

CAPITAL CITY BANK GROUP INC  
Form S-4  
March 07, 2005

As filed with the Securities and Exchange Commission on March 7, 2005  
Registration No. 333-\_\_\_\_\_

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM S-4  
REGISTRATION STATEMENT UNDER  
THE SECURITIES ACT OF 1933

CAPITAL CITY BANK GROUP, INC.  
(Exact Name of Registrant as Specified in its Charter)

Florida	6022	59-2273542
(State or Other	(Primary Standard	(I.R.S. Employer
Jurisdiction of	Industrial	Identification No.)
Incorporation or	Classification Code	
Organization)	Number)	

217 North Monroe Street  
Tallahassee, Florida 32301  
(850) 671-0300

(Address, including zip code, and telephone number, including area  
code, of Registrant's principal executive offices)

J. Kimbrough Davis  
Executive Vice President and Chief Financial Officer  
Capital City Bank Group, Inc.  
217 North Monroe Street  
Tallahassee, Florida 32301  
(850) 671-0300

(Name, address, including zip code, and telephone number, including area  
code, of agent for service)

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Approximate date of commencement of proposed sale of securities to the public: As soon as practicable after this Registration Statement becomes effective.

If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. "

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If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. " \_\_\_\_\_

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. " \_\_\_\_\_

\_\_\_\_\_

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered <sup>(1)</sup>	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price <sup>(2)</sup>	Amount of Registration Fee <sup>(2)</sup>
Common stock, par value \$.01 per share	725,000 shares	N/A	\$29,000,000	\$3,414

(1) This Registration Statement covers the maximum number of shares of the common stock of the Registrant which is expected to be issued in connection with the merger.

(2) Pursuant to Rule 457(f)(2) under the Securities Act and solely for the purpose of calculating the registration fee, the proposed maximum aggregate offering price and the amount of the registration fee should be computed based on the aggregate book value of the common stock of First Alachua being exchanged in the merger reduced by the cash component of the merger consideration being paid by the Registrant. As of December 31, 2004, the book value of First Alachua common stock was approximately \$2,493.03 per share based on 10,186 shares of First Alachua common stock outstanding.

In addition, the cash component of the merger consideration is approximately \$2,847.04 per share of First Alachua common stock (subject to certain potential reductions). Because the cash expected to be paid by the Registrant in connection with the transaction exceeds the book value of the acquired company, application of Rule 457(f)(3) would result in a negative proposed maximum aggregate offering price. Therefore, solely for the purpose of calculating the registration fee, the Registrant estimated the market value of the securities to be received by the Registrant by multiplying the estimated purchase price of \$58,000,000 by 50%, because the merger consideration is structured to be approximately 50% cash and 50% stock.

\_\_\_\_\_

**The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

**FIRST ALACHUA BANKING CORPORATION**

**15000 NW 140<sup>th</sup> Street  
Alachua, Florida 32615**

To the shareholders of  
First Alachua Banking Corporation

[\_\_\_\_\_], 2005

On behalf of First Alachua's board of directors, I am pleased to invite you to attend a Special Meeting of the shareholders of First Alachua Banking Corporation to be held at First National Bank of Alachua, located at 15000 NW 140<sup>th</sup> Street, Alachua, Florida 32615, on May 20, 2005, at [\_\_]:00 [\_\_].m., Eastern Time.

At the Special Meeting, you will be asked to approve the Agreement and Plan of Merger by and among Capital City Bank Group, Inc., First Alachua Banking Corporation and First National Bank of Alachua, whereby First Alachua Banking Corporation will merge with and into Capital City Bank Group, Inc. and First National Bank of Alachua will merge with and into Capital City Bank Group's subsidiary, Capital City Bank. When the merger is completed (and subject to certain adjustments), each share of common stock held by you will be exchanged for the right to receive \$2,847.04 in cash, plus approximately 71.176 shares of CCBG common stock. CCBG will pay First Alachua shareholders cash instead of issuing any fractional shares in the merger.

As First Alachua's board of directors, we believe that the merger will have many benefits. We believe that the combined company will have greater financial strength and greater opportunity and flexibility to expand and diversify. The merger is subject to certain conditions, including approval of the Agreement and Plan of Merger by the affirmative vote of holders of a majority of the outstanding common stock of First Alachua, and approval of the merger by various regulatory agencies.

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

This Proxy Statement/Prospectus provides detailed information about the merger. We urge you to read this entire document carefully, including the risk factors considered by CCBG's and First Alachua's boards of directors beginning on page 17. You can also get information about CCBG from the SEC. CCBG's common stock is traded on the Nasdaq National Market under the symbol "CCBG."

Whether or not you plan to attend the Special Meeting, you are urged to complete, sign, and promptly return the enclosed proxy card. If you attend the Special Meeting, you may vote in person if you wish, even if you have previously returned your proxy card.

On behalf of the board of directors, I strongly urge you to vote FOR approval of the Agreement and Plan of Merger by marking the enclosed proxy card FOR item one.

We look forward to seeing you at the Special Meeting.

Sincerely,

Jerry M. Smith  
President and Chairman of the Board



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

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

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This Proxy Statement/Prospectus is dated [\_\_\_\_], 2005, and was first mailed to shareholders on [\_\_\_\_], 2005.

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**PROPOSED MERGER OF FIRST ALACHUA BANKING CORPORATION  
WITH CAPITAL CITY BANK GROUP, INC.**

**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS  
TO BE HELD MAY 20, 2005**

A special meeting of the shareholders (the "Special Meeting") of First Alachua Banking Corporation will be held at First National Bank of Alachua, located at 15000 NW 140<sup>th</sup> Street, Alachua, Florida, 32615, on May 20, 2005, at [ ]:00 [ ]m., Eastern Time, for the following purposes:

- To vote on an Agreement and Plan of Merger, pursuant to which, among other matters, (a) First Alachua Banking Corporation will merge with and into Capital City Bank Group, Inc. with Capital City Bank Group, Inc. being the resulting corporation, and (b) First National Bank of Alachua will merge with and into Capital City Bank, with Capital City Bank being the resulting bank.
- To transact any other business that properly comes before the Special Meeting, or any adjournments or postponements of the Special Meeting.

In connection with the merger, and subject to certain potential adjustments, each share of First Alachua common stock outstanding at the effective time of the merger will be exchanged for \$2,847.04 in cash, plus approximately 71.176 shares of CCBG common stock. A copy of the Agreement and Plan of Merger is included in this Proxy Statement/Prospectus in Section VIII on page 147.

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

Only shareholders of record at the close of business on [ ], 2005, will be entitled to notice of and to vote at the Special Meeting or any adjournments. Approval of the Agreement and Plan of Merger requires the affirmative vote of a majority of the outstanding shares of First Alachua common stock on that record date.

**The Board of Directors of First Alachua unanimously recommends that shareholders vote FOR approval of the Agreement and Plan of Merger.**

BY ORDER OF THE BOARD OF DIRECTORS

By: \_\_\_\_\_

Jerry M. Smith  
President and Chairman of the Board

Alachua, Florida  
[ ], 2005

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

**Sections 607.1301 - 607.1333 of the Florida Business Corporation Act provides that each First Alachua shareholder may dissent from the Agreement and Plan of Merger and demand payment of the fair value of his or her shares in cash if the merger is consummated. The right of any shareholder to receive such payment is contingent upon strict compliance with the provisions of Sections 607.1301 - 607.1333 of the Florida Business Corporation Act. We have included for your review the full text of Sections 607.1301 - 607.1333 of the Florida Business Corporation Act in Section X of the accompanying Proxy Statement/Prospectus, beginning on page 213. See “DESCRIPTION OF THE MERGER - Dissenters’ Rights of Appraisal” in the accompanying Proxy Statement/Prospectus, page 41.**

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## SECTION I

### WHERE YOU CAN FIND MORE INFORMATION ABOUT CCBG

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

CCBG filed a Registration Statement on Form S-4 to register with the SEC the shares that CCBG will issue to First Alachua shareholders in the merger. This Proxy Statement/Prospectus is a part of that Registration Statement. Because the rules and regulations of the SEC allow the omission of certain portions of the Registration Statement from this document, this Proxy Statement/Prospectus does not include all of the information contained in the Registration Statement. For further information about CCBG and the securities offered in this Proxy Statement/Prospectus, you should review the Registration Statement at the SEC's Public Reference Room or on its Web site.

CCBG's internet website is [www.ccbg.com](http://www.ccbg.com). CCBG's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, including any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d), and reports filed pursuant to Section 16, 13(d), and 13(g) of the Exchange Act are available free of charge through the website as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. In addition, you may obtain free of charge any such documents filed by or furnished to the SEC by CCBG by requesting them from CCBG at the address or telephone number listed on page 6.

### PLEASE NOTE

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

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

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

Information in this Proxy Statement/Prospectus about CCBG has been supplied by CCBG, and information about First Alachua has been supplied by First Alachua.

### IMPORTANT INFORMATION ABOUT THE AGREEMENT AND PLAN OF MERGER

The Agreement and Plan of Merger, which is included in this Proxy Statement/Prospectus in Section VIII, beginning on page 147, has been included to provide you with information regarding its terms. It is not intended to provide any other factual information about CCBG or First Alachua.



The Agreement and Plan of Merger contains representations and warranties CCBG and First Alachua made to each other. The assertions embodied in those representations and warranties are qualified by information in confidential disclosure schedules that CCBG and First Alachua have exchanged in connection with signing the Agreement and Plan of Merger. While CCBG and First Alachua do not believe that these disclosure schedules contain information securities laws require us to publicly disclose other than information that has already been so disclosed, the disclosure schedules do contain information that modifies, qualifies and creates exceptions to the representations and warranties set forth in the attached Agreement and Plan of Merger. Accordingly, you should not rely on the representations and warranties as characterizations of the actual state of facts, because they are modified in important part by the underlying disclosure schedules. These disclosure schedules contain information that has been included in CCBG's general prior public disclosures, as well as potential additional non-public information. Moreover, information concerning the subject matter of the representations and warranties may have changed since the date of the Agreement and Plan of Merger, which subsequent information may or may not be fully reflected in CCBG's public disclosures.

#### **A WARNING ABOUT FORWARD-LOOKING STATEMENTS**

We have made forward-looking statements in this Proxy Statement/Prospectus (and in other documents filed with the SEC) that are subject to risks and uncertainties. These statements are based on the beliefs and assumptions of CCBG's and First

Alachua's managements and on information currently available to members of management. These forward-looking statements include information about possible or assumed future results of operations or the performance of CCBG after the merger. Many possible events or factors could cause results or performance to differ materially from those expressed in our forward-looking statements.

You should consider the events or factors detailed in the "RISK FACTORS" section of this Proxy Statement/Prospectus beginning on page 17 when you vote on the merger.

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## SECTION II

### QUESTIONS AND ANSWERS ABOUT THE MEETING

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

A: You are being asked to approve the Agreement and Plan of Merger providing for, among other things, (a) the merger of First Alachua Banking Corporation with and into Capital City Bank Group, Inc., with Capital City Bank Group, Inc. being the resulting financial holding company, and (b) the merger of First National Bank of Alachua with and into Capital City Bank, with Capital City Bank being the resulting bank.

#### **Q(2): WHY IS FIRST ALACHUA MERGING WITH CCBG?**

A: The merger will enable First Alachua shareholders to hold stock in a larger and more diversified entity whose shares are more widely held and more actively traded. CCBG's common stock is traded on the Nasdaq National Market under the symbol "CCBG." We also believe the merger will enable First Alachua to serve better its customers with more products and services. Based upon these and other factors, we believe that the merger is in the best interest of the First Alachua shareholders. We provide the background and more detailed reasons for the merger, starting on page 24.

#### **Q(3): AS A FIRST ALACHUA SHAREHOLDER, WHAT WILL I RECEIVE IN THE MERGER?**

A: For each share of First Alachua common stock you own, CCBG will pay you a combination of \$2,847.04 in cash, plus approximately 71.176 shares of CCBG common stock. There are certain potential adjustments that may reduce the amount of cash or stock that you may receive. Cash will be paid in lieu of issuing fractional shares based upon the average daily closing prices of one share of CCBG common stock (as reported by the Nasdaq National Market) for the 20 consecutive full trading days ending on and including the fifth full trading day prior to the closing date of the merger.

*Example: If you own 10 shares of First Alachua common stock, the average daily closing price is \$40.00 per share, and there are no adjustments, upon completion of the merger, you will receive 711 shares of CCBG common stock and a check for \$28,470.40, plus an additional \$30.40 in lieu of your remaining fractional share.*

#### **Q(4): WHAT HAPPENS AS THE MARKET PRICE OF CCBG COMMON STOCK FLUCTUATES?**

A: Because the market value of CCBG common stock will fluctuate before and after the closing date of the merger, the value of the stock you will receive as a result of the merger will fluctuate as well and could decrease in value. However, the Agreement and Plan of Merger provides that First Alachua may terminate the Agreement and Plan of Merger (subject to CCBG's right to increase the number of CCBG shares to be issued in the merger) at any time during the two-day period commencing at the close of trading on the fifth full trading day prior to the closing date if both (i) the average daily closing price of one share of CCBG common stock is less than or equal to \$34, and (ii) the number obtained by dividing the average daily closing price of one share of CCBG common stock by 40 is less than a formula-based weighted average of an index group of 22 bank holding companies.

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

A: We expect to complete the merger during the second quarter of 2005.



The merger must be approved by holders of a majority of the First Alachua common stock and by certain regulatory agencies, including the Board of Governors of the Federal Reserve System and the Florida Department of Financial Services. Additional approvals by or notices to other Florida state authorities may be necessary.

**Q(6): WHAT ARE THE U.S. TAX CONSEQUENCES OF THE MERGER TO ME?**

A: We expect that for U.S. federal income tax purposes, your exchange of First Alachua common stock for CCBG common stock in the merger generally will not cause you to recognize any gain or loss. You will, however, have to recognize gain in connection with any cash received in the merger. In addition, shareholders who exercise dissenters' rights may recognize gain or loss in the exchange of their shares for cash. We urge you to consult your own tax advisers as to the specific tax consequences of the merger to you.

We provide a more detailed review of the U.S. federal income tax consequences of the merger at page 51 of this Proxy Statement/Prospectus.

**Q(7): AS A FIRST ALACHUA SHAREHOLDER, DO I HAVE TO ACCEPT CCBG COMMON STOCK IN EXCHANGE FOR MY SHARES IF THE MERGER IS APPROVED?**

A: No. If you are a First Alachua shareholder and you follow the procedures prescribed by Florida law, you may dissent from the merger and receive the fair value of your stock. If you follow those procedures, you will not receive CCBG common stock. Instead, the fair value of your First Alachua stock, determined in the manner prescribed by Florida law, will be paid to you in cash.

**Q(8): WHAT SHOULD I DO NOW?**

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

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

The meeting is scheduled for May 20, 2005. You are invited to the meeting to vote your shares in person rather than signing and mailing your proxy card. If you do sign your card, you can take back your proxy up to and including the time of the vote at the meeting and either change your vote or attend the meeting and vote in person. We provide more detailed instructions about voting starting on page 20.

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

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



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

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

Jerry M. Smith, President  
First Alachua Banking Corporation  
15000 NW 140<sup>th</sup> Street  
Alachua, Florida 32615  
(386) 462-1041

## SUMMARY

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

### **The Companies**

(See Page 68 for First Alachua, Page 70 for CCBG)

#### **First Alachua Banking Corporation**

15000 NW 140<sup>th</sup> Street  
Alachua, Florida 32615  
(386) 462-1041

First Alachua Banking Corporation is a financial services company and the parent company of First National Bank of Alachua which was established in 1908. First National Bank of Alachua is headquartered in Alachua, Florida and has assets totaling \$229 million in seven banking offices and one mortgage office in north central Florida and one banking office in St. Johns County, Florida. First National Bank of Alachua offers its clients a variety of services including deposit services, loans, ATMs, credit card merchant services, investment services, mortgage lending and business accounts. First National Bank of Alachua's website is [www.fnba.net](http://www.fnba.net).

#### **Capital City Bank Group, Inc.**

217 North Monroe Street  
Tallahassee, Florida 32301  
(850) 671-0300

CCBG is a \$2.4 billion financial holding company headquartered in Tallahassee, Florida providing traditional deposit and credit services, asset management, trust, mortgage banking, bankcards, data processing and securities brokerage services. Founded in 1895, CCBG has 60 banking offices, 5 residential lending offices, 75 ATMs, and 11 Bank 'N Shop locations in Florida, Georgia and Alabama. For more information about CCBG, go to [www.ccbg.com](http://www.ccbg.com).

### **The Merger**

(See Page 22)

The Agreement and Plan of Merger provides for CCBG to acquire First Alachua by merging First Alachua with and into CCBG, with CCBG being the resulting corporation. Immediately thereafter, First National Bank of Alachua will merge with and into Capital City Bank, with Capital City Bank being the resulting bank. A copy of the Agreement and Plan of Merger is included in this Proxy Statement/Prospectus in Section VIII on page 147. We encourage you to read the Agreement and Plan of Merger because it is the legal document that governs the merger.

### **Background of the Merger**

(See Page 24)

In April 2004, Jerry M. Smith, Chief Executive Officer and controlling shareholder of First Alachua, contacted representatives of SunTrust Robinson Humphrey to discuss possible strategic alternatives, because he had concerns



about management succession. Immediately thereafter, management of First Alachua and SunTrust Robinson Humphrey began gathering the appropriate information and developing a confidential memorandum describing First Alachua that could be distributed to potential interested parties.

Upon completion of the confidential memorandum, in mid-July 2004, SunTrust Robinson Humphrey contacted 25 potential acquirers with respect to First Alachua. Nine entities signed confidentiality agreements and requested the confidential memorandum on First Alachua. Of these nine entities, two entities provided bids to First Alachua on August 26, 2004. After requesting the two bidders to enhance their bids and reviewing the revised bids with SunTrust Robinson Humphrey, Mr. Smith concluded that it would be preferable to pursue a transaction with CCBG.

After SunTrust Robinson Humphrey and First Alachua's counsel conducted due diligence on CCBG in October and November and SunTrust Robinson Humphrey conducted intensive due diligence with CCBG management in late November 2004, Mr. Smith called a meeting of the board of directors of First Alachua to apprise the directors of the potential transaction with CCBG. SunTrust Robinson Humphrey and First Alachua's counsel reviewed the terms of the transaction with the board of directors of First Alachua. The board of directors of First Alachua unanimously agreed to pursue the opportunity with CCBG.

On February 3, 2005, after extensive additional discussion and deliberation, the boards of directors of First Alachua and First National Bank of Alachua approved the Agreement and Plan of Merger and authorized Mr. Smith to execute the agreement on behalf of both entities.

#### **Our Reasons for the Merger and Recommendation to First Alachua Shareholders**

(See Page 26)

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

- the value of the consideration to be received by First Alachua shareholders relative to the book value and earnings per share of First Alachua common stock;
- certain information concerning the financial condition, results of operations and business prospects of CCBG;
- the financial terms of recent business combinations in the financial services industry and a comparison of the multiples of selected combinations with the proposed transaction with CCBG;
  - the alternatives to the merger, including remaining an independent institution;
- the previous experience of management of CCBG in completing acquisition transactions;

- the expanded range of banking services that the merger will allow First Alachua to provide to its customers;
- the competitive and regulatory environment for financial institutions generally;
- the fact that the merger will enable First Alachua shareholders to exchange their shares of First Alachua common stock, in a partially tax-free transaction, for cash and shares of common stock of a larger company, the stock of which is more widely held and more liquid than that of First Alachua; and
- the opinion of SunTrust Robinson Humphrey that the consideration to be received by First Alachua shareholders as a result of the merger is fair to First Alachua shareholders from a financial point of view.

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

- a review, based in part on a presentation by CCBG's management, of
  - the business, operations, earnings, and financial condition, including the capital levels and asset quality, of First Alachua on historical, prospective, and pro forma bases and in comparison to other financial institutions in the area; and
  - the demographic, economic, and financial characteristics of the Alachua and St. Johns County markets, including existing competition, history of the market area with respect to financial institutions, and average demand for credit, on historical and prospective bases.
- the results of CCBG's due diligence review of First Alachua;
- the likelihood of regulators approving the merger without undue conditions or delay;
- the compatibility and the community bank orientation of both CCBG and First Alachua; and
- a variety of factors affecting and relating to the overall strategic focus of CCBG.

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

The First Alachua Board believes that the merger of First Alachua with and into CCBG is in the best interests of First Alachua and First Alachua's shareholders. The First Alachua Board unanimously recommends that you vote FOR the merger.

**Summary of SunTrust Robinson Humphrey Opinion to the Board of Directors of First Alachua**

(See Page 27)

In deciding to approve the merger, we have considered an opinion from our financial adviser, SunTrust Robinson Humphrey, that the price to be paid to First Alachua shareholders is fair to First Alachua shareholders, from a financial point of view. The full text of this opinion is included in this Proxy Statement/Prospectus in Section XI on page 225. We encourage you to read this opinion.

**First Alachua Special Shareholder Meeting**

(See Page 20)

The Special Meeting will be held at First National Bank of Alachua, located at 15000 NW 140<sup>th</sup> Street, Alachua, Florida 32615, on Friday, May 20, 2005, at [ ]:00 [ ]m., Eastern Time. The First Alachua Board of Directors is soliciting proxies for use at the Special Meeting. At the Special Meeting, the First Alachua Board of Directors will ask the First Alachua shareholders to vote on a proposal to approve the Agreement and Plan of Merger.

**Record Date for Special Shareholder Meeting**

(See Page 20)

You may vote at the Special Meeting if you owned shares of First Alachua common stock of record as of the close of business on [ ], [ ], 2005. You will have one vote for each share of First Alachua common stock you owned as of that date. You may revoke your proxy at any time prior to or at the time of the vote at the Special Meeting.

**Vote Required**

(See Page 20)

Shareholders holding a majority of the outstanding shares of First Alachua common stock entitled to vote at the Special Meeting must be present in person or by proxy at the Special Meeting in order to form a quorum.

In order to approve the merger, however, shareholders holding a majority of the outstanding shares of First Alachua common stock must approve the Agreement and Plan of Merger. At the record date, all directors and executive officers of First Alachua as a group (\_\_\_ persons) could vote approximately \_\_\_\_\_ shares of First Alachua common stock, constituting approximately \_\_\_\_\_% of the total number of shares of First Alachua common stock outstanding at that date. The First Alachua directors have committed to vote their shares of First Alachua common stock in favor of the merger.

**What First Alachua Shareholders will Receive**

(See Page 36)

Under the Agreement and Plan of Merger and subject to certain potential adjustments, CCBG will pay First Alachua shareholders \$2,847.04 in cash, plus approximately 71.176 shares of CCBG common stock for each share of First Alachua common stock that they own.

First Alachua shareholders will not receive fractional shares of CCBG common stock. Instead, they will receive a payment for any fractional shares based on the average of the daily closing sales prices of one share of CCBG common stock, as reported by the Nasdaq National Market, for the 20

consecutive full trading days ending on and including the fifth full trading day prior to the closing date of the merger.

In addition, as a condition to the merger, First Alachua must have, immediately prior to the effective date of the merger, a net worth of at least \$25.375 million, subject to certain adjustments. Based on First Alachua's last call report filed with the FDIC, as of December 31, 2004, First Alachua had an unaudited net worth of approximately \$25.392 million. Based on CCBG's closing market price on the Nasdaq National Market on February 3, 2005 (the day prior to the public announcement of the Agreement and Plan of Merger), shareholders would receive total aggregate consideration of approximately \$58.0 million, or \$5,690.53 per share (assuming 10,186 First Alachua common shares are outstanding).

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

### **Regulatory Approvals**

(See Page 38)

We cannot complete the merger until we receive the approval of the Board of Governors of the Federal Reserve System and the Florida Department of Financial Services. CCBG and First Alachua have filed applications with the Federal Reserve Board and the Florida Department of Financial Services seeking approval of the merger. The approvals of these regulators may impose conditions or restrictions that, in the opinion of CCBG and/or First Alachua, would have a material adverse effect on the economic or business benefits of the merger. In that event, CCBG and First Alachua may terminate the Agreement and Plan of Merger by mutual consent.

### **Conditions to the Merger**

(See Page 37)

The completion of the merger depends upon CCBG and First Alachua satisfying a number of conditions, including:

- the holders of a majority of the outstanding First Alachua common stock must approve the Agreement and Plan of Merger;
  - First Alachua must have a minimum net worth of at least \$25.375 million, subject to certain adjustments;
- CCBG and First Alachua must receive all required regulatory approvals and any waiting periods required by law must have passed; and
  - CCBG and First Alachua must each receive a legal opinion confirming the tax-free nature of the merger.

### **Termination of the Agreement and Plan of Merger**

(See Page 39)

Either CCBG or First Alachua may terminate the Agreement and Plan of Merger without completing the merger if, among other things, any of the following occurs:

- the merger is not completed by August 31, 2005;
- the holders of a majority of the outstanding shares of First Alachua common stock do not approve the Agreement and Plan of Merger; or
- the other party breaches or materially fails to comply with any of its representations or warranties, covenants or obligations under the Agreement and Plan of Merger.

First Alachua may terminate the Agreement and Plan of Merger without completing the merger if both:

- the adjusted average daily closing price of CCBG common stock is less than or equal to \$34.00; and
- the quotient obtained by dividing the average closing price by 40 is less than a formula based on the weighted average of the closing prices of an index group of 22 bank holding companies.

CCBG may terminate the Agreement and Plan of Merger without completing the merger:

- in the event that the due diligence investigation of First Alachua by CCBG results in a finding of an event or circumstance that has had or is reasonably likely to have a material adverse effect on First Alachua's financial position or business;
- if the audit opinion of First Alachua's auditor is qualified and the total capital of First Alachua as of September 30, 2004 is not readily determinable by First Alachua's auditor, and if CCBG and First Alachua cannot agree upon appropriate audit adjustments within 30 days of delivery of the audit opinion from First Alachua's auditor; or
- in the event that the Board of Directors of First Alachua or First National Bank of Alachua does not reaffirm its approval of the Agreement and Plan of Merger.

