property, and we may have to advance funds in order to protect our investment or we may be required to dispose of the real property at a loss.

We have incurred net losses for 2009 and 2010 and may incur further losses, which could cause the trading price of our common stock to decline further.

We incurred net losses of \$0.4 million and \$3.5 million for the years ended December 31, 2010 and December 31, 2009, respectively. Although we had net income of \$5.4 million for the nine-month period ended September 30, 2011, we may incur further losses, especially in light of economic conditions that continue to adversely affect our borrowers and us. Our failure to generate and maintain positive earnings could cause the trading price of our common stock to decline further or cause deterioration of our capital.

Liquidity risk could impair our ability to fund operations and jeopardize our financial condition.

Liquidity is essential to our business. Due to circumstances that we may be unable to control, such as a general market disruption or an operational problem that affects third parties or us, our liquidity could be impaired by an inability to access the capital markets or an unforeseen outflow of cash. An inability to raise funds through deposits, borrowings, and other sources, could have a substantial negative effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities on terms that are acceptable to us could be impaired by factors that affect us specifically or the financial services industry or economy in general. Factors that could negatively impact our access to liquidity sources include a decrease in the level of our business activity as a result of a downturn in the markets in which our loans are concentrated, adverse regulatory action against us, or our inability to attract and retain deposits. Our ability to borrow could be impaired by factors that are not specific to us, such a disruption in the financial markets or negative views and expectations about the prospects for the financial services industry in light of recent turmoil faced by banking organizations and the unstable credit markets. CCBG's ability to borrow requires prior approval from the Federal Reserve. If we are unable to raise funding, we may need to finance or liquidate unencumbered assets, such as our investment portfolio, to meet maturing liabilities. We may be unable to sell some of our assets, or we may have to sell assets at a discount from market value, either of which could adversely affect our results of operations, cash flows and financial condition.

An impairment in the carrying value of our goodwill could reduce our earnings and capital.

Goodwill is initially recorded at fair value and is not amortized, but is reviewed for impairment at least annually or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. Given the current economic environment and conditions in the financial markets, including the sustained trading price of our common stock at below book value, we could be required to evaluate the recoverability of goodwill prior to our normal annual assessment if we experience disruption in our business, unexpected significant declines in our operating results, or sustained market capitalization declines. These types of events and the resulting analyses could result in goodwill impairment charges in the future. These non-cash impairment charges could adversely affect our results of operations in future periods, and could also significantly impact certain financial ratios and limit our ability to obtain financing or raise capital in the future. A goodwill impairment charge does not adversely affect the calculation of our risk based and tangible capital ratios. Please see Note 5 in the Notes to Consolidated Financial Statements for additional discussion. As of September 30, 2011, we had \$84.8 million in goodwill, which represented approximately 3.4% of our total assets.

Confidential client information transmitted through our online banking service is vulnerable to security breaches and computer viruses, which could expose us to litigation and adversely affect our reputation and our ability to generate deposits.

We provide our clients the ability to bank online. The secure transmission of confidential information over the Internet is a critical element of banking online. Our network could be vulnerable to unauthorized access, computer viruses, phishing schemes and other security problems. We may be required to spend significant capital and other resources to protect against the threat of security breaches and computer viruses, or to alleviate problems caused by

security breaches or viruses. To the extent that our activities or the activities of our clients involve the storage and transmission of confidential information, security breaches and viruses could expose us to claims, litigation and other possible liabilities. Any inability to prevent security breaches or computer viruses could also cause existing clients to lose confidence in our systems and could adversely affect our reputation and our ability to generate deposits. If a security breach were to occur, it could result in significant liability, fines, or penalties which would have an adverse effect on our results of operations and financial condition.

Our future success is dependent on our ability to compete effectively in the highly competitive banking industry.

We face vigorous competition from other banks and other financial institutions, including savings and loan associations, savings banks, finance companies and credit unions for deposits, loans and other financial services in our market area. A number of these banks and other financial institutions with whom we compete for business and deposits are significantly larger than we are and have substantially greater access to capital and other resources, as well as larger lending limits and branch systems, and offer a wider array of banking services. To a limited extent, we also compete with other providers of financial services, such as money market mutual funds, brokerage firms, consumer finance companies, insurance companies and governmental organizations which may offer more favorable financing than we can. Many of our non-bank competitors are not subject to the same extensive regulations that govern us.

