

CAPITAL CITY BANK GROUP INC
Form 10-K
March 17, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

- ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2007
- OR
- o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

(Exact name of Registrant as specified in its charter)

Florida
(State of Incorporation)

0-13358
(Commission File Number)

59-2273542
(IRS Employer
Identification No.)

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

32301
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$0.01 par value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes [] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes [] No [X]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X]

No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 definition 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

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

The aggregate market value of the registrant's common stock, \$0.01 par value per share, held by non-affiliates of the registrant on June 30, 2007, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$320,596,761 (based on the closing sales price of the registrant's common stock on that date). Shares of the registrant's common stock held by each officer and director and each person known to the registrant to own 10% or more of the outstanding voting power of the registrant have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not a determination for other purposes.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at February 29, 2008
Common Stock, \$0.01 par value per share	17,169,096 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our Proxy Statement for the Annual Meeting of Shareowners to be held on April 24, 2008, are incorporated by reference in Part III.

CAPITAL CITY BANK GROUP, INC.
ANNUAL REPORT FOR 2007 ON FORM 10-K

TABLE OF CONTENTS

PART I		PAGE
Item 1.	<u>Business</u>	4
Item 1A.	<u>Risk Factors</u>	14
Item 1B.	<u>Unresolved Staff Comments</u>	20
Item 2.	<u>Properties</u>	20
Item 3.	<u>Legal Proceedings</u>	20
Item 4.	<u>Submission of Matters to a Vote of Security Holders</u>	20
PART II		
Item 5.	<u>Market for the Registrant's Common Equity, Related Shareowner Matters, and Issuer Purchases of Equity Securities</u>	20
Item 6.	<u>Selected Financial Data</u>	22
Item 7.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	23
Item 7A.	<u>Quantitative and Qualitative Disclosure About Market Risk</u>	50
Item 8.	<u>Financial Statements and Supplementary Data</u>	53
Item 9.	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	89
Item 9A.	<u>Controls and Procedures</u>	89
Item 9B.	<u>Other Information</u>	91
PART III		
Item 10.	<u>Directors, Executive Officers, and Corporate Governance</u>	91
Item 11.	<u>Executive Compensation</u>	91
Item 12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Shareowner Matters</u>	91
Item 13.	<u>Certain Relationships and Related Transactions, and Director Independence</u>	92
Item 14.	<u>Principal Accountant Fees and Services</u>	92
PART IV		
Item 15.	<u>Exhibits and Financial Statement Schedules</u>	93
<u>Signatures</u>		95

Table of Contents

INTRODUCTORY NOTE

This Annual Report on Form 10-K 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 words 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.

In addition to those risks discussed in this Annual Report under Item 1A Risk Factors, factors that could cause our actual results to differ materially from those in the forward-looking statements, include, without limitation:

- § the frequency and magnitude of foreclosure of our loans;
- § the effects of our lack of a diversified loan portfolio, including the risks of geographic and industry concentrations;
- § the accuracy of our financial statement estimates and assumptions, including the estimate for our loan loss provision;
- § our ability to integrate the business and operations of companies and banks that we have acquired, and those we may acquire in the future;
 - § our need and our ability to incur additional debt or equity financing;
- § the strength of the United States economy in general and the strength of the local economies in which we conduct operations;
 - § the effects of harsh weather conditions, including hurricanes;
 - § inflation, interest rate, market and monetary fluctuations;
 - § effect of changes in the stock market and other capital markets;
 - § legislative or regulatory changes;
 - § 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;
 - § changes in the securities and real estate markets;
 - § increased competition and its effect on pricing;
 - § technological changes;
 - § changes in monetary and fiscal policies of the U.S. Government;
- § 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;
- § 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 listed in Item 1A Risk Factors or discussed in this 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.