### **Dissenters' Rights of Appraisal**

(See Page 41 and Page 213)

Each holder of First Alachua common stock as of the record date who perfects his or her rights is entitled to the dissenters' rights of appraisal under the Florida Business Corporation Act, subject to compliance with the procedures set forth in those dissenters' rights of appraisal provisions. Pursuant to Section 607.1302 of the Florida Business Corporation Act, a First Alachua shareholder who does not wish to accept the shares of CCBG common stock to be received pursuant to the terms of the Agreement and Plan of Merger may dissent from the merger and elect to receive the fair value of his or her shares immediately prior to the completion of the merger. A copy of the dissenters' rights of appraisal statute under the Florida Business Corporation Act is set forth in this Proxy Statement/Prospectus in Section X on page 213 and a summary is included under "DESCRIPTION OF THE MERGER - Dissenters' Rights of Appraisal."

### **Interests of Officers and Directors in the Merger that are Different from Yours**

(See Page 48)

Certain members of First Alachua's management and Board of Directors have interests in the merger that are in addition to their interests as shareholders of First Alachua.

Jerry M. Smith, Chairman, President and Chief Executive Officer, will be paid a bonus of up to \$1,000,000 by either CCBG or Capital City Bank upon the successful completion of the merger and will enter into a three-year employment agreement with CCBG.

The Agreement and Plan of Merger contains provisions for the indemnification of First Alachua directors, officers and employees by CCBG, and provisions for the officers and employees of First Alachua to receive certain employee benefits that CCBG already provides to its officers and employees.

In addition, the Agreement and Plan of Merger contains provisions for CCBG to provide directors' and officers' liability insurance (with certain cost restraints) to First Alachua's officers and directors, for three years after the effective time of the merger.

The CCBG and First Alachua Boards of Directors were aware of these interests and took them into account in approving the Agreement and Plan of Merger.

### **Important Federal Income Tax Consequences of the Merger**

(See Page 51)

It is anticipated that CCBG, First Alachua and their shareowners will not recognize any gain or loss for U.S. federal income tax purposes from the merger, except for the cash portion of the consideration paid to First Alachua shareholders for their First Alachua common stock and where First Alachua shareholders receive cash instead of fractional shares. Both CCBG and First Alachua will receive a legal opinion to that effect. Forms of these legal opinions are filed as exhibits to the Registration Statement of which this Proxy Statement/Prospectus is a part. However, the opinions do not bind the Internal Revenue Service, which could take a different view. In addition, this tax treatment will not apply to any First Alachua shareholder who receives cash for his or her shares due to the exercise of dissenters' rights. Determining the actual tax consequences of the merger to you as an individual taxpayer can be complicated, and the tax treatment also may depend upon facts that are unique to your specific situation. Accordingly, you should consult your own tax adviser for a full understanding of the tax consequences of the merger.

### **Accounting Treatment of the Merger**

(See Page 52)

The merger will be accounted for as a "purchase," as that term is used under accounting principles generally accepted in the United States, for accounting and financial reporting purposes. Under purchase accounting, the assets and liabilities of First Alachua as of the effective time of the merger will be recorded at their respective fair values and added to those of CCBG. Any excess of purchase price over the fair values is recorded as goodwill. Financial statements of CCBG issued after the merger would reflect

such fair values and would not be restated retroactively to reflect the historical financial position or results of operations of First Alachua.

### **Certain Differences in Shareholders' Rights**

(See Page 55)

When the merger is consummated, First Alachua shareholders, whose rights are governed by First Alachua's Articles of Incorporation and Bylaws, as amended, and by the Florida Business Corporation Act, will automatically become CCBG shareowners, and their rights as CCBG shareowners will be determined by CCBG's Articles of Incorporation and Bylaws and by the Florida Business Corporation Act. The rights of CCBG shareowners differ from the rights of First Alachua shareholders in certain important respects. For example:

- CCBG's Articles of Incorporation and Bylaws contain certain provisions designed to assist the CCBG Board of Directors with protecting the interests of CCBG and its shareowners if any group or person attempts to acquire control of CCBG, while First Alachua's do not.
- CCBG is authorized to issue both common and preferred stock (which has not been designated), whereas First Alachua has only Class A common stock and Class B common stock authorized.
- The affirmative vote of the holders of at least two-thirds of all the issued and outstanding voting shares of capital stock is required to amend certain provisions of CCBG's Articles of Incorporation, including provisions relating to shareowner meetings, nomination, election and removal of directors, acquisition offers, indemnification, and amendments. Amendment of the First Alachua Articles of Incorporation only requires a majority of the outstanding shares of capital stock.
- CCBG has a classified Board of Directors, divided into three classes. Each class serves a three-year term with one class's term expiring each year. The effect of CCBG having a classified Board of Directors is that only approximately one-third of the members of the Board is elected each year. First Alachua does not have a classified board, and each director of First Alachua is subject to annual elections.
- CCBG's bylaws expand the Florida Business Corporation Act's statutory scheme of indemnification of officers and directors by providing for the mandatory indemnification of any of its officers and directors for costs and expenses actually and reasonably incurred in connection with a legal proceeding, regardless of whether the officer or director is successful on the merits or otherwise, including amounts paid in settlement of such a proceeding, to the fullest extent permitted by the Florida Business Corporation Act, and requires advancement of such costs and other expenses during pending proceedings. The Board of Directors also has discretionary ability to provide indemnification with respect to other persons, such as agents and employees. Indemnification of First Alachua's directors, officers, employees, and other agents is provided pursuant to the Florida Business Corporation Act. Neither the Articles of Incorporation nor the Bylaws of First Alachua provide for an expansion of the indemnification rights provided under the Florida Business Corporation Act.

- CCBG's Articles of Incorporation expressly require the Board of Directors to consider all factors it deems relevant in evaluating a proposed share exchange, tender offer, merger, consolidation, or other similar transaction. Under the Florida Business Corporation Act, First Alachua's Board of Directors may rely upon such factors as the directors deem relevant in evaluating such transactions.
- CCBG's Bylaws provide that any action required or permitted to be taken at a meeting of shareowners may not be effected by the written consent of the shareowners entitled to vote on the action, whereas First Alachua's Bylaws provide that any action required or permitted to be taken at a meeting of shareholders may be taken without a meeting if a consent in writing, setting forth the action taken, shall be signed by all of the shareholders entitled to vote with respect to the relevant subject matter.
- Because CCBG's common stock is traded on the Nasdaq National Market, shareowners of CCBG generally do not have dissenters' rights of appraisal under the Florida Business Corporation Act, whereas First Alachua's shareholders do.

### **Comparative Market Prices of Common Stock**

(See Page 64)

CCBG common stock is traded on the Nasdaq National Market under the symbol "CCBG." First Alachua common stock is not traded in any established market. On February 3, 2005, the last day prior to the public announcement of the Agreement and Plan of Merger, the last reported sale price per share of CCBG common stock on the Nasdaq National Market was \$39.95. Based on the combined \$2,847.04 in cash and the exchange ratio of approximately 71.176 shares of CCBG stock for each share of stock, the resulting equivalent pro forma price per share of First Alachua common stock would have been \$5,690.53.

To the knowledge of First Alachua, the most recent sale of First Alachua common stock prior to February 3, 2005, the last day prior to the public announcement of the Agreement and Plan of Merger was on January 30, 2002, which was a sale of 25 shares for a purchase price of \$1,537.67 per share. To the knowledge of First Alachua, there have been no sales since the announcement of the merger. There can be no assurance as to what the market price of the CCBG common stock will be if and when the merger is consummated.

### **Listing of CCBG Common Stock**

(See Page 54)

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

### **Risk Factors**

(See Page 17)

An investment in CCBG common stock involves risks. In determining whether to approve the Agreement and Plan of Merger, you should consider the various risks associated with an investment in CCBG common stock as more fully described in the "Risk Factors" section beginning on page 17.



### **Recent Developments in CCBG's Business**

On March 19, 2004, Capital City Bank completed its merger with Quincy State Bank, a former affiliate of Synovus Financial Corp. Results of Quincy's operations have been included in CCBG's consolidated financial statements since March 20, 2004. Quincy had \$116.6 million in assets with one office in Quincy, Florida and one office in Havana, Florida. The transaction was accounted for as a purchase and resulted in approximately \$14.9 million of intangible assets, including approximately \$12.5 million in goodwill and a core deposit intangible of \$2.4 million. The core deposit intangible is being amortized over a seven-year period.

On October 15, 2004, CCBG completed its merger with Farmers and Merchants Bank. Results of Farmers and Merchants Bank's operations have been included in CCBG's consolidated financial statements since October 16, 2004. Farmers and Merchants Bank had \$411 million in assets with three full-service offices in Laurens County, Georgia. The transaction was accounted for as a purchase and resulted in approximately \$41.1 million of intangible assets, including approximately \$34.7 million in goodwill, a core deposit intangible of \$5.9 million and a non-compete agreement of approximately \$0.5 million. The core deposit intangible is being amortized over a seven-year period and the non-compete is being amortized over a two-year period.

### **Selected Financial Data**

The following table presents selected consolidated financial data for CCBG for the nine-month periods ended September 30, 2003 and 2004, and for the five-year period ended December 31, 2003. The CCBG information is based on the consolidated financial statements contained in reports CCBG filed with the SEC, including its Annual Report on Form 10-K for the year ended December 31, 2003 and its Quarterly Report on Form 10-Q for the quarter ended September 30, 2004. These financial statements are included in this Proxy Statement/Prospectus in Section XII, beginning on page 229. See "WHERE YOU CAN FIND MORE INFORMATION ABOUT CCBG," on page 1. You should read the following tables in conjunction with the consolidated financial statements of CCBG described above and the footnotes to them.

Historical results are not necessarily indicative of results to be expected for any future period. In the opinion of the management of CCBG, all adjustments (which include only normal recurring adjustments) necessary to arrive at a fair statement of interim results of operations of CCBG have been included. With respect to CCBG, results for the nine-month period ended September 30, 2004 are not necessarily indicative of results which may be expected for any other interim period or for the year as a whole.

## Capital City Bank Group, Inc. and Subsidiary

(Dollars in Thousands, Except Per Share Data) (1)	At or for the nine months ended September 30,			At or for the year ended December 31,			
	2004	2003	2003	2002	2001	2000	1999
<b>Interest</b>							
Income	\$ 71,595	\$ 71,807	\$ 94,830	\$ 104,165	\$ 117,156	\$ 107,720	\$ 98,221
<b>Net Interest</b>							
Income	61,788	60,307	79,991	81,662	68,907	61,486	56,974
<b>Provision</b>							
for Loan							
Losses	1,841	2,586	3,436	3,297	3,983	3,120	2,440
<b>Net Income</b>	22,109	19,097	25,193	23,082	16,866	18,153	15,252
<b>Per Common Share:</b>							
<b>Basic Net</b>							
Income	\$ 1.67	\$ 1.44	\$ 1.91	\$ 1.75	\$ 1.27	\$ 1.43	\$ 1.20
<b>Diluted Net</b>							
Income	1.67	1.44	1.90	1.74	1.27	1.43	1.20
<b>Cash</b>							
<b>Dividends</b>							
Declared	.540	.476	.656	.502	.476	.436	.442
<b>Diluted</b>							
Book Value	16.48	15.00	15.27	14.08	12.86	11.61	10.36
<b>Based on Net Income:</b>							
<b>Return on</b>							
Average							
Assets	1.55%	1.42%	1.40%	1.34%	0.99%	1.24%	1.06%
<b>Return on</b>							
Average							
Equity	13.98%	13.11%	12.82%	12.85%	10.00%	12.99%	11.64%
<b>Dividend</b>							
Payout Ratio	31.70%	32.94%	34.51%	28.87%	37.48%	30.49%	36.83%
<b>Averages for the Period:</b>							
	\$ 1,457,826	\$ 1,314,173	\$ 1,318,080	\$ 1,256,107	\$ 1,184,290	\$ 1,002,122	\$ 884,323

Loans, Net  
of Unearned  
Interest

<b>Earning</b>							
Assets	1,697,081	1,620,774	1,624,680	1,556,500	1,534,548	1,315,024	1,291,262
Assets	1,900,601	1,799,955	1,804,895	1,727,180	1,704,167	1,463,612	1,444,069
Deposits	1,513,787	1,425,308	1,431,808	1,424,999	1,442,916	1,207,103	1,237,405
<b>Long-Term</b>							
Debt	53,560	59,878	55,594	30,423	15,308	13,070	17,274
<b>Shareowners'</b>							
Equity	211,315	194,784	196,588	179,652	168,652	139,738	131,058

**Period-End  
Balances:**Loans, Net  
of Unearned

Interest	\$ 1,540,650	\$ 1,322,888	\$ 1,341,632	\$ 1,285,221	\$ 1,243,351	\$ 1,051,832	\$ 928,486
<b>Earning</b>							
Assets	1,744,677	1,647,201	1,648,818	1,636,472	1,626,841	1,369,294	1,263,296
Assets	1,951,793	1,854,423	1,846,502	1,824,771	1,821,423	1,527,460	1,430,520
Deposits	1,570,547	1,485,441	1,474,205	1,434,200	1,550,101	1,268,367	1,202,658
<b>Long-Term</b>							
Debt	62,930	38,016	46,475	71,745	13,570	11,707	14,258
<b>Shareowners'</b>							
Equity	219,069	198,891	202,809	186,531	171,783	147,607	132,216
Equity to Assets Ratio	11.22%	10.73%	10.98%	10.22%	9.43%	9.66%	9.24%

**Other Data:**

## Basic

Average  
Shares

Outstanding	13,282,090	13,221,838	13,222,487	13,225,285	13,241,957	12,732,749	12,718,681
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Shareowners  
of Record

	1,591	1,532	1,512	1,457	1,473	1,599	1,362
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## Banking

Locations	57	57	57	54	56	56	48
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Full-Time  
Equivalent  
Associates

	825	791	795	781	787	791	678
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All shares and per share data have been adjusted to reflect the 5-for-4 stock split effective June 13, (1) 2003.

## **RISK FACTORS**

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

### **CCBG may have difficulties integrating First Alachua's operations into CCBG's operations.**

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

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

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

### **There is a limited market for shares of CCBG common stock.**

While CCBG common stock is listed and traded on the Nasdaq National Market, there has been limited trading activity in CCBG common stock. The average daily trading volume of CCBG common stock over the twelve-month period ending December 31, 2004 was approximately 10,761 shares. CCBG does not anticipate that the merger will cause any significant improvements in the trading of CCBG common stock.

### **CCBG and Capital City Bank are subject to extensive governmental regulation.**

CCBG and Capital City Bank are subject to extensive governmental regulation. CCBG, as a financial holding company, is regulated primarily by the Federal Reserve. Capital City Bank is a commercial bank chartered by the State of Florida and regulated by the Federal Reserve, the Federal Deposit Insurance Corporation and the Florida Department of Financial Services. These federal and state bank regulators have the ability, should the situation require, to place significant regulatory and operational restrictions upon CCBG and Capital City Bank. Any such restrictions imposed by federal and state bank regulators could affect the profitability of CCBG and Capital City Bank.

### **The financial institution industry is very competitive.**

CCBG and Capital City Bank compete directly with financial institutions that are well established and have significantly greater resources and lending limits than CCBG and Capital City Bank. As a result of those greater resources, the large

financial institutions may be able to provide a broader range of services to their customers than CCBG and may be able to afford newer and more sophisticated technology than CCBG. The long-term success of CCBG will be dependent on the ability of Capital City Bank to compete successfully with other financial institutions in its service areas.

**Management of CCBG holds a large portion of CCBG common stock.**

As of the record date, the directors and executive officers of CCBG beneficially owned about \_\_\_ million shares of CCBG common stock, or \_\_\_%, of the total outstanding shares of CCBG. As a result, CCBG's management has significant control of CCBG.

**CCBG's Articles of Incorporation and Bylaws may prevent or delay a takeover by another company.**

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

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

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

**Because the market price of CCBG common stock may fluctuate, you cannot be sure of the value of the merger consideration that you will receive.**

Upon completion of the merger, and subject to certain potential adjustments, each share of First Alachua common stock will be converted into merger consideration consisting of \$2,847.04 in cash and approximately 71.176 shares of CCBG common stock pursuant to the terms of the Agreement and Plan of Merger. The price of CCBG common stock may increase or decrease before or after completion of the merger and, therefore, the implied value of the stock portion of the merger consideration may be higher or lower than the implied value of the stock portion of the merger consideration on February 3, 2005 or the closing time of the merger. Stock price changes may result from a variety of factors, including general market and economic

conditions, changes in our respective businesses, operations and prospects, and regulatory considerations. Many of these factors are beyond our control.

**If, at the effective time, the CCBG stock does not constitute at least 45% of the merger consideration, the parties will re-evaluate the transaction before consummating the merger.**

As a condition to the merger, at the effective time, each of Gunster, Yoakley & Stewart, P.A., counsel to CCBG, and Smith, Gambrell & Russell, LLP, counsel to First Alachua, is expected to opine that the merger will constitute a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, and that neither CCBG nor First Alachua will recognize gain or loss by reason of the merger (except for amounts resulting from any required change in accounting methods and any income and deferred gain or loss recognized pursuant to Treasury regulations issued under Section 1502 of the Internal Revenue Code). If at the effective time, however, the CCBG stock does not constitute at least 45% of the merger consideration, the firms will re-evaluate the transaction to determine whether to issue the referenced tax opinions, and the parties will re-evaluate the transaction before consummating the merger. If the parties re-evaluate the transaction in this event, the parties may decide not to consummate the merger or may renegotiate the terms of the merger.

**We may not receive required regulatory approvals.**

Such approvals, if received, may be subject to adverse regulatory conditions. Before the merger may be completed, various approvals must be obtained from the Board of Governors of the Federal Reserve System and the Florida Department of Financial Services. We cannot guarantee that we will receive all required regulatory approvals in order to complete the merger. In addition, some of the governmental authorities from whom those approvals must be obtained may impose conditions on the completion of the merger or require changes in the terms of the merger. These conditions or changes could have the effect of delaying the merger or imposing additional costs or limiting the possible revenues of the combined company.

**CCBG's financial success depends in part on the successful integration of its recent acquisitions.**

CCBG's future growth and profitability depends, in part, on its ability to complete successfully its acquisition of First Alachua and manage the combined operations as well as the operations of Farmers and Merchants Bank, which was acquired on October 15, 2004 and Quincy State Bank, which was acquired on March 14, 2004. For the acquisitions to be successful, CCBG will have to succeed in combining the personnel and operations of CCBG, First Alachua, Farmers and Merchants Bank and Quincy State Bank and in achieving expense savings by eliminating selected redundant operations. We cannot assure you that our plan to integrate and operate the combined operations will be timely or efficient, or that we will successfully retain existing customer relationships of First National Bank of Alachua.

**First Alachua Directors and Executive Officers Have Interests in the Merger Besides Those of a Shareholder.**

Some of First Alachua's executive officers participated in negotiations of the Agreement and Plan of Merger with CCBG, and the board of directors approved the Agreement and Plan of Merger and is recommending that First Alachua shareholders vote for the Agreement and Plan of Merger. In considering these facts and the other information contained in this Proxy Statement/Prospectus, you should be aware that First Alachua's executive officers and directors have financial interests in the

merger besides being First Alachua shareholders. Please refer to "Interests of Certain Persons in the Merger" on page 48. These interests include:

Jerry M. Smith, Chairman, Chief Executive Officer and President, will be paid a bonus of up to \$1,000,000 by either CCBG or Capital City Bank upon the successful completion of the merger and will enter into a three-year employment agreement with CCBG.

The Agreement and Plan of Merger contains provisions for the indemnification of First Alachua directors, officers and employees by CCBG, and provisions for the officers and employees of First Alachua to receive certain employee benefits that CCBG already provides to its officers and employees.

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

### **MEETING OF FIRST ALACHUA SHAREHOLDERS**

#### **Date, Place, Time, and Purpose**

The First Alachua Board of Directors is sending you this Proxy Statement/Prospectus in connection with the solicitation by the First Alachua Board of Directors of proxies for use at the Special Meeting. CCBG will pay the filing fees and one-half of the printing costs incurred in connection with this Proxy Statement/Prospectus and the registration statement of which this Proxy Statement/Prospectus is a part. First Alachua will pay one-half of the printing costs. At the Special Meeting, the First Alachua Board of Directors will ask you to vote on a proposal to approve the Agreement and Plan of Merger. First Alachua will pay all other costs associated with the solicitation of proxies for the Special Meeting. The Special Meeting will be held at First National Bank of Alachua, located at 15000 NW 140<sup>th</sup> Street, Alachua, Florida 32615, on Friday, May 20, 2005, at [ ]:00 [ ]m., Eastern Time.

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

First Alachua has set the close of business on [ ], [ ], 2005, as the record date for determining the holders of First Alachua common stock entitled to notice of and to vote at the Special Meeting. Only holders of First Alachua common stock of record on the books of First Alachua at the close of business on the record date are entitled to notice of and to vote at the Special Meeting. As of the record date, First Alachua had 4,456 shares of Class A common stock and 5,730 shares of Class B common stock outstanding. First Alachua has no other classes of authorized capital stock. First Alachua shareholders do not have the preemptive right to purchase or subscribe to any unissued authorized shares of First Alachua common stock.

The Class B common stock was created in connection with the assumption by First Alachua of debt of certain Class B shareholders. While the debt was outstanding, Class A shareholders were entitled to dividend and liquidation preferences. The principal and interest on the debt related to the Class B common stock was repaid in full and retired as of March 26, 1990. Thus, the Class A common stock and Class B common stock currently have identical rights, preferences and limitations.

The executive officers and directors of First Alachua have committed to vote their shares in favor of the merger. CCBG holds no shares of First Alachua common stock.

You are entitled to one vote for each share of First Alachua common stock (whether Class A or Class B) you own on the record date. Pursuant to Sections 607.1103 and 607.1004 of the Florida Business Corporation Act, both Class A common stock and Class B common stock will vote together as a single voting group. Shareholders holding a majority of the outstanding shares of First Alachua common stock entitled to vote at the Special Meeting must be present, in person or by proxy, at the Special Meeting to form a quorum. In order to approve the merger, shareholders holding at least a majority of the outstanding shares of First Alachua common stock must approve the Agreement and Plan of Merger. Consequently, abstentions and broker non-votes, as well as instructions to withhold authority to vote, will have the same effect as a vote “against” the Agreement and Plan of Merger.

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

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

A First Alachua shareholder who has given a proxy may revoke it at any time prior to its exercise at the Special Meeting by:

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

All written notices of revocation and other communications with respect to revocation of proxies should be addressed as follows: First Alachua Banking Corporation, 15000 NW 140<sup>th</sup> Street, Alachua, Florida 32615, Attention: Jerry M. Smith, President.

At the record date, all directors and executive officers of First Alachua as a group (\_\_\_ persons) were entitled to vote approximately \_\_\_\_\_ shares of First Alachua common stock, constituting approximately \_\_\_\_% of the total number of shares of First Alachua common stock outstanding at that date. The First Alachua directors have committed to vote their shares of First Alachua common stock in favor of the



Agreement and Plan of Merger. See “BUSINESS OF FIRST ALACHUA - Management Stock Ownership,” on page 68.

## DESCRIPTION OF THE MERGER

The following information describes certain aspects of the merger. The Agreement and Plan of Merger is included in this Proxy Statement/Prospectus in Section VIII, beginning on page 147, and you are urged to read carefully the Agreement and Plan of Merger in its entirety.

### General

#### The Holding Company Merger

Subject to the terms and conditions of the Agreement and Plan of Merger, at the effective time, First Alachua will merge with and into CCBG in accordance with the provisions of, and with the effect provided in, Sections 607.1101, 607.1103, 607.1105, 607.1106 and 607.1107 of the Florida Business Corporation Act. CCBG will be the surviving corporation resulting from this holding company merger and will continue to be governed by the laws of the State of Florida.

#### The Bank Merger

Subsequent to the consummation of the holding company merger, First National Bank of Alachua will be merged with and into Capital City Bank in accordance with the provisions of and with the effect provided in Section 658.41 of the Florida Statutes on terms and subject to the provisions of the Bank Plan of Merger, included in this Proxy Statement/Prospectus in Section IX on page 211. First Alachua, as the sole shareholder of First National Bank of Alachua, will vote its shares in favor of the bank merger.

At the effective time, and subject to any audit adjustments, each share of First Alachua common stock outstanding immediately prior to the effective time will be converted into and exchanged for the right to receive:

- approximately 71.176 shares of CCBG common stock, and
- \$2,847.04 in cash.

Each share of First National Bank of Alachua common stock issued and outstanding immediately prior to the effective time will cease to be outstanding and will be extinguished.

In the event that the First Alachua audited financial statements provided to CCBG indicate total shareholders' equity, as that term is defined in accordance with accounting principles generally accepted in the United States, as of September 30, 2004, to be less than \$24,665,000, the difference obtained by subtracting total shareholders' equity (as determined by the auditor) from \$24,665,000 will be deemed to be audit adjustments to the First Alachua financial statements. The total purchase price of \$58,000,000 to be paid by CCBG for the First Alachua common stock will be reduced by the amount of any audit adjustments.

If, pursuant to the preceding paragraph, the opinion of First Alachua's auditor with respect to First Alachua's audited financial statements is qualified and the total capital is not readily determinable by the auditor, then the parties agree to negotiate appropriate audit adjustments; provided, that, if the parties cannot agree



as to the amount of such audit adjustments within 30 days of the delivery of the auditor's audit opinion, CCBG may terminate the Agreement and Plan of Merger. In the event that CCBG elects not to terminate the Agreement and Plan of Merger, then there will be no audit adjustments.

As a result, shareholders of First Alachua will become shareowners of CCBG, and CCBG and Capital City Bank will conduct the business and operations of First Alachua and First National Bank of Alachua, respectively.

Shares held by First Alachua, CCBG, or their subsidiaries, other than shares held in a fiduciary capacity or in satisfaction of debts previously contracted, will not be exchanged for the right to receive either CCBG common stock or cash. Shares held by First Alachua shareholders who perfect their dissenters' rights of appraisal will not be converted to CCBG common stock. The Agreement and Plan of Merger provides that the exchange ratio will be adjusted to prevent dilution in the event CCBG changes the number of shares of CCBG common stock issued and outstanding prior to the effective time of the merger as a result of a stock split, stock dividend, recapitalization, reclassification, or similar transaction.

The market value of the CCBG common stock that shareowners of First Alachua will receive may vary significantly between the date of this Proxy Statement/Prospectus and the effective time of the merger. Further, because CCBG and First Alachua must satisfy various conditions, including receipt of necessary regulatory approvals, the merger may not be consummated until a substantial period of time following the Special Meeting. During the time between the date of the Special Meeting and the effective time of the merger, shareholders of First Alachua who do not properly perfect their dissenters' rights of appraisal, or who do not sell their shares of First Alachua common stock, will be subject to the risk of a decline in the market value of CCBG common stock.