As a result, these non-bank competitors have advantages over us in providing certain services. We expect competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. Our profitability depends upon our continued ability to compete successfully in our primary market area and our lending territory. Consolidation and increasing competition may reduce or limit our margins, net interest income and our market share which could adversely affect our results of operations and financial condition.

Risks Related to Regulation and Legislation

Recently enacted legislation, particularly the Dodd-Frank Act, could materially and adversely affect us by increasing compliance costs, heightening our risk of noncompliance with applicable regulations, and changing the competitive landscape in the banking industry.

From time to time, the U.S. Congress and state legislatures consider changing laws and enact new laws to further regulate the financial services industry. On July 21, 2010, President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, into law. The Dodd-Frank Act has resulted in sweeping changes in the regulation of financial institutions. As discussed in the section entitled “Business-Regulatory Considerations” in our 2010 Annual Report on Form 10-K, the Dodd-Frank Act contains numerous provisions that affect all banks and bank holding companies. The Dodd-Frank Act includes provisions that, among other things:

- § change the assessment base for federal deposit insurance from the amount of insured deposits to total consolidated assets less average tangible capital, eliminate the ceiling on the size of the federal deposit insurance fund, and increase the floor of the size of the federal deposit insurance fund;
- § repeal the federal prohibitions on the payment of interest on demand deposits, thereby generally permitting the payment of interest on all deposit accounts;
- § centralize responsibility for promulgating regulations under and enforcing federal consumer financial protection laws in a new bureau of consumer financial protection;
 - § require the FDIC to seek to make its capital requirements for banks countercyclical;
- § implement corporate governance revisions, including with regard to executive compensation and proxy access by shareholders, that apply to all public companies, not just financial institutions;
 - § establish new rules and restrictions regarding the origination of mortgages; and
- § permit the Federal Reserve to prescribe regulations regarding interchange transaction fees, and limit them to an amount reasonable and proportional to the cost incurred by the issuer for the transaction in question.

Many of these and other provisions in the Dodd-Frank Act remain subject to regulatory rule-making and implementation, the effects of which are not yet known. Although we cannot predict the specific impact and long-term effects that the Dodd-Frank Act and the regulations promulgated thereunder will have on us and our prospects, our target markets and the financial industry more generally, we believe that the Dodd-Frank Act and the regulations promulgated thereunder are likely to impose additional administrative and regulatory burdens that will obligate us to incur additional expenses and will adversely affect our margins and profitability. We will also have a heightened risk of noncompliance with the additional regulations. Finally, the impact of some of these new regulations, such as the repeal of Regulation Q, is not known and may affect our ability to compete long-term with larger competitors.

The Federal Reserve's repeal of the prohibition against payment of interest on demand deposits (Regulation Q) may increase competition for such deposits and ultimately increase interest expense.

On July 14, 2011, the Federal Reserve issued final rules to repeal Regulation Q, which had prohibited the payment of interest on demand deposits by institutions that are member banks of the Federal Reserve System. The final rules implement Section 627 of the Dodd-Frank Act, which repealed Section 19(i) of the Federal Reserve Act in its entirety effective July 21, 2011. As a result, banks and thrifts are now permitted to offer interest-bearing demand deposit accounts to commercial customers, which were previously forbidden under Regulation Q. The repeal of Regulation Q may cause increased competition from other financial institutions for these deposits. If we decide to pay interest on demand accounts, we would expect interest expense to increase and have a negative impact on our net interest margin.

We may be required to pay significantly higher FDIC deposit insurance premiums and assessments in the future which would increase our non-interest expense.

Recent insured depository institution failures, as well as deterioration in banking and economic conditions, have significantly increased the loss provisions of the FDIC, resulting in a decline in the designated reserve ratio of the Deposit Insurance Fund to historical lows. The FDIC recently increased the designated reserve ratio from 1.25 to 2.00. In addition, the deposit insurance limit on FDIC deposit insurance coverage generally has increased to \$250,000, which may result in even larger losses to the Deposit Insurance Fund. These developments have caused an increase to our assessments, and the FDIC may be required to make additional increases to the assessment rates and levy additional special assessments on us. Higher assessments increase our non-interest expense.

