CAPITAL CITY BANK GROUP INC
Form 10-Q
May 07, 2010

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

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2010

OR

o 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 x No o

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 o No o

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

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

At April 30, 2010, 17,063,126 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 MARCH 31, 2010
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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, 2009 (the “2009 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;
§ 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;
§ 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;
§ inflation, interest rate, market and monetary fluctuations;
§ 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;
§ our need and our ability to incur additional debt or equity financing;
§ our ability to integrate the business and operations of companies and banks that we have acquired, and those we may acquire in the future;
§ the effects of harsh weather conditions, including hurricanes;
§ 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;
§ increased competition and its effect on pricing;
§ technological changes;
§ 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 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 MARCH 31, 2010 AND DECEMBER 31, 2009

(Dollars In Thousands, Except Share Data)	March 31, 2010	December 31, 2009
ASSETS		
Cash and Due From Banks	$ 52,615	$ 57,877
Federal Funds Sold and Interest Bearing Deposits	293,413	276,416
Total Cash and Cash Equivalents	346,028	334,293
Investment Securities, Available-for-Sale	217,606	176,673
Loans, Net of Unearned Interest	1,851,621	1,915,940
Allowance for Loan Losses	(41,198)	(43,999)
Loans, Net	1,810,423	1,871,941
Premises and Equipment, Net	117,055	115,439
Goodwill	84,811	84,811
Other Intangible Assets	3,320	4,030
Other Real Estate Owned	46,444	36,134
Other Assets	89,416	85,003
Total Assets	$ 2,715,103	$ 2,708,324
LIABILITIES		
Deposits:		
Noninterest Bearing Deposits	$ 446,855	$ 427,791
Interest Bearing Deposits	1,836,085	1,830,443
Total Deposits	2,282,940	2,258,234
Short-Term Borrowings	18,900	35,841
Subordinated Notes Payable	62,887	62,887
Other Long-Term Borrowings	50,679	49,380
Other Liabilities	37,738	34,083
Total Liabilities	2,453,144	2,440,425
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; 17,063,123 and 17,036,407 shares issued and outstanding at March 31, 2010 and December 31, 2009, respectively	171	170
Additional Paid-In Capital	36,816	36,099
Retained Earnings	239,755	246,460
Accumulated Other Comprehensive Loss, Net of Tax	(14,783)	(14,830)
Total Shareowners' Equity	261,959	267,899

Total Liabilities and Shareowners' Equity	$ 2,715,103	$ 2,708,324

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 MONTHS ENDED MARCH 31
(Unaudited)

	Three Months Ended	
(Dollars in Thousands, Except Per Share Data)	2010	2009
INTEREST INCOME		
Interest and Fees on Loans	$ 26,992	$ 29,537
Investment Securities:		
U.S. Treasuries	103	162
U.S. Government Agencies	320	530
States and Political Subdivisions	490	737
Other Securities	77	84
Federal Funds Sold	172	3
Total Interest Income	28,154	31,053
INTEREST EXPENSE		
Deposits	2,938	2,495
Short-Term Borrowings	17	68
Subordinated Notes Payable	651	927
Other Long-Term Borrowings	526	568
Total Interest Expense	4,132	4,058
NET INTEREST INCOME	24,022	26,995
Provision for Loan Losses	10,740	8,410
Net Interest Income After Provision For Loan Losses	13,282	18,585
NONINTEREST INCOME		
Service Charges on Deposit Accounts	6,628	6,698
Data Processing	900	870
Asset Management Fees	1,020	970
Securities Transactions	5	-
Mortgage Banking Fees	508	584
Bank Card Fees	2,840	2,877
Other	2,066	2,043
Total Noninterest Income	13,967	14,042
NONINTEREST EXPENSE		
Salaries and Associate Benefits	16,779	17,237
Occupancy, Net	2,408	2,345
Furniture and Equipment	2,181	2,338
Intangible Amortization	710	1,011
Other	11,306	9,326
Total Noninterest Expense	33,384	32,257
(LOSS) INCOME BEFORE INCOME TAXES	(6,135)	370
Income Tax Benefit	(2,672)	(280)

NET (LOSS) INCOME	$	(3,463)	$	650
Basic Net Income Per Share	$	(0.20)	$	0.04
Diluted Net Income Per Share	$	(0.20)	$	0.04
Average Basic Shares Outstanding		17,057,061		17,109,228
Average Diluted Shares Outstanding		17,069,550		17,130,810

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, 2009	17,036,407	$ 170	$ 36,099	$ 246,460	$ (14,830)	$ 267,899
Comprehensive Income:						
Net Loss	-	-	-	(3,463)	-	(3,463)
Net Change in Unrealized Gain On Available-for-Sale Securities (net of tax)	-	-	-	-	47	47
Total Comprehensive Income	-	-	-			(3,416)
Cash Dividends ($.1900 per share)	-	-	-	(3,242)	-	(3,242)
Stock Performance Plan Compensation	-	-	358	-	-	358
Issuance of Common Stock	26,716	1	359	-	-	360
Balance, March 31, 2010	17,063,123	$ 171	$ 36,816	$ 239,755	$ (14,783)	$ 261,959

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 THREE MONTHS ENDED MARCH 31
(Unaudited)

(Dollars in Thousands)	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ (3,463)	$ 650
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:		
Provision for Loan Losses	10,740	8,410
Depreciation	1,689	1,678
Net Securities Amortization	689	455
Amortization of Intangible Assets	710	1,011
Gain on Securities Transactions	(5)	-
Origination of Loans Held-for-Sale	(22,089)	(41,171)
Proceeds From Sales of Loans Held-for-Sale	23,963	37,314
Net Gain From Sales of Loans Held-for-Sale	(508)	(584)
Non-Cash Compensation	358	(11)
Decrease (Increase) in Deferred Income Taxes	2,251	(1,321)
Net Decrease (Increase) in Other Assets	4,218	(6,244)
Net (Decrease) Increase in Other Liabilities	(2,049)	13,377
Net Cash Provided By Operating Activities	16,504	13,564
CASH FLOWS FROM INVESTING ACTIVITIES		
Securities Available-for-Sale:		
Purchases	(69,842)	(24,755)
Sales	505	1,067
Payments, Maturities, and Calls	27,379	19,443
Net Decrease (Increase) in Loans	34,312	(17,762)
Purchase of Premises & Equipment	(3,304)	(2,507)
Proceeds From Sales of Premises & Equipment	-	2
Net Cash Used In Investing Activities	(10,950)	(24,512)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (Decrease) in Deposits	24,706	(2,384)
Net (Decrease) Increase in Short-Term Borrowings	(16,941)	6,151
Increase in Other Long-Term Borrowings	2,429	2,666
Repayment of Other Long-Term Borrowings	(1,131)	(691)
Dividends Paid	(3,242)	(3,253)
Repurchase of Common Stock	-	(1,561)
Issuance of Common Stock	360	629
Net Cash Provided by Financing Activities	6,181	1,557
NET CHANGE IN CASH AND CASH EQUIVALENTS	11,735	(9,391)
Cash and Cash Equivalents at Beginning of Period	334,293	94,949
Cash and Cash Equivalents at End of Period	$ 346,028	$ 85,558

Supplemental Disclosure:				
Interest Paid on Deposits	$	2,937	$	2,773
Interest Paid on Debt	$	1,192	$	1,558
Taxes Paid	$	166	$	53
Loans Transferred to Other Real Estate Owned	$	15,100	$	3,147
Issuance of Common Stock as Non-Cash Compensation	$	359	$	154
Transfer of Current Portion of Long-Term Borrowings	$	8		-

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

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 with 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 2009 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 March 31, 2010 and December 31, 2009, the results of operations for the three months ended March 31, 2010 and 2009, and cash flows for the three months ended March 31, 2010 and 2009.

NOTE 2 - INVESTMENT SECURITIES

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

	March 31, 2010			
(Dollars in Thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. Treasury	$ 75,471	$ 152	$ -	$ 75,623
States and Political Subdivisions	93,481	777	39	94,219
Residential Mortgage-Backed Securities	34,423	822	17	35,228
Other Securities(1)	13,236	-	700	12,536
Total Investment Securities	$ 216,611	$ 1,751	$ 756	$ 217,606

	December 31, 2009			
(Dollars in Thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. Treasury	$ 22,270	$ 174	$ -	$ 22,444
States and Political Subdivisions	106,455	1,166	71	107,550
Residential Mortgage-Backed Securities	33,375	798	30	34,143
Other Securities(1)	13,236	-	700	12,536

Total Investment Securities	$	175,336	$	2,138	$	801	$	176,673

(1) Includes Federal Home Loan Bank and Federal Reserve Bank stock recorded at cost of $7.7 million and $4.8 million, respectively, at March 31, 2010, and $7.7 million and $4.8 million, respectively, at December 31, 2009.