CCBG will not issue fractional shares. Instead of issuing any fractional share to which any First Alachua shareholder would otherwise be entitled upon consummation of the merger, CCBG will pay such shareholder cash equal to the fractional part of a share of CCBG common stock multiplied by the average daily closing price of one share of CCBG common stock, as reported by the Nasdaq National Market, for the 20 consecutive full trading days ending on and including the fifth full trading day prior to the closing date of the merger.

In addition, as a condition to the merger, First Alachua must have, immediately prior to the effective date of the merger, a consolidated net worth of at least \$25,375,000, subject to certain adjustments. See "- Conditions to Consummation of the Merger," on page 37. Based on the last call report filed by First Alachua with the FDIC, as of December 31, 2004, First Alachua had a net worth of approximately \$25.392 million.

At the record date, First Alachua had 4,456 shares of Class A common stock and 5,730 shares of Class B common stock outstanding, for a total of 10,186 shares of common stock. Based on the number of shares of First Alachua common stock outstanding on the record date and the exchange ratio of approximately 71.176 shares, CCBG anticipates that it will issue approximately 725,000 shares of CCBG common stock to holders of First Alachua common stock once the merger is complete. Accordingly, CCBG would then have issued and outstanding approximately \_\_\_\_\_ shares of CCBG common stock based on the number of shares of CCBG common stock issued and outstanding on the record date. Following the merger, and assuming no exercise of dissenters' rights, the current shareholders of First Alachua will beneficially own approximately \_\_\_\_% of the outstanding CCBG common stock.

## **Background of the Merger**

First Alachua has nearly a 100-year history of involvement in the Alachua County community. Founded in 1908, First Alachua's bank subsidiary, First National Bank of Alachua, is the oldest continuously operating national bank in Florida and the largest community bank operating in Alachua County. In 1971, a group of investors led by current Chairman of the Board and President Jerry M. Smith purchased a controlling interest in First National Bank of Alachua. In 1983, Mr. Smith formed First Alachua Banking Corporation, with the bank as the sole subsidiary.

In early 2004, Mr. Smith, as the Chief Executive Officer and controlling shareholder of First Alachua, began to consider strategic alternatives for First Alachua, primarily due to his concerns about management succession.

In April 2004, Mr. Smith contacted representatives of SunTrust Robinson Humphrey to discuss possible strategic alternatives. On April 26, 2004, representatives of SunTrust Robinson Humphrey met with Mr. Smith and certain members of his family. The representatives of SunTrust Robinson Humphrey discussed the mergers and acquisitions landscape in the State of Florida for banking institutions similar to First Alachua, including the purchase price multiples that other transactions had obtained. SunTrust Robinson Humphrey also discussed the potential partners which might be interested in the markets and profile of First Alachua, as well as the process and timing for a potential transaction.

In May 2004, SunTrust Robinson Humphrey provided First Alachua management a list of materials which would be required in order to develop a confidential memorandum describing the Company, including financial information. Management of First Alachua and SunTrust Robinson Humphrey began gathering the appropriate information and developing a confidential memorandum describing the Company that could be distributed to potential interested parties.

On June 25, 2004, SunTrust Robinson Humphrey and First Alachua signed an engagement letter whereby SunTrust Robinson Humphrey would (i) assist the board of directors of the Company in its consideration of various strategic alternatives, including determining whether a sale of the Company was advisable; (ii) identify opportunities for sale; (iii) advise the Company concerning opportunities for such sale; and (iv) participate on the Company's behalf in negotiations concerning any sale.

Upon completion of the confidential memorandum, in mid-July 2004, SunTrust Robinson Humphrey contacted 25 potential acquirers with respect to First Alachua. Nine entities signed confidentiality agreements and requested the confidential memorandum on First Alachua.

Two bids were received with respect to an acquisition of First Alachua on August 26, 2004. One bid was received from CCBG and another bid was received from a larger bank holding company headquartered outside the State of Florida in another southeastern state. Mr. Smith reviewed the bids with SunTrust Robinson Humphrey. After reviewing the bids, SunTrust Robinson Humphrey was instructed to contact both prospective purchasers to ask each to consider enhancing their bids, which they did. On September 2, 2004, CCBG submitted a nonbinding expression of interest to acquire First Alachua, stating that CCBG was prepared to offer \$58,000,000 in a combination of 50% cash and 50% CCBG common stock for all of the outstanding shares of First Alachua. The other bidder offered \$58,000,000 to be paid 100% in its stock as consideration for the purchase of the outstanding shares of First Alachua. Both offers also contemplated an employment agreement with Mr. Smith and change of control

payment to Mr. Smith. After reviewing the revised bids from CCBG and the other bidder with SunTrust Robinson Humphrey, Mr. Smith concluded that it would be preferable to pursue a transaction with CCBG.

Due diligence was commenced by CCBG in early October and the parties began the process of negotiating the terms of a potential Agreement and Plan of Merger. SunTrust Robinson Humphrey and First Alachua's counsel conducted due diligence on CCBG in October and November, with SunTrust Robinson Humphrey conducting intensive due diligence with CCBG management in late November 2004.

The parties continued due diligence and business and legal negotiations on the terms of the Agreement and Plan of Merger through the month of November and into the first few days of December 2004. As of December 3, 2004, it appeared that all business and legal issues respecting the Agreement and Plan of Merger would be resolved to both parties' satisfaction. Mr. Smith then called a meeting of the Board of Directors of First Alachua to apprise the directors of the potential transaction with CCBG and its status. At the board meeting, including the attendance of representatives of SunTrust Robinson Humphrey and First Alachua's legal counsel, Mr. Smith distributed drafts of the operative agreements, and reviewed in detail the history leading up to the potential transaction. SunTrust Robinson Humphrey and First Alachua's counsel reviewed the terms of the transaction as they had been negotiated to date. The Board of Directors of First Alachua unanimously agreed to pursue the opportunity with CCBG. Mr. Smith advised the directors that upon completion of final negotiations and drafting of the definitive agreements, another meeting of the Board of Directors would be called.

From December 7, 2004 through January 31, 2005, management of the two companies and their respective legal and financial advisors continued final negotiations of the terms of the proposed Agreement and Plan of Merger.

On February 3, 2005, the boards of directors of First Alachua and First National held a joint special board meeting. Mr. Smith updated the directors on the successful completion of the due diligence review of CCBG and the negotiation of a definitive Agreement and Plan of Merger and ancillary agreements. Representatives of First Alachua's counsel, Smith, Gambrell & Russell, LLP, reviewed the proposed definitive Agreement and Plan of Merger, together with all exhibits, in detail. Representatives of SunTrust Robinson Humphrey reviewed with the Boards of Directors its financial analysis of the merger and delivered its oral fairness opinion, which was subsequently confirmed in writing, that, as of the date of such opinion and based upon and subject to certain matters stated in such opinion, the 71,176 shares of CCBG common stock and the \$2,847.04 in cash to be exchanged for each share of First Alachua common stock was fair from a financial point of view to the holders of First Alachua common stock. Based upon the value of the stock of CCBG on February 3, 2005, the total consideration per share for purposes of the fairness opinion was \$5,690.53 and the total aggregate consideration was \$57,963,750.

After extensive discussion and deliberation, the boards of directors of First Alachua and First National Bank of Alachua approved the Agreement and Plan of Merger and authorized Mr. Smith to execute the agreement on behalf of both entities. The officers of First Alachua and First National Bank of Alachua were authorized to take such further action as necessary to consummate the merger, subject to the required regulatory and shareholder approvals.

Immediately following the conclusion of the joint board meeting, the parties entered into the Agreement and Plan of Merger.

## **Our Reasons for the Merger and Recommendation to First Alachua Shareholders**

In evaluating and determining to approve the Agreement and Plan of Merger, the First Alachua Board of Directors, with the assistance of SunTrust Robinson Humphrey and outside legal counsel, considered a variety of factors and based their opinion as to the fairness of the transactions contemplated by the Agreement and Plan of Merger primarily on the following factors:

- The financial terms of the merger, including the value of the consideration offered, the premium to book value paid, the ratio of CCBG's offer price to First Alachua's earnings and the prices paid in comparable transactions in Florida and the Southeastern United States over the last few years.
- The future prospects of First Alachua and possible alternatives to the proposed merger, including the prospects of continuing as an independent institution.
- The opinion of SunTrust Robinson Humphrey that the merger consideration is fair, from a financial point of view, to First Alachua's shareholders.
- Information with respect to the financial condition, results of operations, business and prospects of First Alachua and the current industry, economic and market conditions, as well as the risks associated with achieving those prospects.
- The non-financial terms and structure of the Agreement and Plan of Merger and the proposed merger, in particular, the fact that the merger would qualify as a tax-free reorganization to First Alachua's shareholders with respect to the exchange of First Alachua stock for CCBG stock.
- The business and financial condition and earnings prospects of CCBG, the potential appreciation of CCBG common stock and the competence and experience of CCBG management.
  - The social and economic effects of the merger on First Alachua and its employees, depositors, loan and other customers, creditors and other constituencies of the communities in which First Alachua is located.

Each of the above factors supports, directly or indirectly, the determination of the First Alachua Board as to the fairness of the Agreement and Plan of Merger and the related merger. This discussion of the information and factors considered by the First Alachua Board of Directors in making its decision is not intended to be exhaustive, but does include all material factors considered by the First Alachua Board of Directors. The First Alachua Board did not quantify or attempt to assign relative weights to the specific factors considered in reaching its determination; however, the First Alachua Board placed special emphasis on the consideration payable in the proposed merger and the receipt of a favorable fairness opinion from its financial advisor. For additional information regarding the fairness opinion, see " - Summary of SunTrust Robinson Humphrey Opinion to the Board of Directors of First Alachua."

On February 3, 2005, CCBG, First Alachua and First National Bank of Alachua executed the Agreement and Plan of Merger. CCBG and First Alachua each conducted a due diligence review of the material financial, operating and legal information relating to the other party.

**First Alachua's Board of Directors unanimously recommends that shareholders vote "FOR" approval of the Agreement and Plan of Merger.**

**Summary of SunTrust Robinson Humphrey Opinion to the Board of Directors of First Alachua**

First Alachua has engaged SunTrust Robinson Humphrey as its financial advisor in connection with the merger. At the February 3, 2005 meeting of the First Alachua Board of Directors, SunTrust Robinson Humphrey reviewed with the Board its financial analysis of the merger and delivered its oral opinion, which was subsequently confirmed in writing, that, as of the date of such opinion and based upon and subject to certain matters stated therein, the 71.176 shares, of CCBG common stock and \$2,847.04 in cash (collectively, the "Merger Consideration") to be exchanged for each share of First Alachua common stock (other than certain shares specified in the Agreement and Plan of Merger) was fair from a financial point of view to the holders of First Alachua common stock.

*The full text of the opinion of SunTrust Robinson Humphrey, which sets forth the assumptions made, matters considered and limitations on the review undertaken, is included in this Proxy Statement/Prospectus in Section XI, beginning on page 225. The summary of the SunTrust Robinson Humphrey opinion described below is qualified in its entirety by the full text of the SunTrust Robinson Humphrey opinion. First Alachua shareholders are urged to read the opinion carefully and in its entirety.*

*SunTrust Robinson Humphrey's opinion is directed to the Board of Directors of First Alachua and relates only to the fairness from a financial point of view of the exchange ratio to the holders of First Alachua common stock. SunTrust Robinson Humphrey's opinion does not address any other aspect of the merger and does not constitute a recommendation to any shareholder as to how such shareholder should vote at the First Alachua shareholders meeting. It addresses the aggregate consideration to be received by the holders of First Alachua common stock as a whole, without regard to size of holdings by individual shareholders, and does not address the particular situations of specific shareholders.*

Material and Information Considered with Respect to the Merger

In arriving at its opinion, SunTrust Robinson Humphrey among other things:

- reviewed the January 31, 2005 draft of the Agreement and Plan of Merger;
- reviewed certain publicly available business and historical financial information and other data relating to the business and financial prospects of First Alachua and CCBG, including certain publicly available consensus financial forecasts and estimates of CCBG that were reviewed and discussed with the management of CCBG;
- reviewed internal financial and operating information with respect to the business, operations and prospects of First Alachua furnished to SunTrust Robinson Humphrey by First Alachua that is not publicly available;
- reviewed the reported prices and trading activity of CCBG's common stock and compared those prices and activity with other publicly-traded companies that SunTrust Robinson Humphrey deemed relevant;

- compared the historical financial results and present financial condition of First Alachua and CCBG and, for CCBG only, compared stock market data, with those of publicly traded companies that SunTrust Robinson Humphrey deemed relevant;
- reviewed certain pro forma effects of the merger on CCBG's financial statements and potential benefits of the merger and discussed these items with the management of First Alachua and CCBG;
- compared the financial terms of the merger with the publicly available financial terms of certain other recent transactions that SunTrust Robinson Humphrey deemed relevant;
- conducted discussions with members of the management of First Alachua and CCBG concerning their respective businesses, operations, assets, present condition and future prospects; and
  - undertook such other studies, analyses and investigations, and considered such information, as SunTrust Robinson Humphrey deemed appropriate.

SunTrust Robinson Humphrey assumed and relied upon, without independent verification, the accuracy and completeness of all of the financial and other information discussed with or reviewed by it in arriving at its opinion. With respect to the financial forecasts, estimates, pro forma effects and estimates of synergies and other potential benefits of the merger provided to or discussed with it, SunTrust Robinson Humphrey assumed, at the direction of the management of First Alachua and without independent verification or investigation, that they have been reasonably prepared on bases reflecting the best currently available information, estimates and judgments of the management of First Alachua and CCBG and are otherwise reasonable. SunTrust Robinson Humphrey also assumed with the approval of First Alachua that the future financial results referred to in its opinion that were provided to it by First Alachua will be achieved, and that the synergies and other potential benefits of the merger will be realized, at the times and in the amounts estimated by the management of First Alachua.

In arriving at its opinion, SunTrust Robinson Humphrey did not conduct a physical inspection of the properties and facilities of First Alachua. SunTrust Robinson Humphrey did not review individual credit files nor did it make any independent evaluation or appraisal of any of the assets or liabilities (including any contingent, derivative or off-balance-sheet assets or liabilities) of First Alachua or CCBG or any of their respective subsidiaries, and SunTrust Robinson Humphrey was not furnished with any such evaluation or appraisal. SunTrust Robinson Humphrey is not an expert in the evaluation of loan and lease portfolios for purposes of assessing the adequacy of the allowances for losses with respect to such portfolios and, accordingly, SunTrust Robinson Humphrey assumed that First Alachua's and CCBG's allowances for losses are in the aggregate adequate to cover those losses.

The SunTrust Robinson Humphrey opinion is necessarily based upon market, economic and other conditions as they existed on and could be evaluated as of, the date of its opinion. SunTrust Robinson Humphrey's opinion does not address the relative merits of the merger as compared to other business strategies or transactions that might be available to First Alachua or First Alachua's underlying business decision to effect the merger. SunTrust Robinson Humphrey was not asked to, nor did it, offer any opinion as to any terms or conditions of the Agreement and Plan of Merger or the form of the merger (other than the Merger Consideration). The financial markets in general and the market for the common stock of First Alachua and



CCBG, in particular, are subject to volatility, and SunTrust Robinson Humphrey's opinion did not address potential developments in the financial markets or what the value of CCBG common stock will be when issued pursuant to the Agreement and Plan of Merger or the prices at which it will trade or otherwise be transferable at any time.

For purposes of its opinion, SunTrust Robinson Humphrey assumed that:

- the Agreement and Plan of Merger does not differ in any respect from the draft it examined and that CCBG and First Alachua will comply in all material respects with the terms of the Agreement and Plan of Merger and the transaction will be consummated in accordance with its terms without waiver, modification or amendment of any material term, condition or agreement;
- the merger will be treated as a tax-free reorganization for federal income tax purposes; and
- all material governmental, regulatory or other consents and approvals necessary for the consummation of the merger will be obtained without any adverse effect on First Alachua or CCBG or on the expected benefits of the merger.

Subsequent developments may affect SunTrust Robinson Humphrey's opinion and SunTrust Robinson Humphrey does not have any obligation to update or revise its opinion.

In preparing its opinion, SunTrust Robinson Humphrey performed a variety of financial and comparative analyses, a summary of which is described below. The summary is not a complete description of the analyses underlying SunTrust Robinson Humphrey's opinion or the presentation made to First Alachua's Board, but summarizes the material analyses performed and presented in connection with its opinion. The preparation of a fairness opinion is a complex analytic process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances and, therefore, is not readily susceptible to summary description. Accordingly, SunTrust Robinson Humphrey believes that its analyses must be considered as an integrated whole and that selecting portions of its analyses and factors, without considering all analyses and factors, or focusing on information in tabular format, could create a misleading or incomplete view of the processes underlying such analyses and SunTrust Robinson Humphrey's opinion.

In performing its analyses, SunTrust Robinson Humphrey made numerous assumptions with respect to First Alachua, CCBG, industry performance and general business, economic, market and financial conditions, many of which are beyond the control of First Alachua and CCBG. The estimates contained in these analyses and the valuation ranges resulting from any particular analysis are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than those suggested by such analyses. In addition, analyses relating to the value of businesses or securities do not purport to be appraisals or to reflect the prices at which businesses or securities actually may be sold. Accordingly, these analyses and estimates are inherently subject to substantial uncertainty.

SunTrust Robinson Humphrey's opinion and analyses were only one of many factors considered by the First Alachua Board of Directors in its evaluation of the merger and should not be viewed as determinative of the views of the First Alachua Board of Directors or management of First Alachua with respect to the merger or the consideration to be received by First Alachua in the merger. The Merger

Consideration was determined on the basis of negotiations between First Alachua and CCBG. In arriving at its opinion, SunTrust Robinson Humphrey did not attribute any particular weight to any analyses or factors considered by it and did not form an opinion as to whether any individual analysis or factor (positive or negative) supported or failed to support its opinion. Rather, SunTrust Robinson Humphrey arrived at its ultimate opinion based on the results of all analyses undertaken by it and assessed as a whole and believes that the totality of the factors considered and analysis it performed in connection with its opinion operated collectively to support its determination as to the fairness of the exchange ratio from a financial point of view. First Alachua's decision to enter into the merger was made solely by the First Alachua Board of Directors and not as a result of a recommendation by SunTrust Robinson Humphrey.

The following is a summary of the material financial and comparative analyses presented by SunTrust Robinson Humphrey in connection with its opinion to the First Alachua Board of Directors. The summary includes information presented in a tabular format. In order to understand fully the financial analyses, these tables must be read together with the accompanying text. The tables alone do not constitute a complete description of the financial analyses.

### Summary of Merger Consideration

Shareholders of First Alachua in the aggregate will receive 725,000 shares of CCBG common stock and \$29.0 million in cash. Based on the 10,186 shares of First Alachua common stock outstanding as of February 3, 2005, each shareholder of First Alachua would receive approximately 71.176 shares of CCBG common stock and \$2,847.04 in cash for each share of First Alachua common stock that it owns. Based on the last trading price of CCBG common stock on February 3, 2005 of \$39.95, the value of the shares of CCBG common stock to be received in exchange for each share of First Alachua common stock was \$2,843.48 and the total Merger Consideration per share for purposes of the SunTrust Robinson Humphrey opinion was \$5,690.53.

### **Analysis of First Alachua**

#### Analysis of Selected Publicly-Traded Reference Companies

SunTrust Robinson Humphrey reviewed and compared publicly available financial data, market information and trading multiples for First Alachua with other selected publicly-traded banks and thrifts located in the State of Florida that SunTrust Robinson Humphrey deemed relevant to First Alachua.

Atlantic BancGroup, Inc. (ATBC)  
BankAtlantic Bancorp, Inc. (BBX)  
BankUnited Financial Corporation (BKUNA)  
Capital City Bank Group, Inc. (CCBG)  
Centerstate Banks of Florida, Inc. (CSFL)  
Commercial Bankshares, Inc. (CLBK)  
Federal Trust Corporation (FDT)  
Fidelity Bankshares, Inc. (FFFL)  
First Community Bank Corporation of America (FCFL)  
First National Bancshares, Inc. (FBMT)  
Harbor Florida Bancshares, Inc. (HARB)  
Jacksonville Bancorp, Inc. (JAXB)  
Seacoast Banking Corporation of Florida, Inc. (SBCF)  
TIB Financial Corp. (TIBB)

For the selected publicly-traded reference companies, SunTrust Robinson Humphrey analyzed, among other things, stock price as a multiple of calendar year 2004 and projected calendar year 2005 earnings per share, book value per share, tangible book value per share and assets to market capitalization. All multiples were based on closing stock prices as of February 1, 2005. Projected earnings per share for the reference companies were based on First Call consensus estimates. First Call is an information provider that publishes a compilation of estimates of projected financial performance for publicly-traded companies produced by equity research analysts at leading investment banking firms. The following tables set forth the median multiples indicated by the market analysis of selected publicly-traded reference companies compared to multiples based upon the implied Merger Consideration of \$5,690.53 per share:

	Peer Median	Merger
Market Price to:		
Calendar 2004 EPS	21.0 x	21.8 x
Calendar 2005 EPS	18.2	18.8
Book Value Per Share	2.5	2.3
Tangible Book Value Per Share	2.6	2.4
Assets/Market Capitalization	20.8%	25.0%

SunTrust Robinson Humphrey noted that none of the companies used in the market analysis of selected publicly-traded companies was identical to First Alachua and that, accordingly, the analysis necessarily involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies reviewed and other factors that would affect the market values of the selected publicly-traded companies.

#### Analysis of Selected Merger and Acquisition Transactions

SunTrust Robinson Humphrey reviewed and analyzed the financial terms, to the extent publicly available and deemed relevant by SunTrust Robinson Humphrey, for all completed and pending mergers and acquisitions involving banks and thrifts in the State of Florida involving a transaction value of between \$10.0 million and \$100.0 million that were announced between January 1, 1995 and February 1, 2005. The universe included 110 reference transactions.

For the selected transactions, SunTrust Robinson Humphrey analyzed, among other things, acquisition price as a multiple of latest twelve months earnings per share, book value per share, tangible book value per share, adjusted tangible book value per share and total assets. SunTrust Robinson Humphrey calculated adjusted tangible book value per share by adjusting the tangible equity to tangible assets ratio for each of the target banks and thrifts in the reference transactions to equal 10.5%, the tangible equity to tangible assets ratio of First Alachua as of December 31, 2004. All multiples for the selected transactions were based on publicly available information at the time of announcement of the relevant transaction. The following tables set forth the median multiples indicated by this analysis compared to multiples based upon the implied Merger Consideration of \$5,690.53 per share:

	Reference Transactions Median	Merger
Market Price to:		
LTM EPS	22.1 x	21.8 x
Book Value Per Share	2.4	2.3
Tangible Book Value Per Share	2.5	2.4
Adjusted Tangible Book Value Per Share	2.2	2.4
Total Assets	20.0%	25.0%

SunTrust Robinson Humphrey noted that no transaction considered in the analysis of selected merger and acquisition transactions is identical to the merger and may differ significantly from the merger based on, among other things, the size of the transactions, the structure of the transactions and the dates that the transactions were announced and consummated. All multiples for the selected transactions were based on public information available at the time of announcement of such transaction, without taking into account differing market and other conditions during the period during which the selected transactions occurred.

#### Dividend Discount Analysis

SunTrust Robinson Humphrey performed a dividend discount analysis based upon projections provided by First Alachua's management for the fiscal years ending December 31, 2005 through 2009 to estimate the net present equity value per share of First Alachua. SunTrust Robinson Humphrey discounted five years of estimated cash flows for First Alachua, assuming a dividend rate sufficient to maintain an equity capital ratio (defined as equity divided by assets) of 8.00% and using a range of discount rates from 14% to 16%. In order to derive the terminal value of First Alachua's earnings stream beyond 2009, SunTrust Robinson Humphrey assumed terminal value multiples of fiscal year 2009 earnings per share ranging from 16.0x to 18.0x. The present value of this terminal amount was then calculated based on the range of discount rates mentioned above. These rates and values were chosen to reflect different assumptions regarding the required rates of return of holders or prospective buyers of First Alachua common stock. This analysis yielded a range of stand-alone values for First Alachua common stock of between \$4,840.80 and \$5,678.80 per share, with a median value of \$5,245.20 per share.

#### **Analysis of CCBG**

##### Analysis of Selected Publicly-Traded Reference Companies

SunTrust Robinson Humphrey reviewed and compared publicly available financial data, market information and trading multiples for CCBG with other selected publicly-traded reference companies that SunTrust Robinson Humphrey deemed relevant to CCBG. These companies are:

Alabama National Bancorporation (ALAB)  
 BankAtlantic Bancorp, Inc. (BBX)  
 BankUnited Financial Corporation (BKUNA)  
 Fidelity Bankshares, Inc. (FFFL)  
 Main Street Banks, Inc. (MSBK)  
 Seacoast Banking Corporation of Florida (SBCF)  
 United Community Banks, Inc. (UCBI)

For the selected publicly-traded reference companies, SunTrust Robinson Humphrey analyzed, among other things, stock price as a multiple of calendar year 2004 and projected calendar year 2005 earnings per share, book value per share, tangible book value per share and assets as a percentage of total market capitalization. All multiples were based on closing stock prices as of February 1, 2005. Projected earnings per share for the reference companies were based on First Call consensus estimates. The following table sets forth the median multiples indicated by the market analysis of selected publicly-traded reference companies:

	CCBG	Reference Companies Median
Market Price to:		
Calendar 2004 EPS	21.0 x	20.4 x
Calendar 2005E EPS	18.2	17.1
Book Value Per Share	2.2	2.5
Tangible Book Value Per Share	3.2	3.0
Assets/Market Capitalization	23.5%	19.4%

SunTrust Robinson Humphrey noted that none of the companies used in the market analysis of selected publicly-traded companies was identical to CCBG and that, accordingly, the analysis necessarily involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies reviewed and other factors that would affect the market values of the selected publicly-traded companies.