Since 2009, our average assessment rates, which also include our assessment for participating in the FDIC's Transaction Account Guarantee Program, increased from 15 basis points to 21 basis points. Additionally, on May 22, 2009, the FDIC announced a final rule imposing a special 5 basis point emergency assessment as of June 30, 2009, payable September 30, 2009, based on assets minus Tier I Capital at June 30, 2009, but the amount of the assessment was capped at 10.00 basis points of domestic deposits. Finally, on November 12, 2009, the FDIC adopted a new rule requiring insured institutions to prepay on December 30, 2009, estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011, and 2012. We prepaid an assessment of \$11.5 million, which incorporated a uniform 3.00 basis point increase effective January 1, 2011.

These higher FDIC assessment rates and special assessments have had and will continue to have an adverse impact on our results of operations. Our total FDIC insurance related cost was \$6.3 million for the year ended December 31, 2010 compared to \$0.8 million for the year ended December 31, 2008. We are unable to predict the impact in future periods, including whether and when additional special assessments will occur.

Higher insurance premiums and assessments increase our costs and may limit our ability to pursue certain business opportunities. We also may be required to pay even higher FDIC premiums than the recently increased level, because financial institution failures resulting from the depressed market conditions have depleted and may continue to deplete the deposit insurance fund and reduce its ratio of reserves to insured deposits.

We are subject to extensive regulation that could restrict our activities and impose financial requirements or limitations on the conduct of our business and limit our ability to receive dividends from the Bank.

The Bank is subject to extensive regulation, supervision and examination by the Florida Office of Financial Regulation, the Federal Reserve, and the FDIC. Our compliance with these industry regulations is costly and restricts certain of our activities, including payment of dividends, mergers and acquisitions, investments, loans and interest rates charged, interest rates paid on deposits, access to capital and brokered deposits and locations of banking offices. In addition, please see "Item 1. Business—About Us—Regulatory Matter" in our 2010 Annual Report on Form 10-K for a discussion regarding the Federal Reserve Resolutions. If we are unable to meet these regulatory requirements, our financial condition, liquidity and results of operations would be materially and adversely affected.

The Bank must also meet regulatory capital requirements imposed by our regulators. An inability to meet these capital requirements would result in numerous mandatory supervisory actions and additional regulatory restrictions, and could have a negative impact on our financial condition, liquidity and results of operations.

In addition to the regulations of the Florida Office of Financial Regulation, the Federal Reserve, and the FDIC, as a member of the Federal Home Loan Bank, the Bank must also comply with applicable regulations of the Federal Housing Finance Agency and the Federal Home Loan Bank.

The Bank's activities are also regulated under consumer protection laws applicable to our lending, deposit and other activities. In addition, the Dodd-Frank Act imposes significant additional regulation on our operations. Regulation by all of these agencies is intended primarily for the protection of our depositors and the Deposit Insurance Fund and not for the benefit of our shareowners. Our failure to comply with these laws and regulations, even if the failure follows good faith effort or reflects a difference in interpretation, could subject us to restrictions on our business activities, fines and other penalties, any of which could adversely affect our results of operations, capital base and the price of our securities. Further, any new laws, rules and regulations could make compliance more difficult or expensive or otherwise adversely affect our business and financial condition. Please refer to the Section entitled "Business – Regulatory Considerations" in our 2010 Annual Report on Form 10-K.

Florida financial institutions, such as the Bank, face a higher risk of noncompliance and enforcement actions with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

Since September 11, 2001, banking regulators have intensified their focus on anti-money laundering and Bank Secrecy Act compliance requirements, particularly the anti-money laundering provisions of the USA PATRIOT Act. There is also increased scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control ("OFAC"). Since 2004, federal banking regulators and examiners have been extremely aggressive in their supervision and examination of financial institutions located in the State of Florida with respect to the institution's Bank Secrecy Act/Anti-Money Laundering compliance. Consequently, numerous formal enforcement actions have been issued against financial institutions.

In order to comply with regulations, guidelines and examination procedures in this area, the Bank has been required to adopt new policies and procedures and to install new systems. If the Bank's policies, procedures and systems are deemed deficient or the policies, procedures and systems of the financial institutions that it has already acquired or may acquire in the future are deficient, the Bank would be subject to liability, including fines and regulatory actions such as restrictions on its ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of its business plan, including its acquisition plans. In addition, because the Bank operates in Florida, we expect that the Bank will face a higher risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

Risks Related to Market Events

Our loan portfolio is heavily concentrated in mortgage loans secured by properties in Florida and Georgia which heightens our risk of loss than if we had a more geographically diversified portfolio.