Securities with an amortized cost of $64.7 million and $62.9 million at March 31, 2010 and December 31, 2009, 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 $7.7 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 March 31, 2010, 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	$ 72,122	$ 72,727
Due after one through five years	131,038	132,121
Due after five through ten years	215	222
Due over ten years	-	-
No Maturity	12,536	12,536
Total Investment Securities	$ 215,911	$ 217,606

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 March 31, 2010 aggregated by major security type and length of time in a continuous unrealized loss position:

	March 31, 2010					
	Less Than 12 Months		Greater Than 12 Months		Total	
(Dollars in Thousands)	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
U.S. Treasury	$ 19,384	$ -	$ -	$ -	$ 19,384	$ -
U.S. Government Agencies and Corporations	-	-	-	-	-	-
States and Political Subdivisions	4,134	39	-	-	4,134	39
Mortgage-Backed Securities	3,367	12	2,335	5	5,702	17
Other Securities	700	700	-	-	700	700
Total Investment Securities	$ 27,585	$ 751	$ 2,335	$ 5	$ 29,920	$ 756

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: 1) the length of time and the extent to which the fair value has been less than amortized cost, 2) the financial condition and near-term prospects of the issuer, and 3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for recovery in the fair value above amortized cost. 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 March 31, 2010, the Company had securities of $217.6 million with net unrealized gains of $1.0 million on these securities. Approximately $29.2 million of the investment securities have an unrealized loss totaling $756,000. All positions except one have been in a loss position for less than 12 months. These positions consist of municipal bonds pre-refunded with U.S. Government securities, GNMA mortgage-backed securities which carry the full faith and credit of the U.S. Government, and U.S. Treasury securities. These positions are not considered impaired, and are expected to mature at par or better. Approximately $0.7 million of the unrealized loss is related to one bank preferred stock issue that maintained a zero book value as of March 31, 2010. During the fourth quarter of 2009, the company recorded $0.3 million in credit impairment for this security. No additional impairment was recorded during the first quarter of 2010, but 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

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

(Dollars in Thousands)	March 31, 2010	December 31, 2009
Commercial, Financial and Agricultural	$ 169,766	$ 189,061
Real Estate-Construction	79,145	111,249
Real Estate-Commercial	729,011	716,791
Real Estate-Residential(1)	395,802	408,578
Real Estate-Home Equity	245,185	246,722
Real Estate-Loans Held-for-Sale	5,218	7,891
Consumer	227,494	235,648
Loans, Net of Unearned Interest	$ 1,851,621	$ 1,915,940

(1) Includes loans in process with outstanding balances of $7.1 million and $10.7 million for March 31, 2010 and December 31, 2009, respectively.

Net deferred fees included in loans at March 31, 2010 and December 31, 2009 were $1.9 million and $2.0 million, respectively.

NOTE 4 - ALLOWANCE FOR LOAN LOSSES

An analysis of the changes in the allowance for loan losses for the three month periods ended March 31 was as follows:

(Dollars in Thousands)	2010	2009
Balance, Beginning of Period	$ 43,999	$ 37,004
Provision for Loan Losses	10,740	8,410
Recoveries on Loans Previously Charged-Off	893	1,029
Loans Charged-Off	(14,429)	(6,271)
Reclassification of Unfunded Reserve to Other Liability	(5)	-
Balance, End of Period	$ 41,198	$ 40,172

Impaired Loans. Loans are considered impaired when, based on current information and events, it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Selected information pertaining to impaired loans is depicted in the table below:

	March 31, 2010		December 31, 2009	
(Dollars in Thousands)	Balance	Valuation Allowance	Balance	Valuation Allowance
Impaired Loans:				
With Related Valuation Allowance	$ 98,876	$ 17,566	$ 83,986	$ 21,066
Without Related Valuation Allowance	22,511	-	27,926	-

NOTE 5 - INTANGIBLE ASSETS

The Company had net intangible assets of $88.1 million and $88.8 million at March 31, 2010 and December 31, 2009, respectively. Intangible assets were as follows:

	March 31, 2010		December 31, 2009	
(Dollars in Thousands)	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Core Deposit Intangibles	$ 47,176	$ 44,605	$ 47,176	$ 43,943
Goodwill	84,811	-	84,811	-
Customer Relationship Intangible	1,867	1,118	1,867	1,070
Total Intangible Assets	$ 133,854	$ 45,723	$ 133,854	$ 45,013

Net Core Deposit Intangibles: As of March 31, 2010 and December 31, 2009, the Company had net core deposit intangibles of $2.6 million and $3.2 million, respectively. Amortization expense for the first three months of 2010 and 2009 was approximately $0.7 million and $1.8 million, respectively. Estimated annual amortization expense for 2010 is $2.5 million.

Goodwill: As of March 31, 2010 and December 31, 2009, the Company had goodwill, net of accumulated amortization, of $84.8 million. Goodwill is the Company's only intangible asset that is no longer subject to amortization under the provisions of Accounting Standards Codification ("ASC") 350-20-35-1 (Formerly Statement of Financial Accounting Standards ("SFAS") No. 142), "Goodwill and Other Intangible Assets."

The Company's stock price traded under book value for the first quarter of 2010 and as such a review was performed to determine if this impairment indicator required analysis as required by ASC 350. The Company determined that at March 31, 2010, no further analysis was required and that the carrying value of its goodwill was recoverable and no impairment existed.

Other: As of March 31, 2010 and December 31, 2009, the Company had a customer relationship intangible asset, net of accumulated amortization, of $0.7 million and $0.8 million, respectively. This intangible asset was recorded as a result of the March 2004 acquisition of trust customer relationships from Synovus Trust Company. Amortization expense for the first three months of 2010 and 2009 was approximately $48,000. 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 March 31, 2010 and December 31, 2009 was as follows:

(Dollars in Thousands)	March 31, 2010	December 31, 2009
NOW Accounts	$ 890,570	$ 899,649
Money Market Accounts	376,091	373,105
Savings Deposits	130,936	122,370
Other Time Deposits	438,488	435,319
Total Interest Bearing Deposits	$ 1,836,085	$ 1,830,443

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 March 31, 2010, the Company had three stock-based compensation plans, consisting of the 2005 Associate Stock Incentive Plan ("ASIP"), the 2005 Associate Stock Purchase Plan ("ASPP"), and the 2005 Director Stock Purchase Plan ("DSPP"). Total compensation expense associated with these plans for the three months ended March 31, 2010 and 2009 was $390,000 and $184,000, 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 2010 Incentive Plan ("2010 Plan"), which has an award tied to an internally established earnings goal for 2010. The grant-date fair value of the shares eligible to be awarded in 2010 is approximately $913,000. In addition, each plan participant is eligible to receive from the Company a tax supplement bonus equal to 31% of the stock award value at the time of issuance. A total of 58,648 shares are eligible for issuance. For the first three months of 2010, the Company recognized approximately $357,000 in expense related to the ASIP.

A total of 875,000 shares of common stock have been reserved for issuance under the ASIP. To date, the Company has issued a total of 67,031 shares of common stock under the ASIP.

Executive Stock Option Agreement. Prior to 2007, the Company maintained a stock option arrangement 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 a 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. The details of this program for the executive are outlined in a Form 8-K filing dated January 31, 2007. No expense related to this plan was recognized for the first three months of 2010 and 2009 as results fell short of the earnings performance goal.

A summary of the status of the Company's option shares as of March 31, 2010 is presented below:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Term	Aggregate Intrinsic Value
Outstanding at January 1, 2010	60,384	$ 32.79	4.9	$-
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited or expired	-	-	-	-
Outstanding at March 31, 2010	60,384	$ 32.79	4.6	$-
Exercisable at March 31, 2010	60,384	$ 32.79	4.6	$-

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. The DSPP has 93,750 shares reserved for issuance. A total of 71,037 shares have been issued since the inception of the DSPP. For the first three months 2010, the Company recognized approximately $8,500 in expense related to this plan. For the first three months of 2009, the Company recognized approximately $8,700 in expense related to the DSPP.