#### Dividend Discount Analysis

SunTrust Robinson Humphrey performed a dividend discount analysis based upon projections provided by First Call for the fiscal years ending December 31, 2005 and 2006 and based upon net income growth and asset growth of 8% and 10%, respectively, for the fiscal years ending December 31, 2007, 2008 and 2009 to estimate the net present equity value per share of CCBG. Net income growth for the years ending December 31, 2007, 2008 and 2009 was based upon consensus five year projected growth estimates for CCBG provided by First Call. SunTrust Robinson Humphrey discounted five years of estimated cash flows for CCBG using a range of discount rates from 10% to 12%. In order to derive the terminal value of CCBG's earnings stream beyond 2009, SunTrust Robinson Humphrey assumed terminal value multiples of fiscal year 2009 earnings per share ranging from 16.0x to 18.0x. The present value of this terminal amount was then calculated based on the range of discount rates mentioned above. These rates and values were chosen to reflect different assumptions regarding the required rates of return of holders or prospective buyers of CCBG common stock. This analysis yielded a range of stand-alone values for CCBG common stock of between \$34.88 and \$41.39 per share, with an median value of \$38.02 per share. SunTrust Robinson Humphrey noted as part of its analysis that CCBG's closing stock price on February 3, 2005 was \$39.95 per share.

#### **Other Factors and Analyses**

SunTrust Robinson Humphrey took into consideration various other factors and analyses, including: historical market prices and trading volumes for CCBG's common stock; movements in the common stock of selected publicly-traded companies; movements in the S&P Bank Index; and analyses of the costs of equity of each of First Alachua and CCBG.

### **Information Regarding SunTrust Robinson Humphrey**

The First Alachua Board of Directors selected SunTrust Robinson Humphrey to act as its financial advisor and render a fairness opinion regarding the merger because SunTrust Robinson Humphrey is a nationally recognized investment banking firm with substantial experience in transactions similar to the merger and because it is familiar with First Alachua, its business and its industry. SunTrust Robinson Humphrey is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, leveraged buyouts, negotiated underwritings, secondary distributions of listed and unlisted securities and private placements.

Pursuant to a letter agreement dated June 25, 2004, First Alachua paid SunTrust Robinson Humphrey an opinion fee of \$75,000 upon the signing of the Agreement and Plan of Merger. In addition, First Alachua has agreed to pay SunTrust Robinson Humphrey a financial advisory fee at closing of the merger equal to 1.25% of the aggregate consideration to be received pursuant to the merger, less amounts previously received. Based on the current market price of CCBG common stock as of the date of this document, the additional fee payable to SunTrust Robinson Humphrey under the preceding formula would be \$\_\_\_\_\_. In addition, First Alachua has agreed to reimburse SunTrust Robinson Humphrey for its reasonable out of pocket expenses and to indemnify SunTrust Robinson Humphrey and certain related persons against certain liabilities arising out of or in conjunction with its rendering of services under its engagement, including certain liabilities under the federal securities laws. In the ordinary course of its business, SunTrust Robinson Humphrey and its affiliates may actively trade in the debt and equity securities of CCBG for its own account and the accounts of its customers and, accordingly, may at any time hold a long or short position in such securities. In addition, SunTrust Robinson Humphrey and its affiliates (including SunTrust Banks, Inc.) may have other financing and business relationships with First Alachua or CCBG in the ordinary course of business.

### **CCBG's Reasons for the Merger**

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

- a review, based in part on a presentation by CCBG's management, of
  - the business, operations, earnings, and financial condition, including the capital levels and asset quality, of First Alachua on historical, prospective, and pro forma bases and in comparison to other financial institutions in the area,
  - the demographic, economic, and financial characteristics of the Alachua County and St. Johns County, Florida markets, including existing competition, history of the market areas with respect to financial institutions, and average demand for credit, on historical and prospective bases, and
    - the results of CCBG's due diligence review of First Alachua;
- the likelihood of regulators approving the merger without undue conditions or delay;

- the compatibility and the community bank orientation of both CCBG and its subsidiary and First Alachua;
- that the merger will provide CCBG with significant opportunities to market its fee based products, such as cash management, asset management and securities products to the existing customers of First Alachua;
- that after the merger, First Alachua will be able to draw upon the resources and competencies of CCBG and Capital City Bank to provide a broader range of services and product delivery channels; and
  - a variety of factors affecting and relating to the overall strategic focus of CCBG.

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

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

#### **Effective Time of the Merger**

The effective time of the merger will occur on the date and at the time the Articles of Merger reflecting the holding company merger become effective with the Secretary of State of the State of Florida. Unless First Alachua and CCBG otherwise agree in writing, and subject to the conditions to the obligations of CCBG and First Alachua to effect the merger, the parties will use their reasonable efforts to cause the effective time of the merger to occur at a mutually-agreed upon time within 60 days after the last to occur of:

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

CCBG and First Alachua cannot assure that they can obtain the necessary regulatory approvals or that they can or will satisfy the other conditions to the merger. CCBG and First Alachua anticipate that they will satisfy all conditions to consummation of the merger so that the merger can be completed during the second quarter of 2005. However, delays in the consummation of the merger could occur.

The Board of Directors of either CCBG or First Alachua may terminate the Agreement and Plan of Merger if the merger is not consummated by August 31, 2005, unless the failure to consummate the merger by that date is the result of a breach of the Agreement and Plan of Merger by the party seeking termination. See “-

Conditions to Consummation of the Merger,” on page 37 and “- Waiver, Amendment, and Termination,” on page 39.

### **Distribution of CCBG Stock Certificates**

Promptly after the effective time of the merger, CCBG will mail to each holder of record of First Alachua common stock appropriate transmittal materials and instructions for the exchange of First Alachua stock certificates for CCBG stock certificates and the cash portion of the consideration.

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

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

After the effective time of the merger, to the extent permitted by law, holders of First Alachua common stock of record as of the effective time of the merger will be entitled to vote at any meeting of CCBG shareowners the number of whole shares of CCBG common stock they will receive in the merger, regardless of whether such shareholders have surrendered their First Alachua stock certificates. Whenever CCBG declares a dividend or other distribution on CCBG common stock, the record date for which is at or after the effective time of the merger, the declaration will include dividends or other distributions on all shares issuable pursuant to the Agreement and Plan of Merger.

**However, CCBG will not pay any dividend or other distribution payable after the effective time of the merger with respect to CCBG common stock to the holder of any unsurrendered First Alachua stock certificate until the holder duly surrenders such First Alachua stock certificate.** In no event will the holder of any surrendered First Alachua stock certificate(s) be entitled to receive interest on any cash to be issued to such holder, except to the extent required in connection with dissenters’ rights. In no event will CCBG or the Exchange Agent be liable to any holder of First Alachua common stock for any amounts paid or property delivered in good faith to a public official pursuant to any applicable abandoned property, escheat, or similar law.

After the effective time of the merger, no transfers of shares of First Alachua common stock on First Alachua’s stock transfer books will be recognized. If First Alachua stock certificates are presented for transfer after the effective time of the merger, they will be canceled and exchanged for shares of CCBG common stock and a check for the cash portion of the consideration to be received in the merger and the amount due in lieu of a fractional share, if any.

After the effective time of the merger, holders of First Alachua stock certificates will have no rights with respect to the shares of First Alachua common stock other than the right to surrender such First Alachua stock certificates and receive in exchange the shares of CCBG common stock and the cash portion to be received in the merger to which such holders are entitled. After the effective time of the merger, holders of First Alachua stock certificates who have complied with the provisions regarding the right to dissent (as detailed in the Florida Business Corporation Act), may be entitled to receive the fair value of such shareholder’s shares of First Alachua common stock in cash, determined immediately prior to the



merger, excluding any appreciation or depreciation in anticipation of the merger. **Failure to comply with the procedures prescribed by applicable law will result in the loss of dissenters' rights of appraisal.** A copy of the dissenters' rights of appraisal statute under the Florida Business Corporation Act is set forth in this Proxy Statement/Prospectus in Section X on page 213.

### **Conditions to Consummation of the Merger**

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

- the approval of the Agreement and Plan of Merger by the holders of a majority of the outstanding First Alachua common stock;
- the receipt of all regulatory approvals required for consummation of the merger (see “- Regulatory Approvals,” on page 38);
- receipt of all consents required for consummation of the merger or for the prevention of any default under any contract or permit which consent, if not obtained, is reasonably likely to have, individually or in the aggregate, a material adverse effect;
- the absence of any law or order, whether temporary, preliminary or permanent, or any action taken by any court, governmental, or regulatory authority of competent jurisdiction prohibiting, restricting, or making illegal the consummation of the transactions contemplated by the Agreement and Plan of Merger;
- the Registration Statement, of which this Proxy Statement/Prospectus forms a part, being declared effective by the SEC and the receipt of all necessary SEC and state approvals relating to the issuance or trading of the shares of CCBG common stock issuable pursuant to the Agreement and Plan of Merger;
- the approval of the CCBG common stock issuable pursuant to the Agreement and Plan of Merger for listing on the Nasdaq National Market;
- the receipt of a written opinion from counsel for each of CCBG and First Alachua as to the tax aspects of the merger, including that the merger will constitute a reorganization within the meaning of Section 368(a) of the Internal Revenue Code;
- the accuracy, in all material respects, as of the date of the Agreement and Plan of Merger and as of the effective time of the merger, of the representations and warranties of First Alachua and CCBG as set forth in the Agreement and Plan of Merger;
- the performance of all agreements and the compliance with all covenants of First Alachua and First National Bank of Alachua and CCBG as set forth in the Agreement and Plan of Merger;
- the receipt by CCBG and First Alachua of certain required written opinions of counsel;

- the receipt by CCBG of agreements from each person First Alachua reasonably believes may be deemed an affiliate of First Alachua with respect to certain matters;
- First Alachua must have, immediately prior to the effective time, a consolidated minimum net worth of at least \$25,375,000, provided that “net worth” (a) shall not be reduced by fees, costs and expenses (i) incurred or paid by First Alachua in connection with the execution and performance of the Agreement and Plan of Merger up to a maximum amount of \$1,100,000 or (ii) incurred or paid at the request of CCBG, and (b) shall be reduced for adjustments requested by CCBG for purposes of complying with accounting principles generally accepted in the United States and adjustments for purposes of booking any audit adjustments to First Alachua’s audited financial statements and for purposes of establishing First Alachua’s allowance for loan losses;
- the delivery to CCBG by each First Alachua and First National Bank of Alachua director of a Director and Voting Agreement;
- the receipt by CCBG of letters from each director and executive officer of First Alachua and First National Bank of Alachua releasing any claims they may have against either First Alachua or First National Bank of Alachua;
- the delivery to CCBG by First Alachua and First National Bank of Alachua of any required clearance certificate or similar document required by any state taxing authority in order to relieve CCBG of any obligation to withhold any portion of the consideration under the Agreement and Plan of Merger;
  - CCBG shall have received an executed Executive Employment Agreement from Jerry M. Smith;
  - CCBG shall have received an executed letter agreement from Jerry M. Smith; and
- First Alachua and First National shall have received from CCBG an agreement related to the First Alachua Executive Indexed Salary Continuation Plan.

CCBG and First Alachua cannot assure you when or if all of the conditions to the merger can or will be satisfied. In the event the merger is not completed by August 31, 2005, the Agreement and Plan of Merger may be terminated and the merger abandoned by either First Alachua or CCBG, unless the failure to consummate the merger by that date is the result of a breach of the Agreement and Plan of Merger by the party seeking termination. See “- Waiver, Amendment, and Termination,” on page 39.

### **Regulatory Approvals**

CCBG and First Alachua cannot complete the merger unless and until they receive regulatory approvals from the Federal Reserve Board and the Florida Department of Financial Services. These regulators will evaluate financial, managerial and competitive criteria, as well as the supervisory history of the parties and the public benefits of the merger. CCBG and First Alachua have filed all required regulatory applications relating to the merger. CCBG and First Alachua cannot assure when or whether they will receive the required regulatory approvals. Additionally, the parties cannot assure that the regulatory approvals will impose no conditions or restrictions that in the judgment of their Boards of Directors would so adversely

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

CCBG and First Alachua are not aware of any other material governmental approvals or actions that are required for consummation of the merger.

### **Waiver, Amendment, and Termination**

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

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

No such waiver will be effective unless written and unless signed by a duly authorized officer of First Alachua or CCBG, as the case may be.

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

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

- in the event of any material breach of any covenant or agreement of the other party contained in the Agreement and Plan of Merger which cannot be or has not been cured within 30 days after written notice to the breaching party,
- if any approval of any regulatory authority required for consummation of the merger has been denied by final nonappealable action, or if any action taken by such authority is not appealed within the time limit for appeal,
- if the shareholders of First Alachua fail to approve the Agreement and Plan of Merger at the Special Meeting,
- if the merger is not consummated by August 31, 2005, provided that the failure to consummate is not due to a breach by the party electing to terminate, or
- in the event that any of the conditions precedent to the obligations of such party to consummate the merger cannot be satisfied or fulfilled by August 31, 2005, provided that the terminating party is not then in material breach of any representation, warranty, covenant, or other agreement contained in the Agreement and Plan of Merger;
- by CCBG, in the event that the Board of Directors of First Alachua or First National Bank of Alachua does not reaffirm its approval of the Agreement and Plan of Merger (excluding any other acquisition proposal from a third party), or shall have resolved not to reaffirm the merger, or shall have affirmed, recommended or authorized entering into any acquisition proposal or other transaction involving a merger, share exchange, consolidation or transfer of substantially all of the assets of First Alachua;
- by CCBG if the audit opinion of First Alachua's auditor is qualified and the total capital of First Alachua as of September 30, 2004 cannot be readily determinable by First Alachua's auditor, and if CCBG and First Alachua cannot agree upon appropriate audit adjustments within 30 days of delivery of First Alachua's auditor's audit opinion;
- by First Alachua at any time during the two-day period commencing at the close of trading on the fifth full trading day prior to the closing date, if both (i) the average of the daily closing prices of one share of CCBG common stock (as reported by the Nasdaq National Market) for the 20 consecutive full trading days ending on and including the fifth full trading day prior to the closing date is less than or equal to \$34, and (ii) the quotient obtained by dividing the average closing price of one share of CCBG common stock (as calculated above) by 40 is less than the number obtained by subtracting 0.15 from the quotient obtained by dividing (x) the weighted average of the closing prices of an index group of 22 bank holding companies at the close of trading on the fifth full trading day prior to the closing date by (y) the weighted average of the closing prices of the index group on February 2, 2005 (the day before the Agreement and Plan of Merger was executed). However, if First Alachua elects to exercise this termination right, then it must give prompt written notice to CCBG (and provided that this notice of election to terminate may be withdrawn at any time within the two-day termination period). During the three-day period beginning with its receipt of the notice of election to terminate, CCBG has the option of adjusting the number of shares of CCBG common stock to be issued per share of First Alachua common stock accordingly. If CCBG makes this

election, it shall give prompt written notice to First Alachua. In that event, the Agreement and Plan of Merger will remain in effect in accordance with its terms (except for the share exchange ratio); and

- by CCBG in the event of a First Alachua material adverse effect, and, if CCBG provides notice of and grants time to cure such material adverse effect, such material adverse effect is not cured to CCBG's satisfaction within the time frame specified in the notice.

In addition to any other payments required by the Agreement and Plan of Merger, in the event that the Agreement and Plan of Merger is terminated as a result of First Alachua or the holders of at least a majority of the shares of First Alachua common stock entering into an agreement with respect to the merger of First Alachua with a party other than CCBG or the acquisition of a majority of the outstanding shares of First Alachua common stock by any party other than CCBG, or is terminated in anticipation of any such agreement or acquisition, then, in either event, First Alachua shall immediately pay CCBG, by wire transfer, \$2,320,000 in full satisfaction of CCBG's losses and damages resulting from such termination.

If CCBG and/or First Alachua terminate the merger as described in this section, the Agreement and Plan of Merger will become void and have no effect, except that certain provisions of the Agreement and Plan of Merger will survive, including those relating to the obligations to maintain the confidentiality of certain information. In addition, termination of the Agreement and Plan of Merger will not relieve any breaching party from liability for any uncured willful breach of a representation, warranty, covenant, or agreement giving rise to such termination.

### **Dissenters' Rights of Appraisal**

Holders of First Alachua common stock as of the record date are entitled to dissenters' rights of appraisal under the Florida Business Corporation Act. Pursuant to Section 607.1302 of the Florida Business Corporation Act, a First Alachua shareholder who does not wish to accept the shares of CCBG common stock to be received pursuant to the terms of the Agreement and Plan of Merger may dissent from the merger and elect to receive the fair value of his or her shares immediately prior to the completion of the merger. Such fair value is exclusive of any appreciation or depreciation in anticipation of the merger, unless such exclusion would be inequitable to First Alachua and its remaining shareholders.

In order to exercise appraisal rights, a dissenting shareholder of First Alachua must strictly comply with the statutory procedures of Sections 607.1301 through 607.1333 of the Florida Business Corporation Act, which are summarized below. A copy of the full text of those Sections is included in this Proxy Statement/Prospectus in Section X, beginning on page 213. **Shareholders of First Alachua are urged to read Section X in its entirety and to consult with their legal advisers. Each shareholder of First Alachua who desires to assert his or her appraisal rights is cautioned that failure on his or her part to adhere strictly to the requirements of Florida law in any regard will cause a forfeiture of any appraisal rights.**

*Procedures for Exercising Dissenters' Rights of Appraisal.* The following summary of Florida law is qualified in its entirety by reference to the full text of the applicable provisions of the Florida Business Corporation Act included in this Proxy Statement/Prospectus in Section X, beginning on page 213.

1. A dissenting shareholder must file with First Alachua, prior to the taking of the vote on the merger, a written notice of intent to demand payment for his or her shares if the merger is effectuated. A vote against the merger will not alone be deemed to be the written notice of intent to demand payment. A dissenting shareholder need not vote against the merger, but cannot vote, or allow any nominee who holds such shares for the dissenting shareholder to vote, any of his First Alachua shares for the merger. Such written notification should be delivered either in person or by mail (certified mail, return receipt requested, being the recommended form of transmittal) to:

First Alachua Banking Corporation  
15000 N.W. 140<sup>th</sup> Street  
Alachua, Florida 32615  
Attention: Jerry M. Smith, President

All such notices must be signed in the same manner as the shares are registered on the books of First Alachua. If a shareholder has not provided written notice of intent to demand fair value before the vote is taken at the special meeting, the shareholder will be deemed to have waived his or her appraisal rights.

2. Within 10 days after the completion of the merger, CCBG must supply to each First Alachua shareholder who filed a notice of intent to demand payment for his or her shares a written appraisal notice and an appraisal election form that specifies, among other things,

- the date of the completion of the merger,
- CCBG's estimate of the fair value of the First Alachua shares,
- where to return the completed appraisal election form and the shareholder's stock certificates and the date by which they must be received by CCBG or its agent, which date may not be fewer than 40 nor more than 60 days after the date CCBG sent the appraisal notice and appraisal election form to the shareholder, and
- the date by which a notice from the shareholder of his or her desire to withdraw his or her appraisal election must be received by CCBG, which date must be within 20 days after the date set for receipt by CCBG of the appraisal election form from the shareholder.

The form must also contain CCBG's offer to pay to the shareholder the amount that it has estimated as the fair value of the First Alachua shares, and request certain information from the shareholder, including:

- the shareholder's name and address,
- the number of shares as to which the shareholder is asserting appraisal rights,
- whether the shareholder voted for the merger,
- whether the shareholder accepts the offer of CCBG to pay its estimate of the fair value of the First Alachua shares to the shareholder, and

- if the shareholder does not accept the offer of CCBG, the shareholder's estimated fair value of the First Alachua shares and a demand for payment of the shareholder's estimated value plus interest.

A dissenting shareholder must send the certificate(s) representing his or her shares with the appraisal election form.

**Any dissenting shareholder failing to return a properly completed appraisal election form and his or her stock certificates within the period stated in the form will lose his or her appraisal rights and be bound by the terms of the Agreement and Plan of Merger.**

3. Upon returning the appraisal election form, a dissenting shareholder shall thereafter be entitled only to payment pursuant to the procedure set forth in the applicable sections of the Florida Business Corporation Act and shall not be entitled to vote or to exercise any other rights of a shareholder, unless the dissenting shareholder withdraws his or her demand for appraisal within the time period specified in the appraisal election form.

4. A dissenting shareholder who has delivered the appraisal election form and his or her stock certificates may decline to exercise appraisal rights and withdraw from the appraisal process by giving written notice to CCBG within the time period specified in the appraisal election form. Thereafter, a dissenting shareholder may not withdraw from the appraisal process without the written consent of CCBG. Upon such withdrawal, the right of the dissenting shareholder to be paid the fair value of his or her shares will cease, and he or she will be reinstated as a shareholder.

5. If the dissenting shareholder accepts the offer of CCBG in the appraisal election form to pay CCBG's estimate of the fair value of the First Alachua shares, payment for the shares of the dissenting shareholder is to be made within 90 days after the receipt of the appraisal election form by CCBG or its agent. Upon payment of the agreed value, the dissenting shareholder will cease to have any interest in such shares.

6. A shareholder must demand appraisal rights with respect to all of the shares registered in his or her name, except that a record shareholder may assert appraisal rights as to fewer than all of the shares registered in the record shareholder's name but which are owned by a beneficial shareholder, if the record shareholder objects with respect to all shares owned by the beneficial shareholder. A record shareholder must notify First Alachua in writing of the name and address of each beneficial shareholder on whose behalf appraisal rights are being asserted. A beneficial shareholder may assert appraisal rights as to any shares held on behalf of the shareholder only if the shareholder submits to First Alachua the record shareholder's written consent to the assertion of such rights before the date specified in the appraisal notice, and does so with respect to all shares that are beneficially owned by the beneficial shareholder.

The current Florida Statute, Section 607.1330, addresses what should occur if a dissenting shareholder fails to accept the offer of CCBG to pay the value of the shares as estimated by CCBG, and CCBG fails to comply with the demand of the dissenting shareholder to pay the value of the shares as estimated by the dissenting shareholder, plus interest. The following paragraphs summarize these provisions of Florida law:

1. If a dissenting shareholder refuses to accept the offer of CCBG to pay the value of the shares as estimated by CCBG, and CCBG fails to comply with the demand of the dissenting shareholder to pay the value of the shares as estimated by

the dissenting shareholder, plus interest, then within 60 days after receipt of a written demand from any dissenting shareholder given within 60 days after the date on which the merger was effected, CCBG shall, or at its election at any time within such period of 60 days may, file an action in any court of competent jurisdiction in the county in Florida where the registered office of CCBG, maintained pursuant to Florida law, is located requesting that the fair value of such shares be determined by the court.

2. If CCBG fails to institute such a proceeding within the above-prescribed period, any dissenting shareholder may do so in the name of CCBG. A copy of the initial pleading will be served on each dissenting shareholder. CCBG is required to pay each dissenting shareholder the amount found to be due within 10 days after final determination of the proceedings, which amount may, in the discretion of the court, include a fair rate of interest, which will also be determined by the court. Upon payment of the judgment, the dissenting shareholder ceases to have any interest in such shares.

The current Florida Statute, Section 607.1331, provides that the costs of a court appraisal proceeding, including reasonable compensation for, and expenses of, appraisers appointed by the court, shall be determined by the court and assessed against CCBG, except that the court may assess costs against all or some of the dissenting shareholders, in amounts the court finds equitable, to the extent that the court finds such shareholders acted arbitrarily, vexatiously or not in good faith with respect to their appraisal rights. The court also may assess the fees and expenses of counsel and experts for the respective parties, in amounts the court finds equitable, against (i) CCBG and in favor of any or all dissenting shareholders if the court finds CCBG did not substantially comply with the notification provisions set forth in Sections 607.1320 and 607.1322, or (ii) either CCBG or a dissenting shareholder, in favor of any other party, if the court finds that the party against whom the fees and expenses are assessed acted arbitrarily, vexatiously, or not in good faith with respect to the appraisal rights. If the court in an appraisal proceeding finds that the services of counsel for any dissenting shareholder were of substantial benefit to other dissenting shareholders, and that the fees for those services should not be assessed against CCBG, the court may award to such counsel reasonable fees to be paid out of the amounts awarded the dissenting shareholders who were benefited. To the extent that CCBG fails to make a required payment when a dissenting shareholder accepts CCBG's offer to pay the value of the shares as estimated by CCBG, the dissenting shareholder may sue directly for the amount owed and, to the extent successful, shall be entitled to recover from CCBG all costs and expenses of the suit, including counsel fees.

Any dissenting shareholder who perfects his or her right to be paid the value of his or her shares will recognize gain or loss, if any, for federal income tax purposes upon the receipt of cash for such shares. The amount of gain or loss and its character as ordinary or capital gain or loss will be determined in accordance with applicable provisions of the Code. See “— Certain Federal Income Tax Consequences.”