Our interest-earning assets are heavily concentrated in mortgage loans secured by real estate, particularly real estate located in Florida and Georgia. As of September 30, 2011, approximately 80% of our loans had real estate as a primary, secondary, or tertiary component of collateral. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower; however, the value of the collateral may decline during the time the credit is extended. If we are required to liquidate the collateral securing a loan during a period of reduced real estate values, such as in today's market, to satisfy the debt, our earnings and capital could be adversely affected.

Additionally, as of September 30, 2011, substantially all of our loans secured by real estate are secured by commercial and residential properties located in Northern Florida and Middle Georgia. The concentration of our loans in this area subjects us to risk that a downturn in the economy or recession in those areas, such as the one the areas are currently experiencing, could result in a decrease in loan originations and increases in delinquencies and foreclosures, which would more greatly affect us than if our lending were more geographically diversified. In addition, since a large portion of our portfolio is secured by properties located in Florida and Georgia, the occurrence of a natural disaster, such as a hurricane, or a man-made disaster could result in a decline in loan originations, a decline in the value or destruction of mortgaged properties and an increase in the risk of delinquencies, foreclosures or loss on loans originated by us. We may suffer further losses due to the decline in the value of the properties underlying our mortgage loans, which would have an adverse impact on our results of operations and financial condition.

Our concentration in loans secured by real estate may increase our credit losses, which would negatively affect our financial results.

Due to the lack of diversified industry within the markets served by the Bank and the relatively close proximity of our geographic markets, we have both geographic concentrations as well as concentrations in the types of loans funded. Specifically, due to the nature of our markets, a significant portion of the portfolio has historically been secured with real estate. As of September 30, 2011, approximately 39% and 39% of our \$1.658 billion loan portfolio was secured by commercial real estate and residential real estate (including home equity loans), respectively. As of this same date, approximately 2.0% was secured by property under construction.

The current downturn in the real estate market, the deterioration in the value of collateral, and the local and national economic recessions, have adversely affected our clients' ability to repay their loans. If these conditions persist, or get worse, our clients' ability to repay their loans will be further eroded. In the event we are required to foreclose on a property securing one of our mortgage loans or otherwise pursue our remedies in order to protect our investment, we may be unable to recover funds in an amount equal to our projected return on our investment or in an amount sufficient to prevent a loss to us due to prevailing economic conditions, real estate values and other factors associated with the ownership of real property. As a result, the market value of the real estate or other collateral underlying our

loans may not, at any given time, be sufficient to satisfy the outstanding principal amount of the loans, and consequently, we would sustain loan losses.

Future economic growth in our Florida market area is likely to be slower compared to previous years.

The State of Florida's population growth has historically exceeded national averages. Consequently, the state has experienced substantial growth in population, new business formation, and public works spending. Due to the moderation of economic growth and migration into our market area and the downturn in the real estate market, management believes that growth in our market area will be restrained in the near term. We have experienced an overall slowdown in the origination of residential mortgage loans recently due to the slowing in residential real estate sales activity in our markets. A decrease in existing and new home sales decreases lending opportunities and negatively affects our income. Additionally, if property values continue to decline, this could lead to additional valuation adjustments on our loan portfolios or require us to increase our allowance for loan losses.

The fair value of our investments could decline which would reduce our shareowners' equity.

Our investment securities portfolio as of September 30, 2011 has been designated as available-for-sale pursuant to U.S. generally accepted accounting principles relating to accounting for investments. Such principles require that unrealized gains and losses in the estimated value of the available-for-sale portfolio be "marked to market" and reflected as a separate item in shareowners' equity (net of tax) as accumulated other comprehensive income/loss. At September 30, 2011, we maintained all of our investment securities in the available-for-sale classification.

Shareowners' equity will continue to reflect the unrealized gains and losses (net of tax) of these investments. The fair value of our investment portfolio may decline, causing a corresponding decline in shareowners' equity which could adversely affect the trading price of our stock.