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. The ASPP has 593,750 shares of common stock reserved for issuance. A total of 129,876 shares have been issued since inception of the ASPP. For the first three months of 2010, the Company recognized approximately $24,000 in expense related to the ASPP plan compared to approximately $30,000 in expense for the same period in 2009.

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 March 31, 2010	2009
Discount Rate	5.75%	6.00%
Long-Term Rate of Return on Assets	8.00%	8.00%
Service Cost	$ 1,525	$ 1,525
Interest Cost	1,175	1,200
Expected Return on Plan Assets	(1,525)	(1,275)
Prior Service Cost Amortization	125	125

Net Loss Amortization		525		750
Net Periodic Benefit Cost	$	1,825	$	2,325

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

(Dollars in Thousands)	Three Months Ended March 31, 2010		2009	
Discount Rate		5.75%		6.0%
Service Cost	$	-	$	5
Interest Cost		42		74
Prior Service Cost Amortization		45		45
Net Gain Amortization		(85)		(5)
Net Periodic Benefit Cost	$	2	$	119

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.

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 March 31, 2010, the amounts associated with the Company's off-balance sheet obligations were as follows:

(Dollars in Millions)	Amount
Commitments to Extend Credit(1)	$ 351
Standby Letters of Credit	$ 14

(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 Visa U.S.A. for potential future settlement of certain litigation (the "Covered Litigation"). As of March 31, 2010, the Company had approximately $0.8 million accrued for the contingent liability related to Covered Litigation. The Company could be required to separately fund its proportionate share of any Covered Litigation losses, however, it is expected that all or a substantial amount of future settlements will be funded by a litigation escrow account established by Visa Inc.

NOTE 10 - COMPREHENSIVE INCOME

FASB Topic ASC 220, "Comprehensive Income" (Formerly SFAS No. 130), requires that certain transactions and other economic events that bypass the income statement be displayed as other comprehensive income. Comprehensive (loss) income totaled ($3.4 million) for the three months ended March 31, 2010 and $0.9 million for the comparable period in 2009. The Company's comprehensive income consists of net (loss) income and changes in unrealized gains and losses on securities available-for-sale (net of income taxes) and changes in the pension liability (net of taxes). The after-tax increase in net unrealized gains on securities totaled approximately $47,000 for the three months ended March 31, 2010. Reclassification adjustments consist only of realized gains and losses on sales of investment securities and were not material for the same comparable periods. As of March 31, 2010, total accumulated other comprehensive loss (net of taxes) totaled $14.8 million consisting of a pension liability of $15.4 million and an unrealized gain on investment securities of $0.6 million. For the three month period ended March 31, 2010, there was no change in the Company's pension liability as this liability is adjusted on an annual basis at December 31st.

NOTE 11 – FAIR VALUE MEASUREMENTS

The Company adopted the provisions of ASC 820-10 (Formerly SFAS No. 157), "Fair Value Measurements," for financial assets and financial liabilities effective January 1, 2008. Subsequently, on January 1, 2009, the Company adopted ASC 820-10-15 (Formerly SFAS No. 157-2) "Effective Date of FASB Statement No. 157" for non-financial assets and non-financial liabilities. ASC 820-10 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements.

ASC 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact, and (iv) willing to transact.

ASC 820-10 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, ASC 820-10 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.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Company’s financial assets and financial liabilities carried at fair value effective January 1, 2008.

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.

Securities Available for Sale. Securities classified as available for sale are reported at fair value on a recurring basis utilizing Level 1, 2, or 3 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service or a model that uses, as inputs, observable market based parameters. The fair value measurements consider observable data that may include quoted prices in active markets, or other inputs, including dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, and credit information and the bond's terms and conditions.

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of March 31, 2010, 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
March 31, 2010				
Securities available for sale:				
US Treasury	$75,623	$-	$-	$75,623
States and Political Subdivisions	4,781	89,438	-	94,219
Residential Mortgage-Backed Securities	-	35,228	-	35,228
December 31, 2009				
Securities available for sale:				
US Treasury	22, 444	-	-	22,444
States and Political Subdivisions	3,709	103,841	-	107,550
Residential Mortgage-Backed Securities	-	34,143	-	34,143

Certain financial and 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). Financial and non-financial liabilities measured at fair value on a nonrecurring basis were not significant at March 31, 2010.

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 $121.4 million, with a valuation allowance of $17.6 million, resulting in an additional provision for loan losses of $3.5 million for the three month period ended March 31, 2010.

Loans Held for Sale. Loans held for sale were $5.2 million as of March 31, 2010. 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 three months of 2010, certain foreclosed assets, upon initial recognition, were measured and reported at fair value through a charge-off to the allowance for possible 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 $15.1 million during the three months ended March 31, 2010. In addition, the Company recognized subsequent losses totaling $1.5 million for foreclosed assets that were re-valued during the three months ended March 31, 2010. The carrying value of foreclosed assets was $46.4 million at March 31, 2010.

Other Financial Instruments. Many of the Company's assets and liabilities are short-term financial instruments whose carrying values approximate fair value. These items include Cash and Due From Banks, Interest Bearing Deposits with Other Banks, Federal Funds Sold, Federal Funds Purchased, Securities Sold Under Repurchase Agreements, and Short-Term Borrowings. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. The resulting fair values may be significantly affected by the assumptions used, including the discount rates and estimates of future cash flows.
A detailed description of the valuation methodologies used in estimating the fair value of financial instruments is set forth in the Company's 2009 Form 10-K.

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

	March 31, 2010		December 31, 2009	
(Dollars in Thousands)	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial Assets:				
Cash	$ 52,615	$ 52,615	$ 57,877	$ 57,877
Short-Term Investments	293,413	293,413	276,416	276,416
Investment Securities	217,606	217,606	176,673	176,673
Loans, Net of Allowance for Loan Losses	1,810,423	1,761,570	1,871,941	1,851,699
Total Financial Assets	$ 2,374,057	$ 2,325,204	$ 2,382,907	$ 2,362,665
Financial Liabilities:				
Deposits	$ 2,282,940	$ 2,284,902	$ 2,258,234	$ 2,258,899
Short-Term Borrowings	18,900	18,083	35,841	34,209
Subordinated Notes Payable	62,887	62,866	62,887	62,569

Long-Term Borrowings	50,679	52,976	49,380	51,509
Total Financial Liabilities	$ 2,415,406	$ 2,418,827	$ 2,406,342	$ 2,407,186

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 12 – NEW AUTHORITATIVE ACCOUNTING GUIDANCE

Accounting Standards Update ("ASU") No. 2010-06, "Fair Value Measurements and Disclosures (Topic 820) - Improving Disclosures About Fair Value Measurements." ASU 2010-06 requires expanded disclosures related to fair value measurements including (i) the amounts of significant transfers of assets or liabilities between Levels 1 and 2 of the fair value hierarchy and the reasons for the transfers, (ii) the reasons for transfers of assets or liabilities in or out of Level 3 of the fair value hierarchy, with significant transfers disclosed separately, (iii) the policy for determining when transfers between levels of the fair value hierarchy are recognized and (iv) for recurring fair value measurements of assets and liabilities in Level 3 of the fair value hierarchy, a gross presentation of information about purchases, sales, issuances and settlements. ASU 2010-06 further clarifies that (i) fair value measurement disclosures should be provided for each class of assets and liabilities (rather than major category), which would generally be a subset of assets or liabilities within a line item in the statement of financial position and (ii) company's should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements for each class of assets and liabilities included in Levels 2 and 3 of the fair value hierarchy. The disclosures related to the gross presentation of purchases, sales, issuances and settlements of assets and liabilities included in Level 3 of the fair value hierarchy will be required for the Company beginning January 1, 2011. The remaining disclosure requirements and clarifications made by ASU 2010-06 became effective for the Company on January 1, 2010 and did not have a significant impact on the Company's financial statements.

ASU No. 2009-17, "Consolidations (Topic 810) - Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities." ASU 2009-17 amends prior guidance to change how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. ASU 2009-17 requires additional disclosures about the reporting entity's involvement with variable-interest entities and any significant changes in risk exposure due to that involvement as well as its effect on the entity's financial statements. ASU 2009-17 became effective January 1, 2010 and did not have a significant impact on the Company's financial statements.