**BECAUSE OF THE COMPLEXITY OF THE PROVISIONS OF THE FLORIDA LAW RELATING TO DISSENTERS' APPRAISAL RIGHTS, SHAREHOLDERS WHO ARE CONSIDERING DISSENTING FROM THE MERGER ARE URGED TO CONSULT THEIR OWN LEGAL ADVISERS.**



### **Conduct of Business Pending the Merger**

First Alachua has agreed in the Agreement and Plan of Merger that, unless CCBG gives prior written consent, and except as otherwise expressly contemplated in the Agreement and Plan of Merger, First Alachua will, and will cause First National Bank of Alachua to:

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

In addition, First Alachua has agreed that, from the date of the Agreement and Plan of Merger until the earlier of the effective time of the merger or the termination of the Agreement and Plan of Merger, unless CCBG has given prior written consent, and except as otherwise expressly contemplated by the Agreement and Plan of Merger, First Alachua will not do or agree or commit to do, or permit any of its subsidiaries to do or agree or commit to do, any of the following:

- amend its Articles of Incorporation, Bylaws or other governing instruments (except as specified in the Agreement and Plan of Merger);
- incur any additional debt obligation or other obligation for borrowed money (except indebtedness by First Alachua or one of its subsidiaries to First Alachua or one of its subsidiaries) in excess of an aggregate of \$25,000 (on a consolidated basis) except in the ordinary course of the business of First Alachua and its subsidiaries consistent with past practices (which shall include creation of deposit liabilities, purchases of federal funds, and entry into repurchase agreements fully secured by U.S. government or agency securities), or impose, or suffer the imposition, on any asset of First Alachua or any of its subsidiaries of any lien or permit any such lien to exist (other than in connection with deposits, repurchase agreements, bankers acceptances, "treasury tax and loan" accounts established in the ordinary course of business, the satisfaction of legal requirements in the exercise of trust powers, and liens in effect as of the date of the Agreement and Plan of Merger that were previously disclosed to CCBG by First Alachua);
- repurchase, redeem, or otherwise acquire or exchange (other than exchanges in the ordinary course under employee benefit plans), directly or indirectly, any shares, or any securities convertible into any shares, of the capital stock of First Alachua or any of its subsidiaries or, except as consistent with past practice, declare or pay any dividend or make any other distribution in respect of First Alachua's capital stock or First National Bank of Alachua's capital stock;

- except for the Agreement and Plan of Merger, or as previously disclosed to CCBG by First Alachua, issue, sell, pledge, encumber, authorize the issuance of, enter into any contract to issue, sell, pledge, encumber, or authorize the issuance of, or otherwise permit to become outstanding, any additional shares of First Alachua common stock or any other capital stock of First Alachua or any of its subsidiaries, or any stock appreciation rights, or any option, warrant, or other equity right;
- adjust, split, combine or reclassify any capital stock of First Alachua or any of its subsidiaries or issue or authorize the issuance of any other securities in respect of or in substitution for shares of First Alachua common stock, or sell, lease, mortgage or otherwise dispose of or otherwise encumber any asset having a book value in excess of \$25,000 (other than in the ordinary course of business for reasonable and adequate consideration);
- except for purchases of U.S. Treasury securities or U.S. Government agency securities, which in either case have maturities of one year or less, purchase any securities or make any material investment, either by purchase of stock or securities, contributions to capital, asset transfer, or purchase of any assets, in any entity, or otherwise acquire direct or indirect control over any entity, other than in connection with:
  - foreclosures in the ordinary course of business, or
  - acquisitions of control by a depository institution subsidiary in its fiduciary capacity;
- make any new loans or extensions of credit or renew, extend or renegotiate any existing loans or extensions of credit:
  - with respect to properties or businesses outside of First National Bank of Alachua's current market area, or to borrowers whose principal residence is outside of First National Bank of Alachua's current market area,
    - that are unsecured in excess of \$100,000, or
    - that are secured in excess of \$300,000;
- purchase or sell (except for sales of single-family residential first mortgage loans in the ordinary course of First Alachua's or First National Bank of Alachua's business for fair market value) any whole loans, leases, mortgages or any loan participations or agented credits or other interest therein;
- renew or renegotiate any loans or credits that are on any watch list and/or are classified or special mentioned or take any similar actions with respect to collateral held with respect to debts previously contracted or other real estate owned, except pursuant to safe and sound banking practices and with prior disclosure to CCBG;
- First Alachua or First National Bank of Alachua may, however, without the prior notice to or written consent of CCBG, renew or extend existing credits on substantially similar terms and conditions as present at the time such credit was made or last extended, renewed or modified, for a period not to exceed one year and at rates not less than market rates for comparable credits and

transactions and without any release of any collateral except as First Alachua or any of its subsidiaries is presently obligated under existing written agreements kept as part of First Alachua's or any of its subsidiaries' official records;

- grant any increase in compensation or benefits to the employees or officers of First Alachua or any of its subsidiaries, except in accordance with past practice previously disclosed to CCBG by First Alachua or as required by law, pay any severance or termination pay or any bonus other than pursuant to written policies or written contracts in effect on the date of the Agreement and Plan of Merger and previously disclosed to CCBG by First Alachua; enter into or amend any severance agreements with officers of First Alachua; grant any increase in fees or other increases in compensation or other benefits to directors of First Alachua, except in accordance with past practice previously disclosed to CCBG by First Alachua; or voluntarily accelerate the vesting of any stock options or other stock-based compensation or employee benefits or other equity rights;
- enter into or amend any employment contract between First Alachua or any of its subsidiaries and any person (unless such amendment is required by law) that First Alachua or any of its subsidiaries does not have the unconditional right to terminate without liability (other than liability for services already rendered) at any time on or after the effective time of the merger;
- adopt any new employee benefit plan of First Alachua or terminate or withdraw from, or make any material change in or to, any existing employee benefit plans of First Alachua other than any such change that is required by law or that, in the opinion of counsel, is necessary or advisable to maintain the tax qualified status of any such plan, or make any distributions from such employee benefit plans, except as required by law, the terms of such plans or consistent with past practice;
- make any significant change in any tax or accounting methods or systems of internal accounting controls, except as may be appropriate to conform to changes in tax laws or regulatory accounting requirements or accounting principles generally accepted in the United States;
- commence any litigation other than in accordance with past practice, or settle any litigation involving any liability of First Alachua or any of its subsidiaries for material money damages or restrictions upon the operations of First Alachua or any of its subsidiaries; or
- except in the ordinary course of business, enter into, modify, amend or terminate any material contract calling for payments exceeding \$25,000 or waive, release, compromise or assign any material rights or claims.

CCBG has agreed in the Agreement and Plan of Merger that from the date of the Agreement and Plan of Merger until the earlier of the effective time of the merger or the termination of the Agreement and Plan of Merger, unless First Alachua has given prior written consent, and except as otherwise expressly contemplated in the Agreement and Plan of Merger, CCBG will:

- continue to conduct its business and the business of its subsidiaries in a manner designed in its reasonable judgment, to enhance the long-term value of the CCBG capital stock and the business prospects of CCBG and its subsidiaries

and (to the extent consistent) use all reasonable efforts to preserve intact CCBG's and its subsidiaries' core businesses and goodwill with their respective employees and the communities they serve, and

· take no action which would:

- materially adversely affect the ability of any party to obtain any consents required for the transactions contemplated by the Agreement and Plan of Merger without the imposition of certain conditions or restrictions referred to in the Agreement and Plan of Merger, or
- materially adversely affect the ability of any party to perform its covenants and agreements under the Agreement and Plan of Merger; provided, that this will not prevent CCBG or any of its subsidiaries from acquiring any assets or other businesses or from discontinuing or disposing of any of its assets or businesses if such action is, in the judgment of CCBG, desirable in the conduct of the business of CCBG and its subsidiaries, and
- not amend or agree or commit to amend or permit any of its subsidiaries to amend or agree or commit to amend, without the prior written consent of First Alachua, which consent shall not be unreasonably withheld, the Articles of Incorporation or Bylaws of CCBG, in any manner adverse to the holders of First Alachua common stock as compared to the rights of holders of CCBG common stock generally as of the date of the Agreement and Plan of Merger.

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

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

Indemnification and Advancement of Expenses. With respect to all claims brought during the period of three years after the effective time of the merger, the Agreement and Plan of Merger provides that CCBG will indemnify, defend and hold harmless the present and former directors, officers and employees of First Alachua and First National Bank of Alachua against all liabilities arising out of actions or omissions arising out of the indemnified party's service as a director, officer or employee of First Alachua and First National Bank of Alachua or, at First Alachua's request, of another corporation, partnership, joint venture, trust or other enterprise occurring at or prior to the effective time of the merger (including the transactions contemplated by the Agreement and Plan of Merger) to the fullest extent permitted under Florida law. Notwithstanding the foregoing, with respect to all losses, liabilities, damage, costs, claims, and expenses related to the First National Bank of Alachua 401(k) Plan liabilities, if any, neither CCBG nor any of its subsidiaries will indemnify, defend or hold harmless the present and former trustees of the First National Bank of Alachua 401(k) Plan, including Jerry M. Smith and Frank Bevis. Without limiting the foregoing, in any case in which approval by CCBG is required to effectuate any indemnification, CCBG will direct, at the election of the indemnified party, that the determination of any such approval will be made by independent counsel mutually agreed upon between CCBG and the indemnified party.

CCBG will, to the extent available (and First Alachua and First National Bank of Alachua shall cooperate prior to the effective time of the merger in these efforts), maintain in effect for a period of three years after the effective time of the merger directors' and officers' liability insurance with respect to claims arising from facts or events which occurred up to 12 months prior to the effective time of the merger and covering the indemnified parties; provided, that CCBG will not be obligated to make aggregate premium payments for such three-year period in respect of such an insurance policy (or coverage replacing such a policy) which exceed \$45,000 for the portion related to First Alachua's and First National Bank of Alachua's directors and officers.

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

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

For purposes of participation and vesting (but not benefit accrual) under CCBG's employee benefit plans, the service of the employees of First Alachua prior to the effective time of the merger will be treated as service with CCBG or its subsidiaries participating in such employee benefits plans.

Subject to compliance with applicable laws and the absence of any material adverse effect upon CCBG or any First Alachua benefit plans or CCBG benefit plans, First Alachua will, prior to closing, take such actions as are necessary to terminate each First Alachua benefit plan (other than the Executive Indexed Salary Continuation Plan, by and between Jerry M. Smith and First National Bank of Alachua, dated June 1, 1995, the Endorsement Method Split Dollar Plan Agreement, dated June 1, 1995, and the First National Bank of Alachua 401(k) Profit Sharing Plan) and to distribute all benefits attributable to such benefit plans as soon as administratively feasible.

In addition, Jerry M. Smith will enter into a three year employment agreement with CCBG.

First National Bank of Alachua 401(k) Plan Qualification. First National Bank of Alachua, as the sponsor of the First National Bank of Alachua 401(k) Plan, and Jerry M. Smith, as co-trustee of the First National Bank of Alachua 401(k) Plan, will take all actions reasonably necessary prior to the closing time to submit a proper application to the Internal Revenue Service pursuant to the Employee Plans Compliance Resolution System (“EPCRS Application”) as set forth in Revenue Procedure 2003-44 (or successor guidance) that will contain a reasonable proposal to address certain matters previously disclosed to CCBG so as to obtain IRS approval of certain corrections, if needed. It is understood and agreed that these corrections may, if necessary, be made after the closing time and that IRS approval may be obtained after the closing time. Jerry M. Smith, as co-trustee of the First National Bank of Alachua 401(k) Plan, will consult with CCBG and CCBG’s legal counsel prior to taking any actions, will obtain CCBG and CCBG’s legal counsel’s prior approval in connection with any IRS or Pension Benefit Guaranty Corporation submissions, communications, filings, or applications, and will provide CCBG at closing with documentation of the actions ultimately implemented.

In the Agreement and Plan of Merger, CCBG, First Alachua, First National Bank of Alachua, and Jerry M. Smith, as co-trustee of the First National Bank of Alachua 401(k) Plan, expressly agreed that, at all times subsequent to closing, all participants in the First National Bank of Alachua 401(k) Plan will make all elective deferrals exclusively to the Capital City Bank Group, Inc. 401(k) Plan. Upon approval by the IRS of the EPCRS Application, CCBG, in its sole discretion, may elect to (1) freeze the First National Bank of Alachua 401(k) Plan; (2) terminate the First National Bank of Alachua 401(k) Plan; or (3) merge the First National Bank of Alachua 401(k) Plan with the Capital City Bank Group, Inc. 401(k) Plan as a successor plan. Prior to the closing, First National Bank of Alachua may continue to pay in the ordinary course the reasonable fees and expenses relating to the administration of the First National Bank of Alachua 401(k) Plan, subject, however, to the provisions of the Agreement and Plan of Merger relating to certain potential 401(k) Plan liabilities and any corrections required pursuant to the EPCRS Application. After the closing, CCBG will pay in the ordinary course all reasonable fees and expenses relating to the administration of the First National Bank of Alachua 401(k) Plan, subject, however, to the provisions of the Agreement and Plan of Merger relating to certain Alachua potential 401(k) Plan liabilities and any corrections required pursuant to the EPCRS Application. First Alachua and First National Bank of Alachua have previously disclosed to CCBG the fees and expenses that First National Bank of Alachua has paid to service providers relating to the First National Bank of Alachua 401(k) Plan.

In the Agreement and Plan of Merger, CCBG, First Alachua, First National Bank of Alachua, and Jerry M. Smith, as co-trustee of the First National Bank of Alachua 401(k) Plan, also expressly agreed that, at all times subsequent to the execution of the Agreement and Plan of Merger, no stock or other security issued by First Alachua or any of its subsidiaries held in the First National Bank of Alachua 401(k) Plan may be withdrawn or transferred by any participant until CCBG, in its sole discretion, determines that the terms of the IRS compliance statement, if any, pursuant to the EPCRS Application have been met.

With respect to the EPCRS Application, First National Bank of Alachua, and subsequent to closing, CCBG, will pay all fees and expenses, including all legal fees of counsel to First National Bank of Alachua, accounting fees, filing fees, and application fees, subject to the indemnification provisions in a letter agreement between Jerry M. Smith and CCBG; provided, however, that to the extent the IRS or any other governmental agency or applicable law (i) prohibits First Alachua, CCBG, or any of their respective subsidiaries from paying such fees and expenses; or (ii) deems such amount to be penalties, Jerry M. Smith, individually, will pay all fees and

expenses, including all legal fees, accounting fees, filing fees, and application fees.

Jerry M. Smith, to the extent Mr. Smith has direct control over the implementation of corrections, if any, set forth in the IRS compliance statement, and the then-sponsor of the First National Bank of Alachua 401(k) Plan will be responsible for timely and properly implementing the corrections set forth in the IRS compliance statement pursuant to the EPCRS Application, subject to the indemnification provisions in the letter agreement mentioned in the preceding paragraph.

### **Certain Federal Income Tax Consequences**

This section summarizes the material anticipated federal income tax consequences of the merger for First Alachua shareholders. This summary is based on the federal income tax laws now in effect. It does not take into account possible changes in these laws or interpretations, including amendments to applicable statutes or regulations or changes in judicial decisions or administrative rulings, some of which may have retroactive effect. This summary does not purport to address all aspects of the possible federal income tax consequences of the merger and is not intended as tax advice to any person. This summary does not address the federal income tax consequences of the merger to shareholders in light of their particular circumstances or status (for example, as foreign persons, tax-exempt entities, dealers in securities, and insurance companies, among others), nor does this summary address any consequences of the merger under any state, local, estate, or foreign tax laws. You are urged to consult your own tax advisers as to the specific tax consequences of the merger to you, including tax return reporting requirements, the application and effect of federal, foreign, state, local, and other tax laws, and the implications of any proposed changes in the tax laws.

The parties to the merger have not required, and will not request, a federal income tax ruling from the IRS as to the tax consequences of the merger. Instead, at the effective time, Gunster, Yoakley & Stewart, P.A., counsel to CCBG, will render an opinion to CCBG, and Smith, Gambrell & Russell, LLP, counsel to First Alachua, will render its opinion to First Alachua, concerning the material federal income tax consequences of the proposed merger under federal income tax law. Both firms are expected to opine, based upon (a) the assumption that the merger is consummated in accordance with the Agreement and Plan of Merger, (b) the accuracy of representations made by the management of CCBG and First Alachua, and (c) specifically assuming that CCBG stock will constitute at least 45% of the total merger consideration as of the effective time, that the merger will constitute a reorganization within the meaning of Section 368(a) of the Code, and that neither CCBG nor First Alachua will recognize gain or loss by reason of the merger (except for amounts resulting from any required change in accounting methods and any income and deferred gain or loss recognized pursuant to Treasury regulations issued under Section 1502 of the Code).

If, at the effective time, the CCBG stock does not constitute at least 45% of the merger consideration and the referenced tax opinions are not rendered, the parties will re-evaluate the transaction before consummating the merger.

Assuming the merger qualifies as a reorganization pursuant to Section 368(a) of the Code, the shareholders of First Alachua will have the following federal income tax consequences:

- First Alachua shareholders will recognize gain (but not loss) from the exchange, but not in excess of the cash received; the computation of gain is

made on a share by share basis; it is not anticipated that any portion of such gain will be characterized as a dividend;

- the basis of the CCBG common stock received by the First Alachua shareholders in the merger (including fractional shares deemed received and redeemed) will, in each instance, be the same as the basis of the First Alachua common stock surrendered in exchange therefor, (i) decreased by the cash received (other than cash received in lieu of a fractional share of CCBG common stock) and (ii) increased by the gain recognized in the exchange;
- the holding period of the CCBG common stock received by the First Alachua shareholders will, in each instance, include the period during which the First Alachua common stock surrendered in exchange therefor was held, provided that the First Alachua common stock was held as a capital asset on the date of the exchange;
- the payment of cash to First Alachua shareholders in lieu of fractional shares of CCBG common stock will be treated for federal income tax purposes as if the fractional shares were distributed as part of the exchange and then were redeemed by CCBG; it is anticipated that any gain or loss recognized upon such exchange will be capital gain or loss (rather than a dividend), provided the fractional share constitutes a capital asset in the hands of the exchanging shareholder;
- subject to the conditions and limitations of Code Section 302, a holder of First Alachua common stock who exercises statutory dissenters' rights in connection with the merger generally will recognize gain or loss equal to the difference, if any, between such holder's tax basis in the First Alachua common stock exchanged and the amount of cash received in exchange therefor; and
- unless the exchange is deemed to have the effect of the distribution of a dividend, any gain or loss recognized by a holder of First Alachua common stock as a result of the merger will be capital gain or loss and will be long-term capital gain or loss if such holder's stock has been held for more than one year at the effective time of the merger.

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

### **Accounting Treatment**

The merger will be accounted for as a "purchase," as that term is used under accounting principles generally accepted in the United States, for accounting and financial reporting purposes. Under purchase accounting, the assets and liabilities, including intangibles, of First Alachua as of the effective time of the merger will be recorded at their respective fair values and added to those of CCBG. Any excess of purchase price over the fair values is recorded as goodwill. Financial statements of CCBG issued after the merger would reflect such fair values and would not be



restated retroactively to reflect the historical financial position or results of operations of First Alachua.

There are certain conditions on the exchange of First Alachua common stock for CCBG common stock by affiliates of First Alachua, and there are certain restrictions on the transferability of the CCBG common stock received by those affiliates. See “- Resales of CCBG Common Stock,” on page 53.

### **Expenses and Fees**

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

In the event that First Alachua terminates the Agreement and Plan of Merger by entering into a definitive agreement with respect to the sale of First Alachua to any person or entity who or which has made a proposal to acquire First Alachua, First Alachua will pay CCBG \$2,320,000 for losses and damages of CCBG incurred in connection with the merger.

### **Resales of CCBG Common Stock**

The CCBG common stock issued to shareholders of First Alachua in connection with the merger will be registered under the Securities Act of 1933, as amended, and will be freely transferable by those shareholders of First Alachua and CCBG not considered to be “Affiliates” of First Alachua or CCBG. “Affiliates” generally are defined as persons or entities who control, are controlled by, or are under common control with First Alachua or CCBG (generally, directors, executive officers and 10% shareholders).

Rules 144 and 145 under the Securities Act restrict the sale of CCBG common stock received in the merger by Affiliates and certain of their family members and related interests. Generally speaking, during the one-year period following the effective time of the merger, Affiliates of First Alachua may resell publicly the CCBG common stock received by them in the merger within certain limitations as to the amount of CCBG common stock sold in any three-month period and as to the manner of sale. After this one-year period, Affiliates of First Alachua who are not Affiliates of CCBG may resell their shares without restriction. The ability of Affiliates to resell shares of CCBG common stock received in the merger under Rule 144 or 145 as summarized in this Proxy Statement/Prospectus generally will be subject to CCBG’s having satisfied its reporting requirements under the Securities Exchange Act of 1934, as amended, for specified periods prior to the time of sale. Affiliates also would be permitted to resell CCBG common stock received in the merger pursuant to an effective registration statement under the Securities Act or an available exemption from the Securities Act registration requirements. This Proxy Statement/Prospectus does not cover any resales of CCBG common stock received by persons who may be deemed to be Affiliates of First Alachua or CCBG.

First Alachua has caused each person First Alachua reasonably believes to be an Affiliate of First Alachua to sign and deliver to CCBG an agreement providing that

such Affiliate will not sell, pledge, transfer, or otherwise dispose of any CCBG common stock obtained as a result of the merger except in compliance with the Securities Act and the rules and regulations of the SEC. The certificates representing CCBG common stock issued to Affiliates in the merger may bear a legend summarizing these restrictions. See “- Conditions to Consummation of the Merger,” on page 37.

The receipt of the First Alachua Affiliate Agreements by CCBG is a condition to CCBG’s obligations to consummate the merger.

### **DESCRIPTION OF CCBG CAPITAL STOCK**

*General.* The authorized capital stock of CCBG currently consists of 90,000,000 shares of common stock, \$.01 par value per share, of which \_\_\_\_\_ shares of common stock were issued and outstanding as of the record date. CCBG is also authorized to issue 3,000,000 shares of preferred stock, par value \$0.01 per share, none of which is issued and outstanding. Additionally, as of the record date, there were exercisable options to acquire [\_\_\_\_\_] shares of CCBG common stock.

*Common Stock.* Owners of CCBG common stock are entitled to receive such dividends as may be declared by the Board of Directors out of funds legally available therefor. The ability of CCBG to pay dividends is affected by the ability of its subsidiary depository institution to pay dividends. The approval of the Florida Department of Financial Services is required if the total of all dividends declared by Capital City Bank, in any calendar year exceeds Capital City Bank’s net profits (as defined in the Florida Statutes) for that year combined with its retained net profits for the preceding two calendar years. In 2005, Capital City Bank may declare dividends without regulatory approval of \$\_\_\_\_\_ million plus an additional amount equal to the net profits of Capital City Bank for 2005 up to the date of any such dividend declaration. See “BUSINESS - Supervision and Regulation - The Bank - Dividends” and “NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Note 15 - Dividend Restrictions” in CCBG’s Financial Statements for the year ended December 31, 2003, on page 254.

Except as may be required by law or as may be provided by the resolutions of the CCBG Board authorizing the issuance of any class or series of preferred stock, all voting rights are vested in the owners of the common stock. Each owner of common stock is entitled to one vote per share on any issue requiring a vote at any meeting. The shares do not have cumulative voting rights. Shareowners holding a majority of the voting power of the capital stock issued and outstanding and entitled to vote, represented in person or by proxy, are necessary to constitute a quorum at any meeting of the CCBG's shareowners. A vote by the owners of a majority of the voting power of the capital stock issued and outstanding is required for matters except for the following, as provided under Florida law and in accordance with CCBG’s Articles of Incorporation and Bylaws: (i) a vote of the owners of at least two-thirds of the voting power of the capital stock issued and outstanding is required to (A) remove for cause any director of CCBG; or (B) alter, amend, or repeal certain provisions of CCBG’s Bylaws; (ii) a vote of (A) the owners of at least two-thirds of the voting power of all the then issued and outstanding shares of the capital stock entitled to vote generally in the election of directors, voting together as a single class; or (B) a majority of disinterested directors and the holders of at least a majority of the voting power of the then-outstanding shares of the capital stock entitled to vote generally in the election of directors, voting together as a single class, is required to alter, amend or repeal certain provisions of CCBG’s Articles of Incorporation; and (iii) directors may be elected by a plurality of the votes cast by

the owners of capital stock entitled to vote at a shareowners' meeting at which a quorum is present.

CCBG's Articles of Incorporation provide that CCBG's Board of Directors is divided into three classes, with each class to be as nearly equal in number as possible. The term of the Class I directors terminates on the date of the 2007 annual meeting of shareowners, the term of the Class II directors terminates on the date of the 2005 annual meeting of shareowners and the term of the Class III directors terminates on the date of the 2006 annual meeting of shareowners. At each annual meeting of shareowners, successors to the class of directors whose term expires at that annual meeting are to be elected for a three-year term. The effect of CCBG having a classified Board of Directors is that only approximately one-third of the members of the Board is elected each year, which effectively requires two annual meetings for CCBG's shareowners to change a majority of the members of the Board of Directors. The purpose of dividing CCBG's Board of Directors into classes is to facilitate continuity and stability of leadership of CCBG by ensuring that experienced personnel familiar with CCBG will be represented on CCBG's Board of Directors at all times, and to permit CCBG's management to plan for the future for a reasonable period of time. However, by potentially delaying the time within which an acquiror could obtain working control of the Board of Directors, this provision may discourage some potential mergers, tender offers, or takeover attempts.

Upon liquidation, owners of CCBG common stock will be entitled to receive on a pro-rata basis, after payment or provision for payment of all debts and liabilities of CCBG, all assets of CCBG available for distribution, in cash or in kind. CCBG's Articles of Incorporation, as amended, do not grant preemptive rights to the owners of CCBG common stock.

CCBG's Articles of Incorporation and Bylaws contain certain provisions designed to assist the CCBG Board in protecting the interests of CCBG and its shareowners if any group or person attempts to acquire control of CCBG. For a further discussion, see "EFFECT OF THE MERGER ON RIGHTS OF SHAREHOLDERS - Anti-Takeover Provisions Generally," on page 56.

The outstanding shares of CCBG common stock are, and the shares of CCBG common stock to be issued by CCBG in connection with the merger will be, duly authorized, validly issued, fully paid and nonassessable.

*Preferred Stock.* Under the Articles of Incorporation, the CCBG Board has the power, without further action by the owners of common stock, to designate and issue from time to time the preferred stock in series having such designations, powers, preferences, rights and limitations, and on such terms and conditions as the Board shall from time to time determine. Such rights and preferences include those as to voting, dividends (including whether dividends are cumulative), redemption (including sinking fund provisions), liquidation preferences and conversion.

*Transfer Agent and Registrar.* The Transfer Agent and Registrar for CCBG's common stock is American Stock Transfer & Trust Co., Registrar and Transfer Company, 59 Maiden Lane, Plaza Level, New York, NY 10038.

## **EFFECT OF THE MERGER ON RIGHTS OF SHAREHOLDERS**

In the merger, shareholders of First Alachua will exchange their shares of First Alachua for shares of CCBG. First Alachua, a financial services company, is a Florida corporation headquartered in Alachua, Florida and is governed by Florida law and the Articles of Incorporation and Bylaws, as amended, adopted by First Alachua.

CCBG, a financial holding company, is a Florida corporation headquartered in Tallahassee, Florida and is governed by Florida law and CCBG's Articles of Incorporation and Bylaws, as amended. There are some significant differences between the rights of First Alachua's shareholders and the rights of CCBG's shareowners. The following is a summary of the principal differences between the current rights of First Alachua's shareholders and those of CCBG's shareowners.

The following summary is not intended to be complete and is qualified in its entirety by reference to the Florida Business Corporation Act, as well as the Articles of Incorporation and Bylaws, as amended, of First Alachua and CCBG.

### **Anti-Takeover Provisions Generally**

CCBG's Articles of Incorporation and Bylaws contain certain provisions designed to assist the CCBG Board of Directors in protecting the interests of CCBG and its shareowners if any group or person attempts to acquire control of CCBG. These provisions may help the CCBG Board of Directors determine whether a sale of control is in the best interests of CCBG's shareowners, or enhance their ability to maximize the value to be received by the shareowners upon a sale of control of CCBG. In addition, as of March [\_\_\_], 2005, William G. Smith, Jr., Chairman, President, and Chief Executive Officer of CCBG, and his brother, Robert Hill Smith, Vice President of CCBG, together beneficially owned approximately [\_\_\_]% of CCBG's outstanding common stock. Such concentrated ownership could also have the effect of deterring takeover proposals.