-3-

Table of Contents

PART I

Item

1. Business

General

Capital City Bank Group, Inc. (“CCBG”) is a financial holding company registered under the Gramm-Leach-Bliley Act of 1999 (“Gramm-Leach-Bliley Act”). CCBG was incorporated under Florida law on December 13, 1982, to acquire five national banks and one state bank that all subsequently became part of CCBG’s bank subsidiary, Capital City Bank (“CCB” or the “Bank”). In this report, the terms “Company”, “we”, “us”, or “our” mean CCBG and all subsidiaries included in our consolidated financial statements.

We provide traditional deposit and credit services, asset management, trust, mortgage banking, merchant services, bank cards, data processing, and securities brokerage services through 70 full-service banking locations in Florida, Georgia, and Alabama. CCB operates these banking locations.

At December 31, 2007, we had total consolidated assets of approximately \$2.6 billion, total deposits of approximately \$2.1 billion and shareowners’ equity was approximately \$292.7 million. Our financial condition and results of operations are more fully discussed in our consolidated financial statements.

CCBG’s principal asset is the capital stock of the Bank. CCB accounted for approximately 100% of consolidated assets at December 31, 2007, and approximately 100% of consolidated net income for the year ended December 31, 2007. In addition to our banking subsidiary, we have seven indirect subsidiaries, Capital City Trust Company, Capital City Mortgage Company (inactive), Capital City Banc Investments, Inc., Capital City Services Company, First Insurance Agency of Grady County, Inc., Southern Oaks, Inc., and FNB Financial Services, Inc., all of which are wholly-owned subsidiaries of CCB, and two direct subsidiaries CCBG Capital Trust I and CCBG Capital Trust II, both wholly-owned subsidiaries of CCBG.

Dividends and management fees received from the Bank are our only source of income. Dividend payments by the Bank to us depend on the capitalization, earnings and projected growth of the Bank, and are limited by various regulatory restrictions. See the section entitled “Regulatory Considerations” in this Item 1 and Note 15 in the Notes to Consolidated Financial Statements for additional information. We had a total of 1,097 (full-time equivalent) associates at February 29, 2008. Page 22 contains other financial and statistical information about us.

We have one reportable segment with the following principal services: Banking Services, Data Processing Services, Trust and Asset Management Services, and Brokerage Services.

Banking Services

CCB is a Florida chartered full-service bank engaged in the commercial and retail banking business. Significant services offered by the Bank include:

§ Business Banking – The Bank provides banking services to corporations and other business clients. Credit products are available for a wide variety of general business purposes, including financing for commercial business properties, equipment, inventories and accounts receivable, as well as commercial leasing and letters of credit. Treasury management services and merchant credit card transaction processing services are also offered.

§ Commercial Real Estate Lending – The Bank provides a wide range of products to meet the financing needs of commercial developers and investors, residential builders and developers, and community development.

§ Residential Real Estate Lending – The Bank provides products to help meet the home financing needs of consumers, including conventional permanent and construction/permanent (fixed or adjustable rate) financing arrangements, and FHA/VA loan products. The bank offers both fixed-rate and adjustable rate residential mortgage (ARM) loans. As of December 31, 2007, approximately 16% of the Bank's loan portfolio consisted of residential ARM loans. A portion of our loans originated are sold into the secondary market.

The Bank offers these products through its existing network of branch offices. Geographical expansion of the delivery of this product line has occurred over the past three years through the opening of mortgage lending offices in Gainesville, Florida (Alachua County) and Thomasville, Georgia (Thomas County).

§ Retail Credit – The Bank provides a full range of loan products to meet the needs of consumers, including personal loans, automobile loans, boat/RV loans, home equity loans, and credit card programs.

Table of Contents

§ Institutional Banking – The Bank provides banking services to meet the needs of state and local governments, public schools and colleges, charities, membership and not-for-profit associations including customized checking and savings accounts, cash management systems, tax-exempt loans, lines of credit, and term loans.