ASU No. 2009-16, "Transfers and Servicing (Topic 860) - Accounting for Transfers of Financial Assets." The new authoritative accounting guidance amends prior accounting guidance to enhance reporting about transfers of financial assets, including securitizations, and where companies have continuing exposure to the risks related to transferred financial assets. The new authoritative accounting guidance eliminates the concept of a "qualifying special-purpose entity" and changes the requirements for derecognizing financial assets. ASU 2009-16 also requires additional disclosures about all continuing involvements with transferred financial assets including information about gains and losses resulting from transfers during the period. The new authoritative accounting guidance under ASU 2009-16 became effective January 1, 2010 and did not have a significant impact on the Company's financial statements.

QUARTERLY FINANCIAL DATA (UNAUDITED)

	2010	2009				2008		
(Dollars in Thousands, Except Per Share Data)	First	Fourth	Third	Second	First	Fourth	Third(1)	Sec
Summary of Operations:								
Interest Income	$28,154	$29,756	$30,787	$31,180	$31,053	$33,229	$34,654	$36,2
Interest Expense	4,132	4,464	4,235	4,085	4,058	5,482	7,469	8,78
Net Interest Income	24,022	25,292	26,552	27,095	26,995	27,747	27,185	27,4
Provision for Loan Losses	10,740	10,834	12,347	8,426	8,410	12,497	10,425	5,43
Net Interest Income After Provision for Loan Losses	13,282	14,458	14,205	18,669	18,585	15,250	16,760	22,0
Noninterest Income	13,967	14,411	14,304	14,634	14,042	13,311	20,212	15,7
Noninterest Expense	33,384	35,313	31,615	32,930	32,257	31,002	29,916	30,7
(Loss) Income Before Income Taxes	(6,135)	(6,444)	(3,106)	373	370	(2,441)	7,056	7,00
Income Tax (Benefit) Expense	(2,672)	(3,037)	(1,618)	(401)	(280)	(738)	2,218	2,19
Net (Loss) Income	$(3,463)	$(3,407)	$(1,488)	$774	$650	$(1,703)	$4,838	$4,81
Net Interest Income (FTE)	$24,473	$25,845	$27,128	$27,679	$27,578	$28,387	$27,802	$28,0
Per Common Share:								
Net (Loss) Income Basic	$(0.20)	$(0.20)	$(0.08)	$0.04	$0.04	$(0.10)	$0.29	$0.28
Net (Loss) Income	(0.20)	(0.20)	(0.08)	0.04	0.04	(0.10)	0.29	0.28

Diluted								
Dividends Declared	0.190	0.190	0.190	0.190	0.190	0.190	0.185	0.18
Diluted Book Value	15.34	15.72	15.76	16.03	16.18	16.27	17.45	17.3
Market Price:								
High	14.61	14.34	17.10	17.35	27.31	33.32	34.50	30.1
Low	11.57	11.00	13.92	11.01	9.50	21.06	19.20	21.7
Close	14.25	13.84	14.20	16.85	11.46	27.24	31.35	21.7
Selected Average Balances:								
Loans	$1,886,367	$1,944,873	$1,964,984	$1,974,197	$1,964,086	$1,940,083	$1,915,008	$1,90
Earning Assets	2,358,288	2,237,561	2,157,362	2,175,281	2,166,237	2,150,841	2,207,670	2,30
Assets	2,698,419	2,575,250	2,497,969	2,506,352	2,486,925	2,463,318	2,528,638	2,63
Deposits	2,248,760	2,090,008	1,950,170	1,971,190	1,957,354	1,945,866	2,030,684	2,14
Shareowners' Equity	268,555	268,556	275,027	277,114	281,634	302,227	303,595	300,
Common Equivalent Shares:								
Basic	17,057	17,034	17,024	17,010	17,109	17,125	17,124	17,1
Diluted	17,070	17,035	17,025	17,010	17,131	17,135	17,128	17,1
Ratios:								
ROA	(0.52)%	(0.52)%	(0.24)%	0.12%	0.11%	(0.28)%	0.76%	0.73
ROE	(5.23)%	(5.03)%	(2.15)%	1.12%	0.94%	(2.24)%	6.34%	6.43
Net Interest Margin (FTE)	4.21%	4.59%	4.99%	5.11%	5.16%	5.26%	5.01%	4.90
Efficiency Ratio	85.00%	85.21%	73.86%	75.44%	75.07%	71.21%	59.27%	66.8

(1) Includes a $6.25 million ($3.8 million after-tax) one-time gain on sale of a portion of our merchant services portfolio.

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 2010 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 and an operating net noninterest expense as a percent of average assets ratio, both of which are not calculated based on accounting principles generally accepted in the United States ("GAAP"), but that we believe provide important information regarding our results of operations. Our calculation of the operating efficiency ratio is computed by dividing noninterest expense less intangible amortization and merger expenses, by the sum of tax equivalent net interest income and noninterest income. We calculate our operating net noninterest expense as a percent of average assets by subtracting noninterest expense (excluding intangible amortization and merger expenses) from noninterest income. Management uses these non-GAAP measures 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 measures enhance investors' understanding of our business and performance, these non-GAAP financial measures should not be considered an alternative to GAAP. In addition, there are material limitations associated with the use of these non-GAAP financial measures such as the risks that readers of our financial statements may disagree as to the appropriateness of items included or excluded in these measures and that our measures may not be directly comparable to other companies that calculate these measures differently. Our management compensates for these limitations by providing detailed reconciliations between GAAP information and the non-GAAP financial measure as detailed below.

Reconciliation of operating efficiency ratio to efficiency ratio:

	Three Months Ended		
	March 31, 2010	December 31, 2009	March 31, 2009
Efficiency ratio	86.85 %	87.72 %	77.50 %
Effect of intangible amortization expense	(1.85)%	(2.51)%	(2.43)%
Operating efficiency ratio	85.00 %	85.21 %	75.07 %

Reconciliation of operating net noninterest expense ratio:

	Three Months Ended		
	March 31, 2010	December 31, 2009	March 31, 2009

Net noninterest expense as a percent of average assets	2.92 %	3.22 %	2.97 %
Effect of intangible amortization expense	(0.11)%	(0.16)%	(0.16)%
Operating net noninterest expense as a percent of average assets	2.81 %	3.06 %	2.81 %

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 2009 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

We are a financial 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 revenues, bank card fees, and data processing revenues.

Our philosophy is to grow and prosper, building long-term relationships based on quality service, high ethical standards, and safe and sound banking practices. We maintain a locally oriented, community-based focus, which is augmented by experienced, centralized support in select specialized areas. Our local market orientation is reflected in our network of banking office locations, experienced community executives with a dedicated President for each market, and community boards which support our focus on responding to local banking needs. We strive to offer a broad array of sophisticated products and to provide quality service by empowering associates to make decisions in their local markets.

Our long-term vision is to continue our expansion, emphasizing a combination of growth in existing markets and acquisitions. Acquisitions will continue to be focused on Florida, Georgia, and Alabama with a particular focus on financial institutions, which are $100 million to $400 million in asset size and generally located on the outskirts of major metropolitan areas. Five markets have been identified, four in Florida and one in Georgia, in which management will proactively pursue expansion opportunities. These markets include Alachua, Marion, Hernando and Pasco counties in Florida, the western panhandle of Florida, and Bibb and surrounding counties in central Georgia. We continue to 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. Our ability to expand, however, may be restricted by the board resolutions we adopted in February 2010 at the Federal Reserve's request. We refer to the resolutions as the "Federal Reserve Resolutions". For a complete discussion of the Federal Reserve Resolutions please see Item 1. Business-About Us-Regulatory Matter in our 2009 Form 10-K.

Much of our lending operations is in the State of Florida, which has been particularly hard hit in the current U.S. economic recession. Evidence of the economic downturn in Florida is reflected in current unemployment statistics. According to the U.S. Department of Labor, the Florida unemployment rate (seasonally adjusted) at March 31, 2010 increased to 12.3% from 11.8% at the end of 2009 and 7.6% at the end of 2008. A worsening of the economic condition in Florida would likely exacerbate the adverse effects of these difficult market conditions on our clients, which may have a negative impact on our financial results.

FINANCIAL OVERVIEW

A summary overview of our financial performance for the first quarter of 2010 versus the fourth quarter of 2009 and the first quarter of 2009 is provided below.