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

CCBG's anti-takeover provisions and concentrated ownership also may discourage open market purchases by a company that may desire to acquire CCBG. Those purchases may increase the market price of CCBG common stock temporarily, and enable shareowners to sell their shares at a price higher than they might otherwise obtain. In addition, CCBG's anti-takeover provisions and concentrated ownership may decrease the market price of CCBG common stock by making the stock less attractive to persons who invest in securities in anticipation of price increases from potential acquisition attempts. The anti-takeover provisions and concentrated ownership also may make it more difficult and time consuming for a potential acquiror to obtain control of CCBG by replacing the Board of Directors and management. Furthermore, the anti-takeover provisions and concentrated ownership may make it more difficult for CCBG's shareowners to replace the Board of Directors or management, even if a majority of the shareowners believes that replacing the Board of Directors or management is in the best interests of CCBG. Because of these factors, these anti-takeover provisions and concentrated ownership may tend to perpetuate the incumbent Board of Directors and management. For more information about these provisions, see "- Authorized Capital Stock," on page 57, "- Amendment of Articles of Incorporation and Bylaws," on page 58, "- Classified Board of Directors and Absence of Cumulative Voting," on page 59, "- Director Removal and Vacancies," on page 60, "- Indemnification," on page 60, "- Ability of Directors to Consider Interests Other than Shareowner Interests" on page 62, "- Actions by Shareowners Without a Meeting," on page 63, "- Shareowner Nominations," on page 63.

## Authorized Capital Stock

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

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

Subject to certain potential adjustments, the payment of cash in lieu of fractional shares and payments made to dissenting shareholders, CCBG will issue 725,000 shares of CCBG common stock in the merger. Based on the number of shares of CCBG common stock outstanding on the record date, it is anticipated that, following the consummation of the merger, approximately [ ] shares of CCBG common stock will be outstanding.

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

**First Alachua.** First Alachua is authorized to issue 500,000 shares, consisting of 250,000 shares of \$.10 par value Class A common stock and 250,000 shares of \$.10 par value Class B common stock, of which 4,456 shares of Class A common stock and 5,730 shares of Class B common stock are outstanding as of the record date. First Alachua has no other classes of authorized capital stock. First Alachua shareholders

do not have the preemptive right to purchase or subscribe to any unissued authorized shares of First Alachua common stock.

The Class B common stock was created in connection with the assumption by First Alachua of debt of certain Class B shareholders. While the debt was outstanding, Class A shareholders were entitled to dividend and liquidation preferences. The principal and interest on the debt related to the Class B common stock was repaid in full and retired as of March 26, 1990. Thus, the Class A common stock and Class B common stock currently have identical rights, preferences and limitations.

### **Amendment of Articles of Incorporation and Bylaws**

CCBG. CCBG's Articles of Incorporation provide that the affirmative vote of the holders of at least two-thirds of all the issued and outstanding voting shares of capital stock is required to amend certain provisions, including provisions relating to shareowner meetings, nomination, election and removal of directors, acquisition offers, indemnification, and amendments. However, if such amendment has received the prior approval by an affirmative vote of a majority of "Disinterested Directors," as defined in Section 607.0901(1)(h), Florida Statutes, then the affirmative vote of the holders of a majority of all the shares of capital stock of CCBG issued and outstanding and entitled to vote, or such greater percentage approval as is required by Florida law, is sufficient to amend the Articles. A "Disinterested Director" is defined in Section 607.0901(1)(h), Florida Statutes, as:

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

The remaining provisions of CCBG's Articles of Incorporation may be amended by the holders of at least a majority of the issued and outstanding voting shares of capital stock.

Subject to certain restrictions set forth below, either the Board of Directors or the shareowners of CCBG may amend CCBG's Bylaws by majority vote. The Board of Directors may amend the Bylaws and adopt new Bylaws provided that:

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

First Alachua. First Alachua's Articles of Incorporation are silent as to any vote requirement to amend such Articles. Accordingly, amendments to the First Alachua Articles of Incorporation are subject to the Florida Business Corporation Act as it relates to amendments made to articles of incorporation. The Florida Business Corporation Act provides that, other than in the case of certain routine amendments which may be made by the corporation's Board of Directors without shareholder action (such as changing the corporate name), an amendment to a corporation's articles requires the affirmative vote of a majority of the outstanding shares of each voting group.

The First Alachua Bylaws may be amended by the affirmative vote of a majority of the directors at any regular meeting or special meeting. In addition, under the Florida Business Corporation Act, an affirmative vote of a majority of the First Alachua shareholders is required to amend or repeal the bylaws.

### **Classified Board of Directors and Absence of Cumulative Voting**

CCBG. CCBG's Articles of Incorporation provide that CCBG's Board of Directors is divided into three classes, with each class to be as nearly equal in number as possible. The term of the Class I directors terminates on the date of the 2007 annual meeting of shareowners, the term of the Class II directors terminates on the date of the 2005 annual meeting of shareowners and the term of the Class III directors terminates on the date of the 2006 annual meeting of shareowners. At each annual meeting of shareowners, successors to the class of directors whose term expires at that annual meeting are to be elected for a three-year term. The effect of CCBG having a classified Board of Directors is that only approximately one-third of the members of the Board is elected each year, which effectively requires two annual meetings for CCBG's shareowners to change a majority of the members of the Board of Directors. The purpose of dividing CCBG's Board of Directors into classes is to facilitate continuity and stability of leadership of CCBG by ensuring that experienced personnel familiar with CCBG will be represented on CCBG's Board of Directors at all times, and to permit CCBG's management to plan for the future for a reasonable period of time. However, by potentially delaying the time within which an acquiror could obtain working control of the Board of Directors, this provision may discourage some potential mergers, tender offers, or takeover attempts.

Pursuant to the CCBG Bylaws, each shareowner is entitled to one vote for each share of CCBG common stock held and is not entitled to cumulative voting rights in the election of directors. With cumulative voting, a shareowner has the right to cast a number of votes equal to the total number of such holder's shares multiplied by the number of directors to be elected. The shareowner has the right to distribute all of his or her votes in any manner among any number of candidates or to accumulate such shares in favor of one candidate. Directors are elected by a plurality of the total votes cast by the shares entitled to vote in the election. With cumulative voting, it may be possible for minority shareowners to obtain representation on the Board of Directors. Without cumulative voting, the holders of more than 50% of the shares of CCBG common stock generally have the ability to elect 100% of the directors. As a result, the holders of the remaining CCBG common stock effectively may not be able to elect any person to the Board of Directors. The absence of cumulative voting thus could make it more difficult for a shareowner who acquires less than a majority of the shares of CCBG common stock to obtain representation on CCBG's Board of Directors.

First Alachua. Pursuant to the Bylaws of First Alachua, each director of First Alachua is subject to annual elections. First Alachua shareholders do not have cumulative voting rights.

## **Director Removal and Vacancies**

CCBG. CCBG's Articles of Incorporation provide that:

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

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

First Alachua. First Alachua's Bylaws do not provide for the removal of a director by the shareholders or directors of First Alachua. Pursuant to the Florida Business Corporation Act, the shareholders may remove, with or without cause, the entire board of directors or an individual director. First Alachua's Bylaws provide that if any vacancy shall occur among the directors for any reason, the vacancy may be filled by a majority vote of the remaining directors.

## **Indemnification**

CCBG. The Florida Business Corporation Act provides that a director, officer, employee, or other agent of a Florida corporation:

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



all of the circumstances, he or she is fairly and reasonably entitled to indemnification for expenses.

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

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

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

The Florida Business Corporation Act's statutory scheme of indemnification is not exclusive and allows expanded indemnification by bylaw, agreement, vote of shareowners or disinterested directors, or otherwise. Notwithstanding the permissible expansion of indemnification rights, the Florida Business Corporation Act does not permit indemnification for:

- acts or omissions that involve a violation of the criminal law, unless the director, officer, employee or agent had reasonable cause to believe his or her conduct was lawful or had no reasonable cause to believe his or her conduct was unlawful;
- any transaction from which a director, officer or agent derived an improper personal benefit;
- willful misconduct or a conscious disregard for the best interests of the corporation in a proceeding by or in the right of the corporation to procure a judgment in its favor or in a proceeding by or in the right of a shareowner; or
- approving an improper distribution to shareowners.

CCBG's Bylaws expand the Florida Business Corporation Act's statutory scheme of indemnification by providing for the mandatory indemnification of any of its officers and directors for costs and expenses actually and reasonably incurred in connection with a legal proceeding, regardless of whether the officer or director is successful on the merits or otherwise, including amounts paid in settlement of such a proceeding, to the fullest extent permitted by the Florida Business Corporation Act, and requires advancement of such costs and other expenses during pending proceedings.

The Board of Directors has discretionary ability to provide indemnification with respect to other persons, such as agents and employees.

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

First Alachua. Indemnification of First Alachua's directors, officers, employees, and other agents is provided pursuant to the Florida Business Corporation Act. Neither the Articles of Incorporation nor the Bylaws of First Alachua provide for an expansion of the indemnification rights provided under the Florida Business Corporation Act.

### **Special Meetings of Shareowners**

CCBG. CCBG's Bylaws provide that special meetings of the shareowners shall be held:

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

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

First Alachua. First Alachua's Bylaws provide that special meetings of the shareholders may be called at any time by the President or a majority of the members of the Board of Directors and shall be called by the President at the request of the holders of not less than one-tenth of all the outstanding shares of First Alachua entitled to vote at the meeting.

### **Ability of Directors to Consider Interests Other Than Shareowners' Interests**

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

- the best interests of the shareowners;
- the social, legal, and economic effects on employees, customers, depositors, and communities served by CCBG and any subsidiary;
- the consideration offered in relation to the then current market value of CCBG or any subsidiary in a freely negotiated transaction;

- estimations of future value of the stock of CCBG or any subsidiary as an independent entity; and
- any other factor deemed relevant by the Board of Directors.

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

This provision might have the effect of discouraging some tender offers which are above market price or which might otherwise be favorable to shareowners in the short run. A decrease in the likelihood of tender or acquisition offers could lower shareowner value by minimizing or eliminating acquisition market premiums associated with CCBG's capital stock.

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

First Alachua. First Alachua's Articles of Incorporation and Bylaws do not contain provisions allowing the directors to consider the effect of potential transactions on any constituency other than the First Alachua shareholders; however, under the Florida Business Corporation Act, directors may rely upon such factors as the director deems relevant, including the long-term prospects and interests of the corporation and its shareholders, and the social, economic, legal, or other effects of any action on the employees, suppliers, customers of the corporation or its subsidiaries, the communities and society in which the corporation or its subsidiaries operate, and the economy of the state and the nation.

#### **Actions by Shareowners Without a Meeting**

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

First Alachua. First Alachua's Bylaws provide that any action required or permitted to be taken at a meeting of shareholders may be taken without a meeting if a consent in writing, setting forth the action taken, shall be signed by all of the shareholders entitled to vote with respect to the subject matter thereof.

#### **Shareowner Nominations**

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

- by or at the direction of the Board of Directors by any nominating committee of or person appointed by the Board of Directors; or

- by any shareowner of CCBG entitled to vote for the election of directors at the meeting who complies with the applicable notice procedures set forth in the Articles of Incorporation and the Bylaws.

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

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

First Alachua. First Alachua's Articles of Incorporation and Bylaws do not contain specific provisions addressing nominations of persons for election to the Board of Directors. In addition, the Florida Business Corporation Act does not address director nominations.

### **Dissenters' Rights of Appraisal**

CCBG. The Florida Business Corporation Act generally gives shareowners of a Florida corporation appraisal rights and the right to obtain payment of the fair value of their shares in the event of a merger, share exchange, sale or exchange of property and certain other corporate transactions. The rights contained in the Florida Business Corporation Act generally do not apply, however, with respect to a plan of merger or share exchange or a proposed sale or exchange of property, to the holders of securities registered on a national securities exchange or designated as a national market system security on an interdealer quotation system by the National Association of Securities Dealers, Inc. or held of record by more than 2,000 holders as of the record date for determining shareowners entitled to vote on the proposed action and the market value of such securities is at least \$10 million, excluding the value of shares held by certain company insiders. First Alachua's shareholders are to receive shares of CCBG common stock in the merger, and CCBG common stock is traded on the Nasdaq National Market. Therefore, subsequent to this merger, shareholders of First Alachua that receive CCBG common stock in the merger will not have statutory appraisal rights with respect to the CCBG common stock.

First Alachua. The Florida Business Corporation Act generally gives shareholders of a Florida corporation appraisal rights, and the right to obtain payment of the fair value of their shares in the event of a merger, share exchange, sale or exchange of property and certain other corporate transactions. To do this, shareholders must follow certain procedures, including filing certain notices and refraining from voting their shares in favor of the transaction. The applicable provisions of the Florida Business Corporation Act are included in this Proxy Statement/Prospectus in Section X, beginning on page 213.

For a more detailed discussion of Appraisal Rights, see "DESCRIPTION OF THE MERGER - Dissenters' Rights of Appraisal," on page 41.

## **COMPARATIVE MARKET PRICES AND DIVIDENDS**

### **Price Range of Common Stock**

CCBG common stock is traded on the Nasdaq National Market under the symbol "CCBG." First Alachua common stock is not publicly traded. The following table sets

forth, for the indicated periods, the high and low closing sale prices for CCBG common stock as reported by the Nasdaq National Market. The stock prices do not include retail mark-ups, mark-downs or commissions. Effective June 13, 2003, CCBG declared a 5-for-4 stock split. The amounts below have been adjusted to reflect this stock split. CCBG had a total of \_\_\_\_\_ shareowners of record as of \_\_\_\_\_, 2005.

	CCBG Price Range	
	High	Low
2004		
Fourth Quarter	\$ 45.41	\$ 37.90
Third Quarter	40.07	35.08
Second Quarter	43.15	35.50
First Quarter	45.55	39.05
2003		
Fourth Quarter	46.83	36.62
Third Quarter	40.93	35.00
Second Quarter	36.43	29.74
First Quarter	32.32	26.81
2002		
Fourth Quarter	32.04	22.26
Third Quarter	29.55	22.32
Second Quarter	27.84	20.60
First Quarter	22.00	18.12
2001		
Fourth Quarter	19.74	17.52
Third Quarter	20.20	16.70
Second Quarter	20.00	15.90
First Quarter	20.90	18.50
2000		
Fourth Quarter	21.40	15.10
Third Quarter	16.40	15.00
Second Quarter	16.40	14.40
First Quarter	18.40	12.00

On February 3, 2005, the last day prior to the public announcement of CCBG's proposed acquisition of First Alachua, the last reported sale price per share of CCBG common stock on the Nasdaq National Market was \$39.95. On [\_\_\_\_], 2005, the latest practicable date prior to the mailing of this Proxy Statement/Prospectus, the last reported sale price per share of CCBG common stock on the Nasdaq National Market was [\$\_\_\_\_], and the resulting equivalent pro forma price per share of First Alachua common stock was [\$\_\_\_\_]. The equivalent per share price of a share of First Alachua common stock at each specified date represents the last reported sale price of a share of CCBG common stock on such date multiplied by the exchange ratio of approximately 71.176 shares of CCBG common stock plus \$2,847.04 in cash (exclusive of any withholdings). The market price of CCBG common stock at the effective time of the merger may be higher or lower than the market price at the time the merger proposal was announced, at the time the Agreement and Plan of Merger was executed, at the time of mailing of this Proxy Statement/Prospectus, or at the time of the Special Meeting. Holders of First Alachua common stock are not assured of receiving any specific market value of CCBG common stock at the effective time of the merger, and such value may be substantially more or less than the current value of CCBG common stock.



There is no established public trading market for the First Alachua common stock. To the knowledge of First Alachua, the most recent trade of First Alachua common stock prior to February 3, 2005, the last day prior to the public announcement of the proposed merger between CCBG and First Alachua, was the sale of 25 shares on January 30, 2002, at \$1,537.67 per share. To the knowledge of First Alachua, there have been no trades of First Alachua common stock since the announcement of the merger.

The holders of First Alachua common stock are entitled to receive such dividends or distributions as the board of directors may declare out of funds legally available for such payments. The payment of distributions by First Alachua is subject to the restrictions of Florida law applicable to the declaration of distributions by a business corporation. A corporation generally may not authorize and make distributions if, after giving effect thereto, it would be unable to meet its debts as they become due in the usual course of business or if the corporation's total assets would be less than the sum of its total liabilities plus the amount that would be needed, if it were to be dissolved at the time of distribution, to satisfy claims upon dissolution of shareholders who have preferential rights superior to the rights of the holders of its common stock.

The ability of First Alachua to pay distributions is affected by the ability of its bank subsidiary to pay dividends. The ability of First Alachua's bank subsidiary, as well as of First Alachua, to pay dividends in the future is influenced by bank regulatory requirements and capital guidelines.

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

### **Stock Purchase Program**

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

### **Comparative Dividends**

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

CCBG is a legal entity separate and distinct from its subsidiary and its revenues depend in significant part on the payment of dividends from its subsidiary institutions. CCBG's subsidiary depository institution is subject to certain legal restrictions on the amount of dividends it is permitted to pay. See "BUSINESS OF CCBG - Dividends" on page 77, "CCBG MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION FOR THE YEAR ENDED DECEMBER 31, 2003" on page 97 and Note 15 in the Notes to Consolidated Financial Statements in CCBG's for the year ended December 31, 2003 on page 254. These restrictions may limit CCBG's ability to

pay dividends to its shareowners. As of \_\_\_\_\_, 2005, CCBG does not believe these restrictions will impair CCBG's ability to declare and pay its routine and customary dividends.

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

	<b>CCBG Quarterly Cash Dividends Declared Per Share</b>	<b>First Alachua Semi-Annual Dividends Declared Per Share</b>
<b>YEAR ENDING DECEMBER 31, 2004</b>		
Fourth Quarter	\$ 0.190	\$ 1.75
Third Quarter	0.180	
Second Quarter	0.180	1.75
First Quarter	0.180	
Total	\$ 0.730	\$ 3.50
<b>YEAR ENDED DECEMBER 31, 2003</b>		
Fourth Quarter	\$ 0.180	\$ 1.50
Third Quarter	0.170	
Second Quarter	0.170	1.50
First Quarter	0.136	
Total	\$ 0.656	\$ 3.00
<b>YEAR ENDED DECEMBER 31, 2002</b>		
Fourth Quarter	\$ 0.136	
Third Quarter	0.122	
Second Quarter	0.122	
First Quarter	0.122	
Total	\$ 0.502	
<b>YEAR ENDED DECEMBER 31, 2001:</b>		
Fourth Quarter	\$ 0.122	
Third Quarter	0.118	
Second Quarter	0.118	
First Quarter	0.118	
Total	\$ 0.476	
<b>YEAR ENDED DECEMBER 31, 2000:</b>		
Fourth Quarter	\$ 0.118	
Third Quarter	0.106	
Second Quarter	0.106	
First Quarter	0.106	
Total	\$ 0.436	

First Alachua is restricted under the Agreement and Plan of Merger from paying dividends or making any distributions in respect of First Alachua's common stock,



except as consistent with past practice and that would not cause First Alachua's net worth to fall below \$25.375 million.

### SECTION III

#### BUSINESS OF FIRST ALACHUA

##### General

First Alachua Banking Corporation is a financial services company and the parent company of First National Bank of Alachua, which was established in 1908. First National Bank of Alachua is headquartered in Alachua, Florida and has assets totaling \$229 million in seven banking offices and a mortgage office in north central Florida and a banking office in St. Johns County, Florida. The Bank offers its clients a variety of services including deposit services, loans, ATMs, credit card merchant services, investment services, mortgage lending and business accounts. First National Bank of Alachua's website is [www.fnba.net](http://www.fnba.net).

##### Management Stock Ownership

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

<b>Name of Director or Executive Officer</b>	<b>Position with First Alachua</b>	<b>Number of Shares</b>	<b>Percentage</b>
Jerry M. Smith (1)	Chairman, President and Chief Executive Officer	6,142	60.3%
A. Gerald Cayson (2)	Director	393	3.9%
Robert A. Hitchcock	Director	260	2.6%
Marjorie A. Drummond (3)	Secretary	130	1.3%
Frank Bevis (4)	Assistant Secretary	53	*
All Directors and Executive Officers as a Group (5 persons)		6,878	67.5%

\* less than one percent.

- (1) Includes 202 shares held in a 401(k) plan, 200 shares held in trust for his daughters, 4,757 shares held jointly with his wife, Laura Smith, and 710 shares held directly or indirectly by Laura Smith.
- (2) Includes 175 shares held by his wife, Betty E. Cayson.
- (3) Includes 100 shares held in trust for her and 10 shares held jointly with her husband, Graham L. Drummond.
- (4) Includes 43 shares held in a 401(k) plan and 10 shares held jointly with his wife, Shirley G. Bevis.

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

### Voting Securities and Principal Shareholders of First Alachua

The following lists each person that directly or indirectly owned, controlled, or held with power to vote 5% or more of the 10,186 outstanding shares of First Alachua common stock as of the record date who is not a director or executive officer of First Alachua. Unless otherwise indicated, each person has sole voting and investment powers over the indicated shares. Information relating to beneficial ownership of the First Alachua common stock is based upon “beneficial ownership” concepts set forth in rules under the Exchange Act (discussed above).

Name and Address	Number of Shares Beneficially Owned at Record Date	Percent of Class (%)
Ben and Faye Eubanks (1) P.O. Box 218 Blounstown, FL 32424	2,175	21.4%
Laura Smith (2) 15000 NW 140 <sup>th</sup> Street Alachua, FL 32615	6,142	60.3%

- (1) Includes 1,955 shares held jointly by Ben and Faye Eubanks and 220 shares held separately by Ben Eubanks.
- (2) Includes 10 shares held in a 401(k) plan, 4,757 shares held jointly with her husband, Jerry M. Smith, and 675 shares held directly or indirectly by Jerry M. Smith.

## SECTION IV

### BUSINESS OF CCBG

#### General

CCBG is a financial holding company registered under the Gramm-Leach-Bliley Act of 1999, and is subject to the Bank Holding Company Act of 1956, as amended. As of September 30, 2004, CCBG had consolidated total assets of approximately \$1.96 billion and shareowners' equity of approximately \$219 million. Its principal asset is the capital stock of Capital City Bank. Capital City Bank accounted for approximately 100% of the consolidated assets at September 30, 2004 and approximately 100% of consolidated net income of CCBG for the year ended December 31, 2003. In addition to its banking subsidiary, CCBG has one other direct subsidiary, CCBG Capital Trust I, and seven other indirect subsidiaries, all of which are wholly-owned subsidiaries of Capital City Bank:

- Capital City Trust Company
- Capital City Mortgage Company (inactive)
  - Capital City Securities, Inc.
  - Capital City Services Company
- First Insurance Agency of Grady County, Inc.
  - Southern Oaks, Inc.
- FNB Financial Services, Inc.

On March 19, 2004, Capital City Bank completed its merger with Quincy State Bank, a former affiliate of Synovus Financial Corp. Results of Quincy's operations have been included in CCBG's consolidated financial statements since March 20, 2004. Quincy had \$116.6 million in assets with one office in Quincy, Florida and one office in Havana, Florida. The transaction was accounted for as a purchase and resulted in approximately \$14.9 million of intangible assets, including approximately \$12.5 million in goodwill and a core deposit intangible of \$2.4 million. The core deposit intangible is being amortized over a seven-year period.

On October 15, 2004, CCBG completed its merger with Farmers and Merchants Bank. Results of Farmers and Merchants Bank's operations have been included in CCBG's consolidated financial statements since October 16, 2004. Farmers and Merchants Bank had \$411 million in assets with three full-service offices in Laurens County, Georgia. The transaction was accounted for as a purchase and resulted in approximately \$41.1 million of intangible assets, including approximately \$34.7 million in goodwill, a core deposit intangible of \$5.9 million and a non-compete agreement. The core deposit intangible is being amortized over a seven-year period and the non-compete agreement is being amortized over a two-year period.

#### Banking Services

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

- Business Banking - Capital City Bank provides banking services to corporations and other business clients. Loans are made for a wide variety of general business purposes, including financing for commercial business properties, equipment, inventories and accounts receivable, as well as commercial leasing,

letters of credit, treasury management services, and merchant credit card transaction processing.

- Commercial Real Estate Lending - Capital City Bank provides a wide range of products to meet the financing needs of commercial developers and investors, residential builders and developers, and community development.
- Residential Real Estate Lending - Capital City Bank provides products to help meet the home financing needs of consumers, including conventional permanent and construction/permanent (fixed or adjustable rate) financing arrangements, and FHA/VA loan products.

Capital City Bank offers these products through its existing network of offices. Geographical expansion of the delivery of this product line has occurred over the past three years through the opening of five mortgage lending offices in Florida - in Gainesville (Alachua County), Lakeland (Polk County), Ocala (Marion County), Panacea (Wakulla County) and Steinhatchee (Taylor County), and one in Thomasville, Georgia (Thomas County).

- Retail Credit - Capital City Bank provides a full range of loan products to meet the needs of consumers, including personal loans, automobile loans, boat/RV loans, home equity loans, and credit card programs.
- Institutional Banking - Capital City Bank provides banking services to meet the needs of state and local governments, public schools and colleges, charities, membership and not-for-profit associations, including customized checking and savings accounts, cash management systems, tax- exempt loans, lines of credit, and term loans.
- Retail Banking - Capital City Bank provides a full range of consumer banking services, including checking accounts, savings programs, automated teller machines, overdraft facilities, debit/credit cards, night deposit services, safe deposit facilities, and PC/Internet banking. Customers can use the "Star-Line" system to gain 24-hour access to their deposit and loan account information, and transfer funds between linked accounts. The Bank is a member of the "Star" ATM Network that permits banking customers to access cash at automatic teller machines ("ATMs") or point of sale merchants at locations throughout the United States.

### **Data Processing Services**

Capital City Services Company provides data processing services to financial institutions (including Capital City Bank), government agencies and commercial customers located throughout North Florida and South Georgia. As of September 30, 2004, the Services Company was providing computer services to six correspondent banks, which have relationships with Capital City Bank.