Management believes that several factors will affect the fair values of our investment portfolio. These include, but are not limited to, changes in interest rates or expectations of changes, the degree of volatility in the securities markets, inflation rates or expectations of inflation and the slope of the interest rate yield curve (the yield curve refers to the differences between shorter-term and longer-term interest rates; a positively sloped yield curve means shorter-term rates are lower than longer-term rates). These and other factors may impact specific categories of the portfolio differently, and we cannot predict the effect these factors may have on any specific category.

Concerns of clients over deposit insurance may cause a decrease in our deposits.

With increased concerns about bank failures, clients are increasingly concerned about the extent to which their deposits are insured by the FDIC. Clients may withdraw deposits from the Bank in an effort to ensure that the amount that they have on deposit at the Bank is fully insured. Decreases in deposits may adversely affect our funding costs and net income.

Risks Related to an Investment in Our Common Stock

Our ability to declare and pay dividends is subject to our regulators' approval and restrictions under the terms of the trust preferred securities.

Under applicable statutes and regulations, the Bank's board of directors, after charging off bad debts, depreciation and other worthless assets, if any, and making provisions for reasonably anticipated future losses on loans and other assets, may quarterly, semi-annually, or annually declare and pay dividends to CCBG of up to the aggregate net profits of that period combined with the Bank's retained net profits for the preceding two years and, with the approval of the Florida Office of Financial Regulation and Federal Reserve, declare a dividend from retained net profits which accrued prior to the preceding two years.

The Bank's aggregate net profits for 2009 and 2010 is significantly less than the dividends declared and paid to CCBG over that same period. In addition, pursuant to the Federal Reserve Resolutions, the Bank must request approval from the Federal Reserve prior to paying any dividends to us. The Bank may not receive the required approvals. Without such approvals, we would not have sufficient cash to continue to pay dividends on shares of our common stock after December 31, 2011. Even if we have sufficient cash to pay the dividend, we must seek prior Federal Reserve approval before paying any dividends.

Dividends paid by the Bank to CCBG also provide cash flow used to service the interest payments on our trust preferred securities. Under the Federal Reserve Resolutions, the Bank must receive approval from the Federal Reserve prior to paying dividends to CCBG, and CCBG must receive approval from the Federal Reserve prior to making distributions (interest payments) on our trust preferred securities. Under the terms of the trust preferred securities

notes, we may elect to defer interest payments on the notes for up to five years; however, during such deferment (or if we default) we would be restricted from declaring or paying dividends on our shares of common stock.

Thus, holders of our common stock should understand that future dividends could be further reduced or eliminated. In addition, if we suspend or curtail our dividends, the price of our shares of common stock may decline.

Limited trading activity for shares of our common stock may contribute to price volatility.

While our common stock is listed and traded on The NASDAQ Global Select Market, there has been limited trading activity in our common stock. The average daily trading volume of our common stock over the nine-month period ending September 30, 2011 was approximately 31,783 shares. Due to the limited trading activity of our common stock, relatively small trades may have a significant impact on the price of our common stock.

Securities analysts may not initiate coverage or continue to cover our common stock and this may have a negative impact on its market price.

The trading market for our common stock will depend in part on the research and reports that securities analysts publish about our business and our Company. We do not have any control over these securities analysts and they may not initiate coverage or continue to cover our common stock. If securities analysts do not cover our common stock, the lack of research coverage may adversely affect its market price. If we are covered by securities analysts, and our common stock is the subject of an unfavorable report, our stock price would likely decline. If one or more of these analysts ceases to cover our Company or fails to publish regular reports on us, we could lose visibility in the financial markets, which may cause our stock price or trading volume to decline.

Our directors, executive officers, and principal shareowners, if acting together, have substantial control over all matters requiring shareowner approval, including changes of control. Because Mr. William G. Smith, Jr., is a principal shareowner and our Chairman, President, and Chief Executive Officer and Chairman of the Bank, he has substantial control over all matters on a day to day basis.

Our directors, officers, and principal shareowners beneficially owned approximately 41.0% of the outstanding shares of our common stock as of September 30, 2011. Our principal shareowners include Robert H. Smith who beneficially owns 20.4% and who is the brother of William G. Smith, Jr., our Chairman, President, and Chief Executive Officer. William G. Smith, Jr. beneficially owns 21.9% of our shares. In addition, 2S Partnership beneficially owns 6.1% of our shares, however, its shares are also deemed to be beneficially owned by Messrs. Smith and Smith. Together, Messrs. Smith and Smith beneficially own 34.2% of our shares.