Summary of Financial Performance –

- Net loss of $3.4 million, or $0.20 per diluted share for the first quarter of 2010 compared to a net loss of $3.4 million, or $0.20 per diluted share in the fourth quarter of 2009, and net income of $0.7 million, or $0.04 per diluted share for the first quarter of 2009.

- Our loan loss provisions were $10.7 million ($0.39 per share), $10.8 million ($0.39 per share), and $8.4 million ($0.30 per share) for the quarters ended March 31, 2010, December 31, 2009, and March 31, 2009, respectively. Provision for the current quarter reflects required reserves for newly impaired loans and to a lesser extent collateral devaluation on existing impaired loans.

- Tax equivalent net interest income for the first quarter of 2010 decreased $1.4 million, or 5.3% from the fourth quarter of 2009 and $3.1 million, or 11.3% compared to the first quarter of 2009 due to a shift in the earning asset mix and unfavorable asset repricing, partially offset by a lower level of foregone interest on nonperforming loans. Additionally, interest expense declined from the fourth quarter but was slightly higher when compared to the first quarter of 2009.

- Noninterest income decreased $0.4 million or 3.1% from the fourth quarter of 2009 and decreased $0.1 million, or 0.5%, from the first quarter of 2009. Lower deposit fees and retail brokerage fees drove the decline from the linked quarter while a lower level of merchant fees, due to lower processing volume, was the primary reason for reduction from the comparable prior year quarter.

- Noninterest expense decreased $1.9 million, or 5.5%, from the fourth quarter of 2009 and increased $1.1 million, or 3.5%, from the first quarter of 2009. Lower expense for other real estate owned properties, legal fees, professional fees, advertising fees, and intangible amortization contributed to the linked quarter decline. Higher expense for other real estate owned properties partially offset by lower pension expense drove the increase over the comparable prior year quarter.

- Average earnings assets increased $120.7 million, or 5.4%, from the fourth quarter of 2009 and increased $192.1 million, or 8.9%, from the comparable prior year quarter. The increase from the linked quarter was primarily attributable to a $190.5 million increase in the funds sold position driven by core deposit growth and to a lesser extent an influx of public funds. The average investment and loan portfolios declined $11.3 million and $58.5 million, respectively. Approximately one-half of the reduction in the loan portfolio was attributable to loan charge-offs and transfer of foreclosed properties to the other real estate owned category. The increase in earning assets over the prior year quarter is attributable to the same aforementioned factors.

- Nonperforming assets totaled $153.7 million at the end of the first quarter, an increase of $9.6 million over year-end 2009 and $26.9 million over the first quarter of 2009. Nonperforming assets represented 8.10% of loans and other real estate at the end of the first quarter compared to 7.38% at year-end 2009 and 6.39% at the end of the first quarter of 2009. The increase in nonperforming assets for the current quarter was driven by a higher level of restructured loans, which increased $9.2 million from year-end 2009, consisting primarily of four large loan relationships.

- As of March 31, 2010, we are well-capitalized with a risk based capital ratio of 14.16% and a tangible capital ratio of 6.62% compared to 14.11% and 6.84%, respectively, at year-end 2009 and 14.40% and 7.63%, respectively, at March 31, 2009.

RESULTS OF OPERATIONS

Net Income

For the first quarter of 2010, we realized a net loss of $3.4 million, or $0.20 per diluted share, compared to a net loss of $3.4 million, or $0.20 per diluted share, for the fourth quarter of 2009 and net income of $0.7 million, or $0.04 per diluted share, for the first quarter of 2009.

The net loss reported for the first quarter of 2010 reflects a loan loss provision of $10.7 million, or $0.39 per diluted share, versus $10.8 million, or $0.39 per diluted share, for the fourth quarter of 2009 and $8.4 million, or $0.30 per diluted share, in the first quarter of 2009. Compared to the linked quarter, lower operating expenses of $1.9 million contributed to earnings, but were offset by a $1.7 million reduction in operating revenues (net interest income plus noninterest income) and a lower tax benefit of $0.3 million. Compared to the first quarter of 2009, lower operating revenues of $3.0 million and higher operating expenses ($1.1 million) contributed to the earnings decline.

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

	Three Months Ended		
(Dollars in Thousands, except per share data)	March 31, 2010	December 31, 2009	March 31, 2009
Interest Income	$ 28,154	$ 29,756	$ 31,053
Taxable equivalent Adjustments	451	553	583
Total Interest Income (FTE)	28,605	30,309	31,636
Interest Expense	4,132	4,464	4,058
Net Interest Income (FTE)	24,473	25,845	27,578
Provision for Loan Losses	10,740	10,834	8,410
Taxable Equivalent Adjustments	451	553	583
Net Interest Income After provision for Loan Losses	13,282	14,458	18,585
Noninterest Income	13,967	14,411	14,042
Noninterest Expense	33,384	35,313	32,257
(Loss) Income Before Income Taxes	(6,135)	(6,444)	370
Income Tax (Benefit) Expense	(2,672)	(3,037)	(280)
Net (Loss) Income	$ (3,463)	$ (3,407)	$ 650
Basic Net (Loss) Income Per Share	$ (0.20)	$ (0.20)	$ 0.04
Diluted Net (Loss) Income Per Share	$ (0.20)	$ (0.20)	$ 0.04
Return on Average Equity	(0.52)%	(0.52)%	0.11%
Return on Average Assets	(5.23)%	(5.03)%	0.94%

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 32.

Tax equivalent net interest income for the first quarter of 2010 was $24.5 million, a decrease of $3.1 million, or 11.3%, when compared to the first quarter of 2009 and $1.4 million, or 5.3%, for the linked quarter. The decrease in our taxable equivalent net interest income compared to both periods primarily reflects a shift in the earning asset mix and unfavorable asset repricing, partially offset by a lower level of foregone interest on nonperforming loans. Additionally, interest expense declined from the linked quarter but was slightly higher when compared to the first quarter of 2009.

Tax equivalent interest income for the first quarter of 2010 was $28.6 million compared to $30.3 million for the fourth quarter of 2009 and $31.6 million for the first quarter of 2009. The decrease of $1.7 million in interest income on a linked quarter basis was due to two less calendar days, a shift in earning asset mix reflecting lower balances in our investment and loan portfolios, as well as continued unfavorable repricing in each of these portfolios. These unfavorable volume and rate variances were partially offset by a favorable variance in foregone interest on nonaccrual loans. With the exception of calendar days, the $3.0 million unfavorable variance over the first quarter of 2009 is primarily attributable to the trends as noted above in comparing the first quarter 2010 to fourth quarter 2009.

Interest expense for the first quarter of 2010 was $4.1 million compared to the linked quarter of $4.5 million and the comparable quarter in 2009 of $4.0 million. The reduction in interest expense compared to the linked quarter was primarily attributable to lower rates on subordinated notes payable. The costs of funding deposits were higher in the first quarter of 2010 compared to the same period in 2009 reflecting the increased level of average deposits and the MMA promotion in select markets. Partially offsetting the higher deposit costs was a decline in the costs for subordinated notes and FHLB advances.

The net interest margin in the first quarter of 2010 was 4.21%, a decline of 38 basis points over the linked quarter and 95 basis points over the first quarter of 2009. The lower margin is attributable to the shift in our earning asset mix and unfavorable asset repricing, partially offset by a favorable variance in our average cost of funds. Strong deposit growth in recent quarters has improved our liquidity position, but has adversely impacted our margin in the short term as a significant portion of this growth is currently invested in overnight funds. When we determine what portion of this growth is permanent we will begin deploying the overnight funds into higher yielding earning assets.

Provision for Loan Losses

The provision for loan losses for the first quarter of 2010 was $10.7 million compared to $10.8 million in the fourth quarter of 2009 and $8.4 million for the first quarter of 2009. The provision for the current quarter reflects new reserves required for loans added to impaired status during the quarter, and to a lesser extent collateral devaluation on existing impaired loans. Net charge-offs in the first quarter of 2010 totaled $13.5 million, or 2.91%, of average loans compared to $11.8 million, or 2.42%, in the linked fourth quarter of 2009 and $5.2 million, or 1.08% in the first quarter of 2009. The increase in net charge-offs compared to the fourth quarter reflects losses recorded on three large previously impaired loans (totaling approximately $5.4 million in gross charge-offs) that are working through the foreclosure process – these loans were substantially reserved for in the prior quarter. At quarter-end, the allowance for loan losses was 2.23% of outstanding loans (net of overdrafts) and provided coverage of 38% of nonperforming loans compared to 2.30% and 41%, respectively, at the end of the prior quarter.