### **Trust Services and Asset Management**

Capital City Trust Company is the investment management arm of Capital City Bank. The Trust Company provides asset management for individuals through agency, personal trust, IRAs and personal investment management accounts. Administration of pension, profit sharing and 401(k) plans is a significant product line. Associations, endowments and other non-profit entities hire the Trust Company to manage their investment portfolios. Individuals requiring the services of a trustee, personal

representative or a guardian are served by a staff of well trained professionals. The market value of trust assets under discretionary management exceeded \$611.7 million as of September 30, 2004, with total assets under administration exceeding \$681.1 million.

### **Brokerage Services**

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

### **Expansion of Business**

Since 1984, CCBG has completed 14 acquisitions totaling \$1.4 billion in deposits within existing and new markets. In addition, in 2003, CCBG opened four new offices - two in Tallahassee and one each in Springhill and Starke (replacement office) - to improve service and product delivery within these Florida markets.

CCBG plans to continue its expansion, emphasizing a combination of growth in existing markets and acquisitions. Acquisitions will be focused on a three state area including Florida, Georgia and Alabama with a particular focus on acquiring banks and offices.

### **Competition**

The banking business is rapidly changing and CCBG and its subsidiary operate in a highly competitive environment, especially with respect to services and pricing. The on-going consolidation of the banking industry has altered and continues to significantly alter the competitive environment within the Florida, Georgia, and Alabama markets. Management believes this consolidation further enhances CCBG's competitive position and opportunities in many of its markets. CCBG's primary market area is 17 counties in Florida, four counties in Georgia and one county in Alabama. In these markets, Capital City Bank competes against a wide range of banking and nonbanking institutions including savings and loan associations, credit unions, money market funds, mutual fund advisory companies, mortgage banking companies, investment banking companies, finance companies and other types of financial institutions.

All of Florida's major banking concerns have a presence in Leon County. Capital City Bank's Leon County deposits totaled \$602.6 million, or 40.9%, of CCBG's consolidated deposits at December 31, 2003.

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

	Market Share as of September 30,		
	2003	2002	2001
<b>Florida:<sup>(1)(2)</sup></b>			
Bradford County	35.1%	38.4%	41.4%
Citrus County	3.5%	3.3%	3.7%
Clay County	2.7%	3.2%	4.0%
Dixie County	15.5%	17.5%	18.7%
Gadsden County	31.1%	29.4%	30.7%
Gilchrist County	41.8%	38.5%	39.2%
Gulf County	28.5%	23.5%	23.1%
Hernando County	1.8%	1.0%	1.5%
Jefferson County	27.0%	27.1%	28.6%
Leon County	17.9%	18.4%	23.2%
Levy County	33.3%	34.0%	37.3%
Madison County	18.1%	19.0%	23.7%
Pasco County	.4%	.4%	.8%
Putnam County	12.8%	12.5%	15.5%
Suwannee County	8.6%	9.1%	10.4%
Taylor County	27.7%	29.0%	33.4%
Washington County	25.6%	20.4%	22.5%
<b>Georgia:<sup>(3)</sup></b>			
Bibb County	3.1%	3.1%	3.6%
Burke County	11.0%	12.4%	11.4%
Grady County	24.5%	31.5%	43.3%
Troup County	10.0%	10.9%	11.2%
<b>Alabama:<sup>(3)</sup></b>			
Chambers County	4.1%	3.3%	3.4%

(1) Obtained from the September 30 Office Level Report published by the Florida Bankers Association.

(2) Does not include Alachua, Marion, Polk and Wakulla counties where Capital City Bank maintains residential mortgage lending offices only.

(3) Obtained from the June 30 FDIC/OTS Summary of Deposits Report.

The following table sets forth the number of commercial banks and offices, including CCBG and its competitors, within each of the respective counties.

County	Number of Commercial Banks	Number of Commercial Bank Offices
Florida: <sup>(1)</sup>		
Bradford	3	3
Citrus	10	40
Clay	11	26
Dixie	3	4
Gadsden	4	7
Gilchrist	3	5
Gulf	4	6
Hernando	12	33
Jefferson	2	2
Leon	13	66
Levy	3	11
Madison	5	5
Pasco	16	82
Putnam	5	11
Suwannee	4	4
Taylor	3	4
Washington	3	3
Georgia: <sup>(2)</sup>		
Bibb	10	53
Burke	5	10
Grady	5	8
Troup	9	22
Alabama: <sup>(2)</sup>		
Chambers	5	10

(1) Obtained from the September 30 Office Level Report published by the Florida Bankers Association.

(2) Obtained from the June 30 FDIC/OTS Summary of Deposits Report.

## Regulatory Considerations

CCBG and Capital City Bank must comply with state and federal banking laws and regulations that control virtually all aspects of operations. These laws and regulations generally aim to protect depositors, not shareholders. Any changes in applicable laws or regulations may materially affect the business and prospects of CCBG. Such legislative or regulatory changes may also affect the operations of CCBG and Capital City Bank. The following description summarizes some of the laws and regulations to which CCBG and Capital City Bank are subject. References to applicable statutes and regulations are brief summaries, do not purport to be complete, and are qualified in their entirety by reference to such statutes and regulations.

### CCBG

CCBG is registered with the Board of Governors of the Federal Reserve System (the "Federal Reserve") as a financial holding company under the Gramm-Leach-Bliley Act and is registered with the Federal Reserve as a bank holding company under the Bank Holding Company Act of 1956.



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

*Financial Holding Companies*

*Permitted Activities.* The Gramm-Leach-Bliley Act, enacted on November 12, 1999, repealed two anti-affiliation provisions of the Glass-Steagall Act: Section 20, which restricted the affiliation of Federal Reserve Member Banks with firms "engaged principally" in specified securities activities and Section 32, which restricted officer, director, or employee interlocks between a member bank and any company or person "primarily engaged" in specified securities activities. In addition, the Gramm-Leach-Bliley Act expressly preempts most state laws restricting state banks from owning or acquiring interests in financial affiliates, such as insurance companies. The general effect of the law was to establish a comprehensive framework to permit affiliations among commercial banks, insurance companies, securities firms, and other financial service providers. A bank holding company may now engage in a full range of activities that are financial in nature by electing to become a "Financial Holding Company." Activities that are financial in nature are broadly defined to include not only banking, insurance, and securities activities, but also merchant banking and additional activities that the Federal Reserve, in consultation with the Secretary of the Treasury, determines to be financial in nature, incidental to such financial activities, or complementary activities that do not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally.

In contrast to financial holding companies, bank holding companies are limited to managing or controlling banks, furnishing services to or performing services for its subsidiaries, and engaging in other activities that the Federal Reserve determines to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Except for the activities relating to financial holding companies permissible under the Gramm-Leach-Bliley Act, these restrictions will apply to CCBG. In determining whether a particular activity is permissible, the Federal Reserve must consider whether the performance of such an activity reasonably can be expected to produce benefits to the public that outweigh possible adverse effects. Possible benefits include greater convenience, increased competition, and gains in efficiency. Possible adverse effects include undue concentration of resources, decreased or unfair competition, conflicts of interest, and unsound banking practices. The Federal Reserve has determined the following activities, among others, to be permissible for bank holding companies: factoring accounts receivable, acquiring or servicing loans, leasing personal property, conducting discount securities brokerage activities, performing certain data processing services, acting as agent or broker and selling credit life insurance and certain other types of insurance in connection with credit transactions, and performing certain insurance underwriting activities. There are no territorial limitations on permissible non-banking activities of financial holding companies. Despite prior approval, the Federal Reserve may order a bank holding company or its subsidiaries to terminate any activity or to terminate ownership or control of any subsidiary when the Federal Reserve has reasonable cause to believe that a serious risk to the financial safety, soundness or stability of any bank subsidiary of that bank holding company may result from such an activity.

*Changes in Control.* Subject to certain exceptions, the Bank Holding Company Act of 1956 and the Change in Bank Control Act, together with regulations thereunder, require Federal Reserve approval (or, depending on the circumstances, no notice of disapproval) prior to any person or company acquiring "control" of a financial holding company, such as CCBG. A conclusive presumption of control exists if an individual or company acquires 25% or more of any class of voting securities of the financial holding company. A rebuttable presumption of control exists if a person acquires 10% or more but less than 25% of any class of voting securities and either CCBG has registered securities under Section 12 of the Securities Exchange Act of 1934, as amended, or no other person will own a greater percentage of that class of voting securities immediately after the transaction.

The Bank Holding Company Act of 1956 requires, among other things, the prior approval of the Federal Reserve in any case where a financial holding company proposes to (i) acquire all or substantially all of the assets of a bank, (ii) acquire direct or indirect ownership or control of more than 5% of the outstanding voting stock of any bank (unless it owns a majority of such bank's voting shares), or (iii) merge or consolidate with any other financial holding company or bank holding company.

Under Florida law, a person or entity proposing to directly or indirectly acquire control of a Florida bank must first obtain permission from the State of Florida. Florida statutes define "control" as either (a) indirectly or directly owning, controlling or having power to vote 25% or more of the voting securities of a bank; (b) controlling the election of a majority of directors of a bank; (c) owning, controlling or having power to vote 10% or more of the voting securities as well as directly or indirectly exercising a controlling influence over management or policies of a bank; or (d) as determined by the Florida Department of Financial Services. These requirements will affect CCBG because Capital City Bank is chartered under Florida law and changes in control of CCBG are indirect changes in control of CCB.

*Tying.* Financial holding companies and their affiliates are prohibited from tying the provision of certain services, such as extending credit, to other services offered by the holding company or its affiliates.

*Capital; Dividends; Source of Strength.* The Federal Reserve imposes certain capital requirements on CCBG under the Bank Holding Company Act of 1956, including a minimum leverage ratio and a minimum ratio of "qualifying" capital to risk-weighted assets. These requirements are described below under "Capital Regulations." Subject to its capital requirements and certain other restrictions, CCBG is able to borrow money to make a capital contribution to Capital City Bank, and such loans may be repaid from dividends paid from Capital City Bank to CCBG.

The ability of Capital City Bank to pay dividends, however, will be subject to regulatory restrictions which are described below under "Dividends." CCBG is also able to raise capital for contributions to Capital City Bank by issuing securities without having to receive regulatory approval, subject to compliance with federal and state securities laws.

In accordance with Federal Reserve policy, CCBG is expected to act as a source of financial strength to Capital City Bank and to commit resources to support Capital City Bank in circumstances in which CCBG might not otherwise do so. In furtherance of this policy, the Federal Reserve may require a financial holding company to terminate any activity or relinquish control of a nonbank subsidiary (other than a nonbank subsidiary of a bank) upon the Federal Reserve's determination that such activity or control constitutes a serious risk to the financial soundness or stability of any

subsidiary depository institution of the financial holding company. Further, federal bank regulatory authorities have additional discretion to require a financial holding company to divest itself of any bank or nonbank subsidiary if the agency determines that divestiture may aid the depository institution's financial condition.

### **Capital City Bank**

Capital City Bank is a banking institution that is chartered by and operated in the State of Florida, and it is subject to supervision and regulation by the Florida Department of Financial Services. The Florida Department of Financial Services supervises and regulates all areas of CCB's operations including, without limitation, the making of loans, the issuance of securities, the conduct of CCB's corporate affairs, the satisfaction of capital adequacy requirements, the payment of dividends, and the establishment or closing of branches. Capital City Bank is also a member bank of the Federal Reserve System, which makes CCB's operations subject to broad federal regulation and oversight by the Federal Reserve. In addition, CCB's deposit accounts are insured by the FDIC to the maximum extent permitted by law, and the FDIC has certain enforcement powers over CCB.

As a state chartered banking institution in the State of Florida, Capital City Bank is empowered by statute, subject to the limitations contained in those statutes, to take savings and time deposits and pay interest on them, to accept demand deposits, to make loans on residential and other real estate, to make consumer and commercial loans, to invest, with certain limitations, in equity securities and in debt obligations of banks and corporations and to provide various other banking services on behalf of CCB's customers. Various consumer laws and regulations also affect the operations of CCB, including state usury laws, laws relating to fiduciaries, consumer credit and equal credit opportunity laws, and fair credit reporting. In addition, the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") prohibits insured state chartered institutions from conducting activities as principal that are not permitted for national banks. A bank, however, may engage in an otherwise prohibited activity if it meets its minimum capital requirements and the FDIC determines that the activity does not present a significant risk to the deposit insurance funds.

### **Reserves**

The Federal Reserve requires all depository institutions to maintain reserves against some transaction accounts (primarily NOW and Super NOW checking accounts). The balances maintained to meet the reserve requirements imposed by the Federal Reserve may be used to satisfy liquidity requirements. An institution may borrow from the Federal Reserve Bank "discount window" as a secondary source of funds, provided that the institution meets the Federal Reserve Bank's credit standards.

### **Dividends**

Capital City Bank is subject to legal limitations on the frequency and amount of dividends that can be paid to CCBG. The Federal Reserve may restrict the ability of Capital City Bank to pay dividends if such payments would constitute an unsafe or unsound banking practice. These regulations and restrictions may limit CCBG's ability to obtain funds from Capital City Bank for its cash needs, including funds for acquisitions and the payment of dividends, interest and operating expenses.

In addition, Florida law also places certain restrictions on the declaration of dividends from state chartered banks to their holding companies. Pursuant to Section 658.37 of the Florida Banking Code, the board of directors of state chartered banks,

after charging off bad debts, depreciation and other worthless assets, if any, and making provisions for reasonably anticipated future losses on loans and other assets, may quarterly, semi-annually or annually declare a dividend of up to the aggregate net profits of that period combined with the bank's retained net profits for the preceding two years and, with the approval of the Florida Department of Financial Services, declare a dividend from retained net profits which accrued prior to the preceding two years. Before declaring such dividends, 20% of the net profits for the preceding period as is covered by the dividend must be transferred to the surplus fund of the bank until this fund becomes equal to the amount of the bank's common stock then issued and outstanding. A state chartered bank may not declare any dividend if (i) its net income from the current year combined with the retained net income for the preceding two years is a loss or (ii) the payment of such dividend would cause the capital account of the bank to fall below the minimum amount required by law, regulation, order or any written agreement with the Florida Department of Financial Services or a federal regulatory agency.

### **Insurance of Accounts and Other Assessments**

The deposit accounts of Capital City Bank are insured by the Bank Insurance Fund of the FDIC generally up to a maximum of \$100,000 per separately insured depositor, and Capital City Bank is subject to FDIC deposit insurance assessments. The federal banking agencies may prohibit any FDIC-insured institution from engaging in any activity they determine by regulation or order poses a serious threat to the insurance fund. Pursuant to FDICIA, the FDIC adopted a risk-based system for determining deposit insurance assessments under which all insured institutions were placed into one of nine categories and assessed insurance premiums, ranging from 0.0% to 0.27% of insured deposits, based upon their level of capital and supervisory evaluation. Because the FDIC sets the assessment rates based upon the level of assets in the insurance fund, premium rates rise and fall as the number and size of bank failures increase and decrease, respectively. Under the system, institutions are assigned to one of three capital categories based solely on the level of an institution's capital, "well capitalized," "adequately capitalized" and "undercapitalized." These three groups are then divided into three subgroups that reflect varying levels of supervisory concern, from those that are considered to be healthy to those that are considered to be of substantial supervisory concern. Bank Insurance Fund and Savings Association Insurance Fund deposits may be assessed at different rates. Furthermore, the Economic Growth and Regulatory Paperwork Reduction Act of 1996 requires Bank Insurance Fund insured banks to participate in the payment of interest due on Financing Corporation bonds used to finance the thrift bailout.

### **Transactions With Affiliates**

The authority of Capital City Bank to engage in transactions with related parties or "affiliates" or to make loans to insiders is limited by certain provisions of law and regulations. Commercial banks, such as Capital City Bank, are prohibited from making extensions of credit to any affiliate that engages in an activity not permissible under the regulations of the Federal Reserve for a bank holding company. Pursuant to Sections 23A and 23B of the Federal Reserve Act ("FRA"), member banks are subject to restrictions regarding transactions with affiliates ("Covered Transactions").

With respect to any Covered Transaction, the term "affiliate" includes any company that controls or is controlled by a company that controls Capital City Bank, a bank or savings association subsidiary of Capital City Bank, any persons who own, control or vote more than 25% of any class of stock of Capital City Bank or CCBG and any persons who the Board of Directors determines exercises a controlling influence

over the management of Capital City Bank or CCBG. The term "affiliate" also includes any company controlled by controlling shareowners of Capital City Bank or CCBG and any company sponsored and advised on a contractual basis by Capital City Bank or any subsidiary or affiliate of Capital City Bank.

Such transactions between Capital City Bank and their respective affiliates are subject to certain requirements and limitations, including limitations on the amounts of such Covered Transactions that may be undertaken with any one affiliate and with all affiliates in the aggregate. The federal banking agencies may further restrict such transactions with affiliates in the interest of safety and soundness.

Section 23A of the FRA limits Covered Transactions with any one affiliate to 10% of an institution's capital stock and surplus and limits aggregate affiliate transactions to 20% of Capital City Bank's capital stock and surplus.

Sections 23A and 23B of the FRA provide that a loan transaction with an affiliate generally must be collateralized (but may not be collateralized by a low quality asset or securities issued by an affiliate) and that all Covered Transactions, as well as the sale of assets, the payment of money or the provision of services by Capital City Bank to affiliates, must be on terms and conditions that are substantially the same, or at least as favorable to Capital City Bank, as those prevailing for comparable nonaffiliated transactions. A Covered Transaction generally is defined as a loan to an affiliate, the purchase of securities issued by an affiliate, the purchase of assets from an affiliate, the acceptance of securities issued by an affiliate as collateral for a loan, or the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate. In addition, Capital City Bank generally may not purchase securities issued or underwritten by affiliates.

On October 31, 2002, the Federal Reserve issued a new regulation, Regulation W, effective April 1, 2003, that comprehensively implements Sections 23A and 23B of the FRA. Regulation W unifies in one public document the Federal Reserve's interpretations of Sections 23A and 23B, including several new interpretive proposals and addresses new issues arising as a result of the expanded scope of non-banking activities engaged in by banks and bank holding companies in recent years and those authorized for financial holding companies under the Gramm-Leach-Bliley Act.

Loans to executive officers, directors or to any person who directly or indirectly, or acting through or in concert with one or more persons, owns, controls or has the power to vote more than 10% of any class of voting securities of a bank ("Principal Shareholders") and their related interests (i.e., any company controlled by such executive officer, director, or Principal Shareholders), or to any political or campaign committee the funds or services of which will benefit such executive officers, directors, or Principal Shareholders or which is controlled by such executive officers, directors or Principal Shareholders, are subject to Sections 22(g) and 22(h) of the FRA and the regulations promulgated thereunder (Regulation O) and Section 13(k) of the Exchange Act relating to the prohibition on personal loans to executives which exempts financial institutions in compliance with the insider lending restrictions of Section 22(h) of the FRA.

Among other things, these loans must be made on terms substantially the same as those prevailing on transactions made to unaffiliated individuals and certain extensions of credit to such persons must first be approved in advance by a disinterested majority of the entire board of directors. Section 22(h) of the FRA prohibits loans to any such individuals where the aggregate amount exceeds an amount equal to 15% of an institution's unimpaired capital and surplus plus an additional 10% of unimpaired capital and surplus in the case of loans that are fully secured by

readily marketable collateral, or when the aggregate amount on all such extensions of credit outstanding to all such persons would exceed the bank's unimpaired capital and unimpaired surplus. Section 22(g) identifies limited circumstances in which Capital City Bank is permitted to extend credit to executive officers.

### **Community Reinvestment Act**

The Community Reinvestment Act of 1977 ("CRA") and the regulations issued thereunder are intended to encourage banks to help meet the credit needs of their service area, including low and moderate income neighborhoods, consistent with the safe and sound operations of the banks. These regulations also provide for regulatory assessment of a bank's record in meeting the needs of its service area when considering applications to establish branches, merger applications and applications to acquire the assets and assume the liabilities of another bank. Federal banking agencies are required to make public a rating of a bank's performance under the CRA. In the case of a financial holding company, the CRA performance record of the banks involved in the transaction are reviewed in connection with the filing of an application to acquire ownership or control of shares or assets of a bank or to merge with any other financial holding company. An unsatisfactory record can substantially delay or block the transaction.

### **Capital Regulations**

The Federal Reserve has adopted risk-based, capital adequacy guidelines for financial holding companies and their subsidiary state-chartered banks that are members of the Federal Reserve System. The risk-based capital guidelines are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and financial holding companies, to account for off-balance sheet exposure, to minimize disincentives for holding liquid assets and to achieve greater consistency in evaluating the capital adequacy of major banks throughout the world. Under these guidelines assets and off-balance sheet items are assigned to broad risk categories each with designated weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance sheet items.

The current guidelines require all financial holding companies and federally regulated banks to maintain a minimum risk-based total capital ratio equal to 8%, of which at least 4% must be Tier I Capital. Tier I Capital, which includes common stockholders' equity, noncumulative perpetual preferred stock, and a limited amount of cumulative perpetual preferred stock, less certain goodwill items and other intangible assets, is required to equal at least 4% of risk-weighted assets. The remainder ("Tier II Capital") may consist of (i) an allowance for loan losses of up to 1.25% of risk-weighted assets, (ii) excess of qualifying perpetual preferred stock, (iii) hybrid capital instruments, (iv) perpetual debt, (v) mandatory convertible securities, and (vi) subordinated debt and intermediate-term preferred stock up to 50% of Tier I Capital. Total capital is the sum of Tier I and Tier II Capital less reciprocal holdings of other banking organizations' capital instruments, investments in unconsolidated subsidiaries and any other deductions as determined by the appropriate regulator (determined on a case by case basis or as a matter of policy after formal rule making).

In computing total risk-weighted assets, bank and financial holding company assets are given risk-weights of 0%, 20%, 50% and 100%. In addition, certain off-balance sheet items are given similar credit conversion factors to convert them to asset equivalent amounts to which an appropriate risk-weight will apply. Most loans will be assigned to the 100% risk category, except for performing first mortgage

loans fully secured by residential property, which carry a 50% risk rating. Most investment securities (including, primarily, general obligation claims on states or other political subdivisions of the United States) will be assigned to the 20% category, except for municipal or state revenue bonds, which have a 50% risk-weight, and direct obligations of the U.S. Treasury or obligations backed by the full faith and credit of the U.S. Government, which have a 0% risk-weight. In covering off-balance sheet items, direct credit substitutes, including general guarantees and standby letters of credit backing financial obligations, are given a 100% conversion factor. Transaction-related contingencies such as bid bonds, standby letters of credit backing non-financial obligations, and undrawn commitments (including commercial credit lines with an initial maturity of more than one year) have a 50% conversion factor. Short-term commercial letters of credit are converted at 20% and certain short-term unconditionally cancelable commitments have a 0% factor.

The federal bank regulatory authorities have also adopted regulations which supplement the risk-based guideline. These regulations generally require banks and financial holding companies to maintain a minimum level of Tier I Capital to total assets less goodwill of 4% (the "leverage ratio"). The Federal Reserve permits a bank to maintain a minimum 3% leverage ratio if the bank achieves a 1 rating under the CAMELS rating system in its most recent examination, as long as the bank is not experiencing or anticipating significant growth. The CAMELS rating is a non-public system used by bank regulators to rate the strength and weaknesses of financial institutions. The CAMELS rating is comprised of six categories: capital, asset quality, management, earnings, liquidity, and interest rate sensitivity.

Banking organizations experiencing or anticipating significant growth, as well as those organizations which do not satisfy the criteria described above, will be required to maintain a minimum leverage ratio ranging generally from 4% to 5%. The bank regulators also continue to consider a "tangible Tier I leverage ratio" in evaluating proposals for expansion or new activities. The tangible Tier I leverage ratio is the ratio of a banking organization's Tier I Capital, less deductions for intangibles otherwise includable in Tier I Capital, to total tangible assets.

Federal law and regulations establish a capital-based regulatory scheme designed to promote early intervention for troubled banks and require the FDIC to choose the least expensive resolution of bank failures. The capital-based regulatory framework contains five categories of compliance with regulatory capital requirements, including "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," and "critically undercapitalized." To qualify as a "well capitalized" institution, a bank must have a leverage ratio of no less than 5%, a Tier I risk-based ratio of no less than 6%, and a total risk-based capital ratio of no less than 10%, and the bank must not be under any order or directive from the appropriate regulatory agency to meet and maintain a specific capital level.

Under the regulations, the applicable agency can treat an institution as if it were in the next lower category if the agency determines (after notice and an opportunity for hearing) that the institution is in an unsafe or unsound condition or is engaging in an unsafe or unsound practice. The degree of regulatory scrutiny of a financial institution will increase, and the permissible activities of the institution will decrease, as it moves downward through the capital categories. Institutions that fall into one of the three undercapitalized categories may be required to (i) submit a capital restoration plan; (ii) raise additional capital; (iii) restrict their growth, deposit interest rates, and other activities; (iv) improve their management; (v) eliminate management fees; or (vi) divest themselves of all or a part of their operations. Financial holding companies controlling financial

institutions can be called upon to boost the institutions' capital and to partially guarantee the institutions' performance under their capital restoration plans.

It should be noted that the minimum ratios referred to above are merely guidelines and the bank regulators possess the discretionary authority to require higher ratios.

CCBG and Capital City Bank currently exceed the requirements contained in the applicable regulations, policies and directives pertaining to capital adequacy, and management of CCBG and Capital City Bank is unaware of any material violation or alleged violation of these regulations, policies or directives.

### **Interstate Banking and Branching**

The Bank Holding Company Act of 1956 was amended in September 1994 by the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Interstate Banking Act"). The Interstate Banking Act provides that adequately capitalized and managed financial holding companies are permitted to acquire banks in any state.

State laws prohibiting interstate banking or discriminating against out-of-state banks are preempted. States were not permitted to enact laws opting out of this provision; however, states were allowed to adopt a minimum age restriction requiring that target banks located within the state be in existence for a period of years, up to a maximum of five years, before such bank may be subject to the Interstate Banking Act. The Interstate Banking Act establishes deposit caps which prohibit acquisitions that result in the acquiring company controlling 30% or more of the deposits of insured banks and thrift institutions held in the state in which the target maintains a branch or 10% or more of the deposits nationwide. States have the authority to waive the 30% deposit cap. State-level deposit caps are not preempted as long as they do not discriminate against out-of-state companies, and the federal deposit caps apply only to initial entry acquisitions.

The Interstate Banking Act also provides that adequately capitalized and managed banks are able to engage in interstate branching by merging with banks in different states. States were permitted to enact legislation authorizing interstate mergers earlier than June 1, 1997, or, unlike the interstate banking provision discussed above, states were permitted to opt out of the application of the interstate merger provision by enacting specific legislation before June 1, 1997.