§ Retail Banking - The Bank provides a full range of consumer banking services, including checking accounts, savings programs, automated teller machines (ATMs), debit/credit cards, night deposit services, safe deposit facilities, and PC/Internet banking. Clients can use the Capital City Bank Direct automated phone system to gain 24-hour access to their deposit and loan account information, and transfer funds between linked accounts. The Bank is a member of the “Star” ATM Network that permits banking clients to access cash at ATMs or point of sale merchants.

Data Processing Services

Capital City Services Company (the “Services Company”) provides data processing services to financial institutions (including CCB), government agencies and commercial clients located throughout North Florida and South Georgia. As of February 29, 2008, the Services Company is providing computer services to eight correspondent banks, which have relationships with CCB.

Trust Services and Asset Management

Capital City Trust Company (the “Trust Company”) is the investment management arm of CCB. The Trust Company provides asset management for individuals through agency, personal trust, IRAs and personal investment management accounts.

Administration of pension, profit sharing and 401(k) plans is a significant product line. Associations, endowments and other non-profit entities hire the Trust Company to manage their investment portfolios. A staff of well-trained professionals serves individuals requiring the services of a trustee, personal representative or a guardian. The market value of trust assets under discretionary management exceeded \$781.0 million as of December 31, 2007, with total assets under administration exceeding \$854.0 million.

Brokerage Services

We offer access to retail investment products through Capital City Banc Investments, Inc., a wholly-owned subsidiary of CCB. These products are offered through INVEST Financial Corporation, a member of FINRA and SIPC. Non-deposit investment and insurance products are: (1) not FDIC insured; (2) not deposits, obligations, or guaranteed by any bank; and (3) subject to investment risk, including the possible loss of principal amount invested. Capital City Banc Investments, Inc. offers a full line of retail securities products, including U.S. Government bonds, tax-free municipal bonds, stocks, mutual funds, unit investment trusts, annuities, life insurance and long-term health care. We are not an affiliate of INVEST Financial Corporation.

Expansion of Business

Since 1984, we have completed 15 acquisitions totaling approximately \$1.6 billion in deposits within existing and new markets. In addition, since 2003, we have opened 10 new offices to improve service and product delivery within our markets. Plans are currently being developed for two new office openings in 2008, including one on Macon, Georgia and one in Palatka, Florida (replacement office).

We plan to continue our expansion, emphasizing a combination of growth in existing markets and acquisitions. The restructuring in late 2007 of our community banking sales and service model will result in the more tactical focus on

certain higher growth metro markets, including Macon, Tallahassee, Gainesville, and Hernando/Pasco. Acquisitions will be focused on a three state area including Florida, Georgia, and Alabama with a particular focus on acquiring banks and banking offices, which are \$100 million to \$400 million in asset size, located on the outskirts of major metropolitan areas. We will evaluate de novo expansion opportunities in attractive new markets in the event that acquisition opportunities are not feasible. Other expansion opportunities that will be evaluated include asset management and mortgage banking.

-5-

Table of Contents

Competition

The banking business is rapidly changing. We operate in a highly competitive environment, especially with respect to services and pricing. The on-going consolidation of the banking industry has altered and continues to significantly alter the competitive environment within the Florida, Georgia, and Alabama markets. We believe this consolidation further enhances our competitive position and opportunities in many of our markets. Our primary market area is 20 counties in Florida, five counties in Georgia and one county in Alabama. In these markets, the Bank competes against a wide range of banking and nonbanking institutions including savings and loan associations, credit unions, money market funds, mutual fund advisory companies, mortgage banking companies, investment banking companies, finance companies and other types of financial institutions.

All of Florida's major banking concerns have a presence in Leon County. CCB's Leon County deposits totaled \$738.3 million, or 34.5%, of our consolidated deposits at December 31, 2007.

The following table depicts our market share percentage within each respective county, based on total commercial bank deposits within the county.

	Market Share as of June 30,(1)		
	2007	2006	2005
Florida			
Alachua County(2)	4.7%	5.6%	6.3%
Bradford County	47.6%	44.6%	42.6%
Citrus County	3.0%	3.3%	3.5%
Clay County			