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

	Three Months Ended		
(Dollars in Thousands, except per share data)	March 31, 2010	December 31, 2009	March 31, 2009
CHARGE-OFFS			
Commercial, Financial and Agricultural	$ 842	$ 712	$ 857
Real Estate – Construction	3,722	2,040	320
Real Estate – Commercial Mortgage	4,631	1,584	1,002
Real Estate – Residential	3,727	7,377	1,975
Consumer	1,507	1,324	2,117
Total Charge-offs	14,429	13,037	6,271

RECOVERIES			
Commercial, Financial and Agricultural	77	343	74
Real Estate – Construction	-	5	385
Real Estate – Commercial Mortgage	157	43	-
Real Estate – Residential	114	331	58
Consumer	545	471	512
Total Recoveries	893	1,193	1,029
Net Charge-offs	$ 13,536	$ 11,844	$ 5,242
Net Charge- offs (Annualized) as a percent of Average Loans Outstanding, Net of Unearned Interest	2.91%	2.42%	1.08%

Noninterest Income

Noninterest income decreased $444,000, or 3.1%, from the fourth quarter of 2009 and declined $75,000, or 0.5%, from the first quarter of 2009. Compared to the linked quarter, the decrease is attributable to lower deposit service charge fees ($554,000) and retail brokerage fees ($207,000). Compared to the same prior year quarter, the slight decline is attributable to a lower level of merchant fees ($293,000), partially offset by an increase in bank card fees ($256,000).

Noninterest income represented 36.77% of operating revenues in the first quarter of 2010 compared to 36.30% in the prior quarter and 34.22% in the first quarter of 2009.

The table below reflects the major components of noninterest income.

	Three Months Ended		
(Dollars in Thousands)	March 31, 2010	December 31, 2009	March 31, 2009
Noninterest Income:			
Service Charges on Deposit Accounts	$ 6,628	$ 7,183	$ 6,698
Data Processing Fees	900	948	870
Asset Management Fees	1,020	1,065	970
Retail Brokerage Fees	565	772	493
Investment Security Gains	5	-	-
Mortgage Banking Fees	508	550	584
Merchant Service Fees (1)	665	345	958
Interchange Fees (1)	1,212	1,129	1,056
ATM/Debit Card Fees (1)	963	892	863
Other	1,501	1,527	1,550
Total Noninterest Income	$ 13,967	$ 14,411	$ 14,042

(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 declined $554,000, or 7.7%, from the fourth quarter and decreased $69,000, or 1.0%, from the first quarter of 2009. The reduction from the linked quarter reflects a two-day variance in the number of processing days, and a lower level of NSF/overdraft activity reflective of current economic conditions and a higher level of consumer awareness that have both impacted consumer and business spending habits. The decline from the same prior year quarter was due to a lower level of NSF/overdraft activity. We expect our overdraft and NSF fees to be down prospectively due to the impact of the new federal rules under the Electronic Funds Transfer Act which become effective July 2010. We are currently studying the impact of the new rules and, in an effort to mitigate the impact on this revenue source, we are developing programs to inform and educate our clients on their options and the value of our overdraft protection programs.

Retail Brokerage Fees. Fees from the sale of retail investment and insurance products decreased $207,000, or 26.8%, from the fourth quarter due to lower trading activity. Compared to the first quarter of 2009, fees increased $72,000, or

14.6%, due to higher trading activity reflective of improved stock market conditions. Stock market activity is driven by both market conditions and consumer behavior.

Mortgage Banking Fees. Mortgage banking fees decreased $42,000, or 7.6%, from the fourth quarter and decreased $76,000, or 13.0%, from the first quarter of 2009. The decrease for both periods was due to slightly lower secondary market loan production.

Asset Management Fees. Fees from asset management activities decreased $45,000, or 4.2%, from the fourth quarter and increased $50,000, or 5.2%, from the first quarter of 2009. The decrease compared to the linked quarter is primarily due to a lower level of estate management fees and employee benefit plan management fees. The increase over the prior year quarter reflects improvement in asset values. At March 31, 2010, assets under management totaled $712.8 million compared to $706.8 million at year-end 2009 and $628.9 million at the end of the first quarter of 2009.

Bank Card Fees. Bank card fees (including merchant services fees, interchange fees, and ATM/debit card fees) increased $474,000, or 20.0%, over the fourth quarter and decreased $37,000, or 1.3%, from the first quarter of 2009. The increase over the prior quarter was primarily due to higher merchant fees due to higher processing volume for our sole remaining merchant that is scheduled to migrate to another processor by July, 2010. The slight decline from the first quarter of 2009 was also attributable to lower merchant fees.

Other. Other income decreased $26,000, or 1.7%, from the fourth quarter and decreased $49,000, or 3.2%, from the first quarter of 2009. A lower income accrual for an equity investment drove the reduction for both periods.

Noninterest Expense

Noninterest expense decreased $1.9 million, or 5.5%, from the fourth quarter of 2009 and increased $1.1 million, or 3.5%, over the first quarter of 2009. The decrease compared to the prior quarter was driven by lower expense for other real estate properties ($700,000), which includes holding costs as well as valuation adjustments due to property devaluation. Lower expense for loan collection legal support ($215,000), professional fees ($554,000), advertising ($272,000), and intangible amortization ($301,000) also contributed to the decline for the quarter. Compared to the first quarter of 2009, the increase in noninterest expense was attributable to higher expense for other real estate properties ($1.8 million), partially offset by lower pension plan expense ($618,000).

The table below reflects the major components of noninterest expense.

	Three Months Ended		
(Dollars in Thousands)	March 31, 2010	December 31, 2009	March 31, 2009
Noninterest Expense:			
Salaries	$ 13,049	$ 12,413	$ 13,141
Associate Benefits	3,730	3,708	4,096
Total Compensation	16,779	16,121	17,237
Premises	2,408	2,458	2,345
Equipment	2,181	2,261	2,338
Total Occupancy	4,589	4,719	4,683
Legal Fees	1,046	1,261	839
Professional Fees	1,048	1,602	960
Processing Services	887	899	908
Advertising	678	950	856
Travel and Entertainment	232	296	295
Printing and Supplies	404	450	477
Telephone	550	568	569
Postage	447	441	418
Insurance - Other	1,188	1,088	866
Intangible Amortization	710	1,011	1,011
Interchange Fees	554	346	737
Courier Service	116	116	138
Other Real Estate Owned	2,515	3,205	747
Miscellaneous	1,641	2,240	1,516
Total Other	12,016	14,473	10,337
Total Noninterest Expense	$ 33,384	$ 35,313	$ 32,257

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

Compensation. Salaries and associate benefit expense increased $658,000, or 4.1%, over the fourth quarter of 2009 due to higher associate salaries ($636,000) and stock compensation expense ($374,000), partially offset by lower pension expense ($337,000). The increase in associate salaries primarily reflects annual merit raises. The higher expense for stock compensation reflects the reset of our stock incentive plan expense to its par level – this expense is then subsequently adjusted throughout the year based on actual performance. Compared to the first quarter of 2009, salaries and benefit expense decreased $458,000, or 2.7%, due to lower pension expense ($618,000) partially offset by an increase in associate insurance expense ($116,000). The reduction in pension expense reflects a higher level of expected return on plan assets which has a positive impact on our accounting expense. The increase in associate insurance expense reflects a continued trend of rising health care costs.

Occupancy. Occupancy expense (including premises and equipment) decreased $130,000, or 2.7%, from the fourth quarter and $94,000, or 2.0%, from the first quarter of 2009. Compared to the linked quarter, lower tangible tax expense drove the decline. Lower expense for equipment maintenance agreements contributed to the decline from the prior year quarter reflective of the renegotiation of several maintenance agreements during 2009.