Accordingly, these directors, executive officers, and principal shareowners, if acting together, may be able to influence or control matters requiring approval by our shareowners, including the election of directors and the approval of mergers, acquisitions or other extraordinary transactions. In addition, because Mr. William G. Smith, Jr. is the Chairman, President, and Chief Executive Officer of CCBG and Chairman of the Bank, he has substantial control over all matters on a day to day basis, including the nomination and election of directors.

These directors, executive officers, and principal shareowners may also have interests that differ from yours and may vote in a way with which you disagree and which may be adverse to your interests. The concentration of ownership may have the effect of delaying, preventing or deterring a change of control of our company, could deprive our shareowners of an opportunity to receive a premium for their common stock as part of a sale of our company and might ultimately affect the market price of our common stock. You may also have difficulty changing management, the composition of the Board of Directors, or the general direction of the Company.

Our Articles of Incorporation, Bylaws, and certain laws and regulations may prevent or delay transactions you might favor, including a sale or merger of CCBG.

CCBG is registered with the Federal Reserve as a bank holding company under the Bank Holding Company Act of 1956 ("BHCA"). As a result, we are subject to supervisory regulation and examination by the Federal Reserve. The Gramm-Leach-Bliley Act, the BHCA, and other federal laws subject bank holding companies to particular restrictions on the types of activities in which they may engage, and to a range of supervisory requirements and activities, including regulatory enforcement actions for violations of laws and regulations.

Provisions of our Articles of Incorporation, Bylaws, certain laws and regulations and various other factors may make it more difficult and expensive for companies or persons to acquire control of us without the consent of our Board of Directors. It is possible, however, that you would want a takeover attempt to succeed because, for example, a

potential buyer could offer a premium over the then prevailing price of our common stock.

For example, our Articles of Incorporation permit our Board of Directors to issue preferred stock without shareowner action. The ability to issue preferred stock could discourage a company from attempting to obtain control of us by means of a tender offer, merger, proxy contest or otherwise. Additionally, our Articles of Incorporation and Bylaws divide our Board of Directors into three classes, as nearly equal in size as possible, with staggered three-year terms. One class is elected each year. The classification of our Board of Directors could make it more difficult for a company to acquire control of us. We are also subject to certain provisions of the Florida Business Corporation Act and our Articles of Incorporation that relate to business combinations with interested shareowners. Other provisions in our Articles of Incorporation or Bylaws that may discourage takeover attempts or make them more difficult include:

§ Supermajority voting requirements to remove a director from office;

§ Provisions regarding the timing and content of shareowner proposals and nominations;

§ Supermajority voting requirements to amend Articles of Incorporation unless approval is received by a majority of “disinterested directors”;

§ Absence of cumulative voting; and

§ Inability for shareowners to take action by written consent.

Your shares of common stock are not an insured deposit and may decrease in value.

The shares of our common stock are not a bank deposit and will not be insured or guaranteed by the FDIC or any other government agency. Your investment will be subject to investment risk, and you must be capable of affording the loss of your entire investment.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. [Removed and Reserved]

Item 5. Other Information

None.

Item 6. Exhibits

(A) Exhibits

31.1 Certification of William G. Smith, Jr., Chairman, President and Chief Executive Officer of Capital City Bank Group, Inc., Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.

31.2 Certification of J. Kimbrough Davis, Executive Vice President and Chief Financial Officer of Capital City Bank Group, Inc., Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.

32.1 Certification of William G. Smith, Jr., Chairman, President and Chief Executive Officer of Capital City Bank Group, Inc., Pursuant to 18 U.S.C. Section 1350.

32.2 Certification of J. Kimbrough Davis, Executive Vice President and Chief Financial Officer of Capital City Bank Group, Inc., Pursuant to 18 U.S.C. Section 1350.

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned Chief Financial Officer hereunto duly authorized.

CAPITAL CITY BANK GROUP, INC.
(Registrant)

By: /s/ J. Kimbrough Davis
J. Kimbrough Davis
Executive Vice President and Chief Financial Officer
(Mr. Davis is the Principal Financial Officer and has
been duly authorized to sign on behalf of the
Registrant)

Date: November 9, 2011