Other. Other noninterest expense decreased $2.5 million, or 17.0%, from the fourth quarter and increased $1.7 million, or 16.2%, over the first quarter of 2009. The decrease compared to the linked quarter was driven by lower expense for other real estate owned ($700,000), which includes holding costs as well as valuation adjustments due to property devaluation. Lower expense for loan collection legal support ($215,000), professional fees ($554,000), advertising ($272,000), and intangible asset amortization ($301,000) also contributed to the decline for the quarter. The reduction in legal expense was due to a lower level of legal assistance needed for complex loan work-out arrangements as well as various cost control strategies implemented to reduce this cost. Professional fees were elevated in the fourth quarter due to a one-time payment to a consulting firm for services related to a review of our vendor maintenance contracts that we expect will result in future cost reductions. The decline in advertising expense primarily reflects lower direct mail costs for our ongoing AFC product promotion and, to a lesser extent, costs incurred in support of our money market account promotion, which was recognized in the fourth quarter of 2009. Intangible amortization declined due to the fact that the scheduled amortization of one of our core deposit intangible assets concluded during the fourth quarter of 2009. Compared to the first quarter of 2009, the increase in noninterest expense was primarily attributable to higher expense for other real estate properties ($1.8 million) and FDIC insurance fees ($321,000), partially offset by lower intangible asset amortization ($301,000).

The operating net noninterest expense ratio (expressed as noninterest income minus noninterest expense, excluding intangible amortization expense and merger expenses, as a percent of average assets) was 2.81% for the first quarter of 2010 compared to 3.06% for the fourth quarter of 2009 and 2.81% for the first quarter of 2009. 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 85.00% for the first quarter of 2010 compared to 85.21% for the linked fourth quarter of 2009 and 75.07% for the first quarter of 2009.

Income Taxes

We realized a tax benefit of $2.7 million for the first quarter of 2010 compared to a tax benefit of $3.0 million for the fourth quarter of 2009 and $280,000 for the first quarter of 2009. The tax benefit realized for all periods reflects the impact of our permanent book/tax differences (primarily tax exempt income) in relation to our book operating profit. The slight reduction in the benefit for the current quarter compared to the linked quarter primarily reflects a lower level of tax exempt income.

FINANCIAL CONDITION

Average assets increased $123.2 million, or 4.8%, to $2.698 billion for the quarter ended March 31, 2010 from $2.575 billion in the fourth quarter of 2009 and increased $211.5 million, or 8.5%, from the comparable quarter in 2009. Average earning assets were $2.358 billion for the first quarter of 2010, an increase of $120.7 million, or 5.4% from the fourth quarter of 2009, and an increase of $192.1 million, or 8.9% from the first quarter of 2009. The improvement from both periods is primarily attributable to an increase in the overnight funds position partially offset by declines in the investment and loan portfolios, respectively.

Investment Securities

In the first quarter of 2010, our average investment portfolio decreased $11.3 million, or 6.3%, from the prior quarter and decreased $23.4 million, or 12.2%, from the first quarter of 2009. As a percentage of average earning assets, the investment portfolio represented 7.2% in the first quarter of 2010, compared to 8.0% in the prior quarter and 8.9% in the first quarter of 2009. The decrease in the average balance of the investment portfolio was primarily attributable to not replacing a portion of maturing securities due to limited availability of certain high-quality investments. The investment portfolio was expanded at the end of the first quarter with the purchase of $50.0 million of U.S. Treasuries in relatively short maturities. If appropriate, we will continue to look to deploy a portion of the funds sold position in the investment portfolio during the second 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 March 31, 2010, all securities are 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 March 31, 2010, the investment portfolio maintained a net pre-tax unrealized gain of $1.0 million compared to a net pre-tax unrealized gain of $2.0 million at December 31, 2009 and $2.6 million at March 31, 2009. The decline in unrealized gain compared to both prior periods was attributable to a much steeper yield curve at maturities longer than 18 months, resulting in declining prices. Approximately $29.2 million of our investment securities have an unrealized loss totaling $756,000. All positions except one have been in a loss position for less than 12 months. These positions consist of municipal bonds pre-refunded with US Government securities, GNMA mortgage-backed securities (MBS) which carry the full faith and credit of the US Government, and US Treasury securities. These positions are not considered impaired, and are expected to mature at par or better. Approximately $0.7 million of our unrealized loss is related to one bank preferred stock issue that maintained a zero book value as of March 31, 2010 and December 31, 2009. During the fourth quarter of 2009, we recorded $0.3 million in credit impairment for this security. No additional impairment was recorded during the first quarter of 2010, but we continue to closely monitor the fair value of this security as the issuer of this security continues to experience negative operating trends.

Loans

Average loans decreased $58.5 million, or 3.0%, from the fourth quarter of 2009 and $77.7 million, or 4.0%, from the comparable period in 2009. Declines throughout the portfolio were driven by a reduction in the residential real estate and construction loan categories partially reflecting the transfer of loans to the other real estate category as well as loan charge-offs. Additionally, the portfolio has been impacted by diminished loan demand, primarily attributable to the weak economy, as we have experienced lower production levels in recent quarters. Our loan production levels began to decline during the second half of 2009 with the trend continuing through the recent quarter. Loans as a percent of average earning assets has declined to 80.0% in 2010, down from year-end 2009 of 86.9%, and 90.1% for the first quarter of 2009.

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.

Nonperforming Assets

Nonperforming assets of $153.7 million increased over year-end 2009 by $9.6 million and from the first quarter of 2009 by $26.9 million. Nonaccrual loans decreased $9.9 million and $33.8 million, respectively, from the same prior-year periods. For the first quarter, the migration of loans into our problem loan pool slowed as the gross additions declined for the second straight quarter and the level of our past due loans improved significantly. More specifically, gross additions to our portfolio of nonaccruing loans have declined in four of the last five quarters, including the first quarter of 2010. Furthermore, our collection and loan work-out efforts continue to produce positive momentum reflective of the increased level of loans migrating into both the restructured loan and other real estate categories. Restructured loans totaled $30.8 million at the end of the first quarter reflecting an increase of $9.2 million over year-end 2009 and $25.7 million over the first quarter of 2009. Four large loans were added to the restructured category during the first quarter and reflect our efforts to alleviate near term cash flow strains for these borrowers. Our current restructured loan portfolio consists of 150 loans that are all on fully accruing status and maintain a weighted average interest rate of 5.86%. Other real estate owned totaled $46.4 million at the end of the quarter compared to $36.1 million at year-end 2009 and $11.4 million at the end of the first quarter of 2009, reflecting the continued migration of our problem loan pool through the foreclosure process, which has picked up momentum over the last two quarters. Nonperforming assets represented 8.10% of loans and other real estate at the end of the first quarter compared to 7.38% at year-end 2009 and 6.39% at the end of the first quarter of 2009. The increase in this percentage is partially attributable to a decline in loans outstanding.

Allowance for Loan Losses

We maintain an allowance for loan losses at a level sufficient to provide for the estimated credit 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 $41.2 million at March 31, 2010 compared to $44.0 million at December 31, 2009. The allowance for loan losses was 2.23% of outstanding loans (net of overdrafts) and provided coverage of 38% of nonperforming loans at March 31, 2010 compared to 2.30% and 41%, respectively, at year-end 2009. The decrease in our allowance for the current period is due to a higher level of loan charge-offs during the period including charge-offs on three large impaired loans (totaling approximately $4.7 million) that are working through the foreclosure process. Specific reserves had been established for these loans in a prior quarter. It is management’s opinion that the allowance at March 31, 2010 is adequate to absorb losses inherent in the loan portfolio at quarter-end.

Deposits

Average total deposits were $2.249 billion for the first quarter, an increase of $158.8 million, or 7.6%, from the fourth quarter and an increase of $291.4 million, or 14.9%, from the first quarter of 2009. On a linked quarter basis, the increase reflects core deposit growth of approximately $66.3 million resulting from a successful money market promotion, higher deposit balances maintained by several larger, non-public depositors, as well as continued growth in our Absolutely Free Checking ("AFC") accounts. Additionally, average public funds increased approximately $92.0 million from the linked quarter attributable to seasonal inflow and the addition of new relationships. The money market account promotion, which was launched during the third quarter and concluded in the fourth quarter, has generated in excess of $100.0 million in new deposit balances and served to support our core deposit growth initiatives and to further strengthen Capital City Bank's overall liquidity position. Our AFC products continue to be successful as both balances and the number of accounts continue to post growth quarter over quarter. The improvement from the first quarter of 2009 primarily reflects the increase in core deposits mentioned above.

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 reprice on a different basis than interest-earning assets. When interest-bearing liabilities mature or reprice 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 reprice 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 four 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 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 (±)	10.0%	7.5%	5.0%	5.0%
March 31, 2010	-8.1%	-4.6%	-1.3%	-1.0%
December 31, 2009	-6.1%	-3.4%	-0.8%	0.7%

The Net Interest Income at Risk position declined for the first quarter of 2010, when compared to the prior quarter-end, for all rate scenarios. Our largest exposure is at the +300 basis point ("bp") level, with a measure of -8.1%, which is still within our policy limit of -10.0%. This is a decline from the prior quarter reflecting lower loan balances and a change in our subordinated notes from a fixed rate to a variable rate structure. 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 (±)	12.5%	10.0%	7.5%	7.5%
March 31, 2010	-6.2%	-0.7%	2.1%	-5.9%
December 31, 2009	-4.3%	0.4%	2.7%	-7.0%

Our risk profile, as measured by EVE, declined for the first quarter of 2010, when compared to the linked quarter-end with the exception of the down 100 bp scenario, which reported a favorable slight increase. Our largest exposure is at the up 300 bp scenario, with a measure of -6.2%, which is still within our policy limit of -12.5%. This is a decline from the prior quarter reflecting lower loan balances and a change in our subordinated notes from a fixed rate to a variable rate structure. 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 Asset Liability Committee (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. For the years ended December 31, 2010 and 2009, 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 $727.0 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 Contingent 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 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 one year and as of quarter-end had a net unrealized pre-tax gain of $1.7 million.

Our average liquidity (defined as funds sold plus interest bearing deposits with other banks less funds purchased) of $303.3 million during the first quarter of 2010 compared to an average net overnight funds sold position of $112.8 million in the fourth quarter of 2009 and an average overnight funds purchased position of $33.9 million in the first quarter of 2009. The favorable variance as compared to both the fourth and first quarters of 2009 is primarily attributable to the growth in core deposits mentioned above and net reductions in both the loan and investment portfolios. The investment portfolio was expanded at the end of the first quarter and if appropriate, we will look to deploy a portion of the funds sold position to the investment portfolio.

Capital expenditures are expected to approximate $10.0 million over the next 12 months, which consist primarily of new banking office construction, 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 March 31, 2010, advances from the FHLB consisted of $51.3 million in outstanding debt consisting of 45 notes. During the first quarter of 2010, the Bank made FHLB advance payments totaling approximately $1.1 million and obtained four new FHLB advances totaling $2.4 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 first quarter was 2.14%. This note matures on December 31, 2034. The interest payments for the CCBG Capital Trust II borrowing are due quarterly at a fixed rate of 6.07% and effective June 2010 will adjust annually to a variable rate of LIBOR plus a margin of 1.80%. 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 2009 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 $262.0 million as of March 31, 2010, compared to $267.9 million as of December 31, 2009. Our leverage ratio was 9.64% and 10.39%, respectively, and our tangible capital ratio was 6.62% and 6.84%, respectively, for the same periods. Our risk-adjusted capital ratio of 14.16% at March 31, 2010, exceeds the 10% threshold to be designated as “well-capitalized” under the risk-based regulatory guidelines.

During the first three months of 2010, shareowners' equity decreased $5.9 million, or 8.8%, on an annualized basis. During this same period, shareowners' equity was negatively impacted by a net loss of $3.5 million and the payment of dividends totaling $3.2 million ($.190 per share). Shareowners' equity was positively impacted by the issuance of stock totaling approximately $0.3 million, a change in the net unrealized gain on investment securities of approximately $0.1 million, and accrual for performance shares of approximately $0.4 million.

At March 31, 2010, our common stock had a book value of $15.35 per diluted share compared to $15.72 at December 31, 2009. 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 March 31, 2010, the net unrealized gain on investment securities available for sale was $0.6 million and the amount of our unfunded pension liability was $15.4 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 certain Federal Reserve Resolutions (discussed in further detail within our 2009 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 be able to receive the required approvals. As of March 31, 2010, we believe we have sufficient cash to fund shareowner dividends for the remainder of 2010 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 the payment of dividends on a quarterly basis and consult with our regulators concerning matters relating to our overall dividend policy. However, an inability to obtain regulatory approval or earn the dividend in future quarters, may result in a reduction or elimination of the dividend.

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 March 31, 2010, we had $351.0 million in commitments to extend credit and $13.5 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, available advances from the FHLB and Federal Reserve Bank, 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 2009 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. Our annual review for impairment determined that no impairment existed at December 31, 2009. Because the book value of our equity exceeded our market capitalization as of March 31, 2010, we considered the guidelines set forth in ASC Topic 350to discern whether further testing for potential impairment was needed. Based on this assessment, we concluded that no further testing for impairment was needed as of March 31, 2010.

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 both 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 anticipate using a 5.75% discount rate in 2010.

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 Government Agency debt securities, and other securities (typically temporary liquid funds awaiting investment). We anticipate using a rate of return on plan assets of 8.0% for 2010.

The assumed rate of annual compensation increases is based on expected trends in salaries and the employee base. We anticipate using a compensation increase of 4.50% for 2010 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 2009 Form 10-K.

TABLE I
AVERAGE BALANCES & INTEREST RATES

(Taxable Equivalent Basis - Dollars in Thousands)	Three Months Ended March 31, 2010			December 31, 2009			March 31, 2009		
ASSETS	Balance	Interest	Rate	Balance	Interest	Rate	Balance	Interest	Rate
Loans, Net of Unearned Interest(1)(2)	$1,886,367	$ 27,180	5.84%	$ 1,944,873	$ 28,813	5.88%	$ 1,964,086	$ 29,724	6.14%
Taxable Investment Securities	71,325	500	2.81	72,537	498	2.74	90,927	776	3.43
Tax-Exempt Investment Securities(2)	97,316	753	3.10	107,361	921	3.43	101,108	1,133	4.48
Funds Sold	303,280	172	0.23	112,790	77	0.27	10,116	3	0.13
Total Earning Assets	2,358,288	28,605	4.92%	2,237,561	30,309	5.38%	2,166,237	31,636	5.92%
Cash and Due From Banks	54,873			69,687			76,826		
Allowance for Loan Losses	(44,584)			(46,468)			(38,007)		
Other Assets	329,842			314,470			281,869		
TOTAL ASSETS	$2,698,419			$ 2,575,250			$ 2,486,925		
LIABILITIES									
NOW Accounts	$ 867,004	$ 384	0.18%	$ 740,550	$ 308	0.17%	$ 719,265	$ 225	0.13%
Money Market Accounts	374,161	689	0.75	361,104	625	0.69	321,562	190	0.24
Savings Accounts	126,352	15	0.05	122,158	16	0.05	118,142	14	0.05
Other Time Deposits	438,112	1,850	1.71	439,654	2,015	1.82	392,006	2,066	2.14
Total Interest Bearing Deposits	1,805,629	2,938	0.66	1,663,466	2,964	0.71	1,550,975	2,495	0.65
Short-Term Borrowings	30,673	17	0.22	47,114	22	0.18	85,318	68	0.32
Subordinated Notes Payable	62,887	651	4.14	62,887	936	5.83	62,887	927	5.89
Other Long-Term Borrowings	49,981	526	4.27	50,026	542	4.30	53,221	568	4.33
Total Interest Bearing Liabilities	1,949,170	4,132	0.86%	1,823,493	4,464	0.97%	1,752,401	4,058	0.94%
Noninterest Bearing Deposits	443,131			426,542			406,380		
Other Liabilities	37,563			56,659			46,510		
TOTAL LIABILITIES	2,429,864			2,306,694			2,205,291		

SHAREOWNERS' EQUITY						
TOTAL SHAREOWNERS' EQUITY	268,555		268,556		281,634	
TOTAL LIABILITIES & EQUITY	$ 2,698,419		$ 2,575,250		$ 2,486,925	
Interest Rate Spread		4.06 %		4.41%		4.98 %
Net Interest Income	$ 24,473		$ 25,845		$ 27,578	
Net Interest Margin(3)		4.21 %		4.59%		5.16 %

(1) Average balances include nonaccrual loans. Interest income includes fees on loans of $363,000 and $481,000, for the three months ended March 31, 2010 and 2009.
(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, 2009.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of March 31, 2010, 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 March 31, 2010, 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.

PARTOTHER INFORMATION
II.

Item 1. Legal Proceedings

We are 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 our consolidated results of operations, financial position, or cash flows.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report, you should carefully consider the factors discussed in Part I, Item 1A. “Risk Factors” in our 2009 Form 10-K, as updated in our subsequent quarterly reports. The risks described in our 2009 Form 10-K are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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.

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: May 7, 2010