Florida responded to the enactment of the Interstate Banking Act by enacting the Florida Interstate Branching Act (the "Florida Branching Act"). The purpose of the Florida Branching Act was to permit interstate branching through merger transactions under the Interstate Banking Act. Under the Florida Branching Act, with the prior approval of the Florida Department of Financial Services, a Florida bank may establish, maintain and operate one or more branches in a state other than the State of Florida pursuant to a merger transaction in which the Florida bank is the resulting bank. In addition, the Florida Branching Act provides that one or more Florida banks may enter into a merger transaction with one or more out-of-state banks, and an out-of-state bank resulting from such transaction may maintain and operate the branches of the Florida bank that participated in such merger. An out-of-state bank, however, is not permitted to acquire a Florida bank in a merger transaction unless the Florida bank has been in existence and continuously operated for more than three years.



## **USA Patriot Act of 2001**

On October 26, 2001, the USA PATRIOT Act of 2001 (the "Patriot Act") was enacted in response to the terrorist attacks occurring on September 11, 2001. The Patriot Act is intended to strengthen the U.S. law enforcement and intelligence communities' ability to work together to combat terrorism. Title III of the Patriot Act, the International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001, amended the Bank Secrecy Act and adopted additional provisions that increased the obligations of financial institutions, including Capital City Bank, to identify their customers, watch for and report upon suspicious transactions, respond to requests for information by federal banking and law enforcement agencies, and share information with other financial institutions. In addition, the collected customer identification information must be verified within a reasonable time after a new account is opened through documentary or non-documentary methods. All new customers must be screened against any Section 326 government lists of known or suspected terrorists within a reasonable time after opening an account.

## **Consumer Laws and Regulations**

The Bank is also subject to certain consumer laws and regulations that are designed to protect consumers in transactions with banks. While the list set forth below is not exhaustive, these laws and regulations include the Truth in Lending Act, the Truth in Savings Act, the Electronic Funds Transfer Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, and the Fair Housing Act, among others. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits or making loans to such customers. The Bank must comply with the applicable provisions of these consumer protection laws and regulations as part of its ongoing customer relations.

## **Future Legislative Developments**

Various legislation, including proposals to modify the bank regulatory system, expand the powers of banking institutions and financial holding companies and limit the investments that a depository institution may make with insured funds, is from time to time introduced in Congress. Such legislation may change banking statutes and the environment in which CCBG and its banking subsidiary operate in substantial and unpredictable ways. We cannot determine the ultimate effect that potential legislation, if enacted, or implementing regulations with respect thereto, would have upon our financial condition or results of operations or that of our banking subsidiary.

## **Expanding Enforcement Authority**

One of the major additional burdens imposed on the banking industry by the FDICIA is the increased ability of banking regulators to monitor the activities of banks and their holding companies. In addition, the Federal Reserve and FDIC are possessed with extensive authority to police unsafe or unsound practices and violations of applicable laws and regulations by depository institutions and their holding companies. For example, the FDIC may terminate the deposit insurance of any institution which it determines has engaged in an unsafe or unsound practice. The agencies can also assess civil money penalties, issue cease and desist or removal orders, seek injunctions, and publicly disclose such actions. FDICIA, the Financial Institutions Reform, Recovery and Enforcement Act of 1989 and other laws have expanded the agencies' authority in recent years, and the agencies have not yet fully tested the limits of their powers.

### **Effect of Governmental Monetary Policies**

The commercial banking business in which Capital City Bank engages is affected not only by general economic conditions, but also by the monetary policies of the Federal Reserve. Changes in the discount rate on member bank borrowing, availability of borrowing at the "discount window," open market operations, the imposition of changes in reserve requirements against member banks' deposits and assets of foreign branches and the imposition of and changes in reserve requirements against certain borrowings by banks and their affiliates are some of the instruments of monetary policy available to the Federal Reserve. These monetary policies are used in varying combinations to influence overall growth and distributions of bank loans, investments and deposits, and this use may affect interest rates charged on loans or paid on deposits. The monetary policies of the Federal Reserve have had a significant effect on the operating results of commercial banks and are expected to do so in the future. The monetary policies of the Federal Reserve are influenced by various factors, including inflation, unemployment, short-term and long-term changes in the international trade balance and in the fiscal policies of the U.S. Government. Future monetary policies and the effect of such policies on the future business and earnings of Capital City Bank cannot be predicted.

### **Website Access to Company's Reports**

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

### **PROPERTIES**

CCBG is headquartered in Tallahassee, Florida. CCBG's executive office is in the Capital City Bank building located on the corner of Tennessee and Monroe Streets in downtown Tallahassee. The building is owned by Capital City Bank but is located, in part, on land leased under a long-term agreement.

Capital City Bank's Parkway Office is located on land leased from the Smith Interests General Partnership L.L.P. in which several directors and officers have an interest. The annual lease provides for payments of approximately \$85,000, to be adjusted for inflation in future years.

As of February 27, 2004, Capital City Bank had 57 banking locations. Of the 57 locations, Capital City Bank leases the land, buildings, or both at 10 locations and owns the land and buildings at the remaining 47.

### **LEGAL PROCEEDINGS**

CCBG 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 CCBG.

**SECTION V**

**MANAGEMENT FOLLOWING THE MERGER**

**Directors and Executive Officers After the Merger**

The directors of CCBG after the merger will be:

**CLASS I DIRECTORS**

Cader B. Cox, III  
McGrath Keen, Jr.  
Ruth A. Knox  
William G. Smith, Jr.

**CLASS II DIRECTORS**

Thomas A. Barron  
J. Everitt Drew  
Lina S. Knox  
John R. Lewis

**CLASS III DIRECTORS**

DuBose Ausley  
Frederick Carroll, III  
John K. Humphress  
Henry Lewis III

The executive officers of CCBG after the merger will be:

William G. Smith, Jr.	Chairman, President and Chief Executive Officer
J. Kimbrough Davis	Executive Vice President and Chief Financial Officer
Thomas A. Barron	President of Capital City Bank

The following section sets forth certain information regarding each of the persons who, after the consummation of the merger, will be a director or executive officer of CCBG. Except as otherwise indicated, each of the named persons has been engaged in his or her present principal occupation for more than five years.

**CLASS I DIRECTORS:**

(Term Expiring in 2007)

**CADER B. COX, III**

Mr. Cox, 55, has been a director since 1994. Since 1976, he has served as President of Riverview Plantation, Inc., a resort and agricultural company.

**L. MCGRATH KEEN, JR.**

Mr. Keen, 51, has been a director since October 2004. He served as President (since 2000) and director (1980-2004) of Farmers and Merchants Bank, prior to its merger with CCBG. He was a principal shareowner of Farmers and Merchants Bank at the time of the merger.

**RUTH A. KNOX**

Ms. Knox, 51, has been a director since 2003. Since 2003, she has served as President of Wesleyan College, Macon, Georgia. Prior to this appointment, she practiced law in Atlanta and Macon, Georgia for 25 years.

**WILLIAM G. SMITH, JR.**

Mr. Smith, 51, is the Chairman of the Board of CCBG and has been a director since 1982. In 1995, he was appointed President and Chief Executive Officer of CCBG and Chairman of Capital City Bank. In 2003, Mr. Smith was elected Chairman of the Board of Directors. Mr. Smith is the first cousin of Lina S. Knox.

CLASS II DIRECTORS:

(Term Expiring in 2005)

THOMAS A. BARRON

Mr. Barron, 52, has been a director since 1982. He is Treasurer of CCBG and was appointed President of Capital City Bank in 1995.

J. EVERITT DREW

Mr. Drew, 49, has been a director since 2003. Since 2000, he has been the President of St. Joe Land Company where his duties include overseeing the sale and development efforts of several hundred thousand acres of St. Joe property in northwest Florida and southwest Georgia.

LINA S. KNOX

Ms. Knox, 60, has been a director since 1998. She is a dedicated community volunteer. Ms. Knox is the first cousin of William G. Smith, Jr.

JOHN R. LEWIS

Mr. Lewis, 62, has been a director since 1999. He is President and Chief Executive Officer of Super-Lube, Inc., Tallahassee, Florida, which he founded in 1979.

CLASS III DIRECTORS:

(Term Expiring in 2006)

DUBOSE AUSLEY

Mr. Ausley, 67, has been a director since 1982. He is employed by the law firm of Ausley & McMullen and was Chairman of this firm and its predecessor for more than 20 years. Since 1992, he has served as a director of TECO Energy, Inc. Since 1993, Mr. Ausley has served as a director of Sprint Corporation. In addition, Mr. Ausley has been nominated, and has consented to serve, as a director of Huron Consulting Group, Inc.

FREDERICK CARROLL, III

Mr. Carroll, 54, has been a director since 2003. Since 1990, he has been the Managing Partner of Carroll and Company, an accounting firm specializing in tax and audit based in Tallahassee, Florida. The Board of Directors has determined that Mr. Carroll, Chairman of the Audit Committee, is both "independent" under NASD rules and an "audit committee financial expert" as defined by the SEC.

JOHN K. HUMPHRESS

Mr. Humphress, 56, has been a director since 1994. Since 1973, he has been a shareowner of Krause Humphress Pace & Wadsworth, Chartered CPA's.

HENRY LEWIS III

Dr. Lewis, 55, has been a director since 2003. He is a Professor and Director of the College of Pharmacy and Pharmaceutical Studies at Florida A&M University.

NON-DIRECTOR EXECUTIVE OFFICER:

J. KIMBROUGH DAVIS

Mr. Davis, 51, was appointed Executive Vice President and Chief Financial Officer of CCBG in 1997. He served as Senior Vice President and Chief Financial Officer from 1991 to 1997. In 1998, he was appointed Executive Vice President and Chief Financial Officer of Capital City Bank.



**Directors' Fees**

Only non-employee directors are compensated for board service. The pay components for 2003 were:

Annual Retainers:

- \$10,000 for each non-employee member of the Board of Directors
- \$1,000 additional annual retainer if serving as chairman of a board committee

Meeting Fees:

- \$750 per month for all board and committee meetings

Directors are also permitted to purchase shares of common stock at a 10% discount from fair market value under the 1996 Director Stock Purchase Plan. This Plan has 187,500 shares reserved for issuance. Since the inception of this Plan, 37,382 shares have been issued to directors. During 2003, 4,317 shares were purchased. Purchases under this Plan may not exceed the annual retainer and meeting fees received.

**Share Ownership Table**

Beneficial owners of more than 5% of the common stock are required to file reports with the Securities and Exchange Commission. The following table provides information, as of February 27, 2004, on the common stock beneficially owned by beneficial owners who have filed the required reports, beneficial owners who were known to CCBG to beneficially own more than 5% of the common stock, directors, executive officers named in the Summary Compensation Table, and all executive officers and directors as a group.

	Shares Beneficially Owned (1)	Percentage of Outstanding Shares Owned
Robert H. Smith (2) Post Office Box 11248 Tallahassee, Florida 32302	2,502,943 (3)	18.86%
William G. Smith, Jr. (2) Post Office Box 11248 Tallahassee, Florida 32302	2,659,187 (4)	20.03%
DuBose Ausley	607,396 (5)	4.58%
Thomas A. Barron	259,120 (6)	1.95%
Frederick Carroll, III	43	*
Cader B. Cox, III	314,667 (7)	2.37%
J. Kimbrough Davis	48,482 (8)	*
J. Everitt Drew	—	—
John K. Humphress	425,510 (9)	3.21%

	Shares Beneficially Owned (1)	Percentage of Outstanding Shares Owned
Lina S. Knox (2)	86,531 (10)	*
Ruth A. Knox	510	*
Henry Lewis, III	43	*
John R. Lewis	10,574	*
All Directors and Executive Officers as a Group (12 Persons)	4,412,063	33.24%

\* Represents less than one percent.

- (1) For purposes of this table, a person is deemed to be the beneficial owner of any shares of common stock if he or she has or shares voting or investment power with respect to the shares or has a right to acquire beneficial ownership at any time within 60 days from the record date. "Voting power" is the power to vote or direct the voting of shares and "investment power" is the power to dispose or direct the disposition of shares.
- (2) Robert H. Smith and William G. Smith, Jr. are brothers, and Lina S. Knox is their first cousin.
- (3) Includes (i) 80,062 shares in accounts for his children for which Mr. Smith is custodian; (ii) 452,653 shares held in certain trusts under which Mr. Smith shares voting and investment power as a co-trustee; and (iii) 460,523 shares held by a partnership under which Mr. Smith shares voting and investment power. Of the shares beneficially owned by Robert H. Smith, 913,176 shares are also beneficially owned by William G. Smith, Jr.
- (4) Includes (i) 31,280 shares in an account for his son for which Mr. Smith is custodian; (ii) 452,653 shares held in certain trusts under which Mr. Smith shares voting and investment power as a co-trustee; (iii) 460,523 shares held by a partnership under which Mr. Smith shares voting and investment power; and (iv) 27,454 shares owned by Mr. Smith's wife, of which he disclaims beneficial ownership. Of the shares beneficially owned by William G. Smith, Jr., 913,176 shares are also beneficially owned by Robert H. Smith.
- (5) Includes (i) 228,345 shares held in trust under which Mr. Ausley serves as trustee and has sole voting and investment power; and (ii) 10,000 shares owned by Mr. Ausley's wife, of which he disclaims beneficial ownership.
- (6) Includes (i) 50,427 shares held in trusts under which Mr. Barron serves as trustee; (ii) 573 shares for which Mr. Barron has power of attorney and may be deemed to be a beneficial owner; and (iii) 23,125 shares owned by Mr. Barron's wife, of which he disclaims beneficial ownership.
- (7) Includes 300,812 shares held in a trust under which Mr. Cox shares voting and investment power as a co-trustee, of which he disclaims beneficial ownership.

(8) Includes (i) 1,180 shares in accounts for his children for which Mr. Davis is custodian; (ii) 15,633 shares owned jointly by Mr. Davis and his wife; and (iii) 4,082 shares owned by Mr. Davis's wife, directly and through an Individual Retirement Account, all of which he disclaims beneficial ownership.

(9) Includes (i) 72,712 shares held by a limited partnership of which Mr. Humphress is a general partner and shares voting and investment power; (ii) 3,550 shares owned jointly by Mr. Humphress and his wife; (iii) 2,626 shares in accounts for his children for which Mr. Humphress is custodian; (iv) 300,812 shares held in a trust under which Mr. Humphress shares voting and investment power as a co-trustee, of which he disclaims beneficial ownership; and (v) 1,378 shares owned by Mr. Humphress's wife, directly and through an Individual Retirement Account, all of which he disclaims beneficial ownership.

(10) Includes 3,000 shares owned jointly by Ms. Knox and her husband.

## Compensation Committee Report

### What is the Executive Compensation Philosophy?

We are responsible for recommending to the Board of Directors the compensation of William G. Smith, Jr., the Company's Chairman, President, and Chief Executive Officer. Our intent is to provide a competitive compensation program linked directly to the Company's strategic business objectives and its short-term and long-term operating performance. With the objectives of strengthening company performance and maximizing shareowner value over time, this policy serves to align the interests of the President and Chief Executive Officer with those of the shareowners.

### What Comprises Total Executive Compensation?

- Base pay
- Short-term incentives
- Long-term incentives

### Total Executive Compensation

We use a peer group of banks as a guide for determining the level of compensation. The banks in the peer group were chosen based on the similarities with the Company relative to size and markets served.

We also periodically engage an independent executive compensation consultant to assist in the assessment and evaluation of the appropriateness of the compensation.

### Base Salary

We determine base salary by assessing the responsibilities required by the position, the experience of the individual, and the competitive market. Mr. Smith was elected as President and Chief Executive Officer in 1995. In 2003, Mr. Smith's base salary was set at \$185,000 per year, and his base salary was increased to \$195,000 per year for 2004.



Mr. Smith had the opportunity to earn additional compensation under various performance-based compensation plans.

Annual Performance Bonuses

Annual cash bonuses are paid through the profit participation plan. All senior level executives participate in this plan.

Performance Goals

We base annual performance bonuses on the attainment of corporate and individual goals that we set at the beginning of the year.

We believe that accomplishing corporate goals is essential for the Company's continued success and sustained financial performance.

The amount of cash bonus which Mr. Smith may earn increases or decreases, within a range, by a multiple of the percentage by which net income exceeds or falls short of established profit goals. The goals are based upon earnings performance. We believe improved earnings performance will translate into long-term increases in shareowner value.

Annual Bonus Payments

Mr. Smith's annual bonus was tied directly to the Company's actual profitability for 2003 compared to targeted profitability. We believe his performance and influence are best measured by the Company's profitability and performance goals. In 2003, his incentive compensation of \$373,744 represented approximately 67% of his total compensation.

Incentive Plan

The Company maintains an Associate Incentive Plan. Under this plan, Mr. Smith is eligible to earn common stock. The Board of Directors determines grants under this plan based on the achievement of short-term and long-term performance goals. The Board of Directors sets these goals with reference to several performance factors. The factors are generally based on financial performance, including earnings, operating efficiency, asset quality and growth.

Specific targets and weightings used for establishing short-term and long-term performance goals are subject to change at the beginning of each measurement period, and are influenced by the Board of Directors' desire to emphasize performance in certain areas. In addition to stock earned in 2003, the Company provided a cash bonus equal to 31% of the value of stock as a partial offset to the tax liability incurred by Mr. Smith.

For achieving short-term performance goals for 2003, Mr. Smith received a payout of 540 shares under the Associate Incentive Plan, with a fair market value of \$45.99 per share as of December 31, 2003. The opportunity at maximum performance was 981 shares.

For achieving long-term performance goals for 2003, Mr. Smith received a payout of 2,130 shares under the Associate Incentive Plan, with a fair market value of \$45.99 per share as of December 31, 2003. The opportunity at maximum performance was 4,260 shares.

On January 1, 2003, as a component of Mr. Smith's long-term compensation, he and the Company entered into an agreement under which Mr. Smith will be eligible to receive Company stock options based on the compound growth rate of the Company's earnings per share over a three year period. Under this agreement, Mr. Smith earned 18,510 stock options for the period ended December 31, 2003, and these options will vest at a rate of one-third per year for each of the three years after the date of issue. The exercise price of these options is \$41.20 per share. The Company granted these options on March 12, 2004.

### Summary

We believe that the policies and programs described in this report link pay and performance and serve the best interests of shareowners. We frequently review the various pay plans and policies and modify them as we deem necessary to continue to meet the Company's business objectives and philosophy.

Members of the Committee:

Cader B. Cox, III, Chairman  
John K. Humphress  
Lina S. Knox  
John R. Lewis

## Executive Compensation Tables

### Summary Compensation Table

The following summary compensation table shows compensation information for CCBG's President and Chief Executive Officer and the two other executive officers of CCBG who earned over \$100,000 in aggregate salary, bonus, and other compensation in the fiscal year ended December 31, 2003.

Name and Principal Position (a)	Year (b)	Annual Compensation		Long-Term Compensation	All Other Compensation <sup>(2)</sup> (i)
		Salary (c)	Bonus (d)	Long-Term Incentive Plan Payouts <sup>(1)</sup> (h)	
<b>William G. Smith, Jr.</b> Chairman, President, and Chief Executive Officer	2003	\$185,000	\$237,719 <sup>(3)</sup>	\$97,959	\$38,066
	2002	\$175,000	\$437,648 <sup>(3)</sup>		\$ 7,387
	2001	\$158,000	\$159,452 <sup>(3)</sup>		\$ 5,543
<b>Thomas A. Barron</b> Treasurer	2003	\$181,000	\$222,331 <sup>(3)</sup>	\$96,441	\$37,225
	2002	\$174,000	\$406,609 <sup>(3)</sup>		\$ 7,071
	2001	\$168,000	\$148,915 <sup>(3)</sup>		\$ 5,461
<b>J. Kimbrough Davis</b> Executive Vice President and Chief Financial Officer	2003	\$165,000	\$ 95,637 <sup>(3)</sup>	\$58,637	\$22,868
	2002	\$155,000	\$156,452 <sup>(3)</sup>		\$ 4,325
	2001	\$150,000	\$ 59,460 <sup>(3)</sup>		\$ 3,320

<sup>(1)</sup>Consists of the dollar value of all payouts made for long-term performance awards earned under the 1996 Associate Incentive Plan.

- (2) Consists of cash bonuses paid as a tax supplement to participants in the 1996 Associate Incentive Plan.

- (3) Includes cash bonuses and the dollar value of short-term incentive stock awards.

### Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity Compensation Plans Approved by Securities Holders	—	—	1,096,731
Equity Compensation Plans Not Approved by Securities Holders	—	—	—
<b>Total</b>	—	—	1,096,731

### Incentive Compensation and Stock Purchase Plans

#### 1996 Associate Incentive Plan

The 1996 Associate Incentive Plan became effective on February 23, 1996, and is to be replaced by the 2005 Associate Incentive Plan. Awards under this plan may be made until December 31, 2005. Under the plan, key associates of CCBG, who have been selected as participants, are eligible to receive awards of equity-based incentive compensation, including stock options, stock appreciation rights, restricted stock awards, performance share units and phantom stock, and combinations of these incentives. The aggregate number of shares of common stock subject to awards under the plan may not exceed 937,500. The Board of Directors administers the plan and has the authority under the plan to establish, adopt, and revise plan rules and regulations and to make all determinations relating to the plan.

The plan authorizes the establishment of long-term performance share programs to be effective over designated award periods of not less than one year nor more than five years. At the beginning of each award period, the Board of Directors establishes performance goals. Performance goals may include financial or other measures of corporate performance and may be determined on an individual basis or by categories of participants. The Board of Directors has the discretionary authority to adjust performance goals or performance measurement standards as it deems equitable in recognition of extraordinary or non-recurring events experienced during an award period. The Board of Directors determines the number of performance share units to be awarded, if any, to each participant who is selected to receive an award. The Board of Directors may add new participants to a performance share program after

its commencement by making pro rata grants. At the completion of a performance share program, or at other times as specified by the Board of Directors, the Board of Directors will calculate the number of shares earned by multiplying the number of performance share units granted to the participant by a performance factor representing the attainment of the performance goals.

#### 1995 Associate Stock Purchase Plan

The 1995 Associate Stock Purchase Plan became effective on March 20, 1995, and is to be replaced by the 2005 Associate Stock Purchase Plan. Up to 562,500 shares of common stock may be purchased under the plan. The purpose of the plan is to provide associates of CCBG and its subsidiaries with an opportunity to purchase common stock of CCBG through accumulated payroll deductions or other contributions. The plan is intended to qualify as an "Employee Stock Purchase Plan" under Section 423 of the Internal Revenue Code of 1986. Under the terms of the plan, the common stock purchased by participants is purchased directly from CCBG. The plan provides that common stock may be purchased at a discount, not to exceed 15 percent, which is to be fixed by the Board of Directors.

In 2003, 25,234 shares of common stock were purchased under the plan. The Board of Directors has the right to amend or terminate the plan at any time. However, no amendment or termination may adversely affect purchase rights previously granted, unless the Board of Directors determines that the termination of the plan is in the best interests of CCBG and its shareowners. In this situation, the Board of Directors may terminate an offering period under the plan on the last day of the offering period even though it may adversely affect purchase rights.

## Retirement Plans

### Retirement Plan

CCBG maintains a noncontributory, defined benefit retirement plan which covers all full-time associates and part-time associates with 1,000 hours of service annually who are employed by CCBG and its subsidiaries. The following table shows the annual retirement benefits payable under the retirement plan to associates based on the stated compensation and years of service, assuming the participant was born in 1955 or later, all service is after 1988, and retirement is at the age of 65.

Compensation	Years of Accredited Service		
	10 Years	20 Years	30 Years
\$10,000	\$ 1,900	\$ 3,800	\$ 5,700
20,000	3,800	7,600	11,400
30,000	5,900	11,900	17,800
40,000	8,200	16,400	24,600
50,000	10,500	21,000	31,500
60,000	12,800	25,500	38,300
70,000	15,000	30,100	45,100
80,000	17,300	34,700	52,000
90,000	19,600	39,200	58,800
100,000	21,900	43,800	65,700
150,000	33,300	66,600	99,900
200,000	44,700	89,400	134,100
205,000	45,800	91,700	137,500



Benefits for retirement plan purposes are calculated based upon the average monthly compensation for the highest five consecutive years in the last 10 years of employment. CCBG's retirement plan also provides pre-retirement disability and death benefits. The benefits are not subject to any deduction for Social Security or other offset amounts. For 2004, the maximum annual compensation recognized for benefit purposes is \$205,000, and the maximum annual benefit permitted under IRS regulations is \$165,000.

As of December 31, 2003, the applicable compensation levels and accredited service for determination of pension benefits for the named executive officers would have been:

	<b>Compensation</b>	<b>Accredited Service</b>
Thomas A. Barron	\$571,871	29
William G. Smith, Jr.	\$606,207	25
J. Kimbrough Davis	\$311,825	22

Benefits are equal to the adjusted accrued benefits as of December 31, 1988, computed in accordance with a prior formula, plus a percentage of average monthly compensation for each year of service after 1988. Employees with service prior to 1989 or born prior to 1955 will have different benefits from those shown above, depending upon their year of birth, years of service prior to 1989, and compensation level. No single table is possible for these employees due to the multiple variables involved.

#### Supplemental Employee Retirement Plan

Effective January 1, 1996, the Board of Directors of CCBG implemented a supplemental employee retirement plan covering William G. Smith, Jr. and Thomas A. Barron. In 2001, the Board extended the coverage of this plan to J. Kimbrough Davis. This plan is designed to restore a portion of the benefits Messrs. Smith, Barron, and Davis would otherwise receive under the Retirement Plan if these benefits were not limited by the tax laws. Participants under the Retirement Plan receive benefits determined by a formula that is based on average monthly compensation. Due to the tax law limitations, the relative benefits payable to Messrs. Smith, Barron, and Davis are significantly less than those of other Retirement Plan participants. The supplemental plan provides additional benefits, which, when combined with benefits payable under the Retirement Plan, approximate 60 percent of average monthly compensation, which more closely aligns the benefits payable to Messrs. Smith, Barron, and Davis with those of other Retirement Plan participants. The Supplemental Plan is not a qualified plan under the tax laws. CCBG has no obligation to fund the supplemental plan but accrues for its anticipated obligations under the supplemental plan on an annual basis.

#### 401(k) Profit Sharing Plan

On October 1, 1997, CCBG adopted a 401(k) plan. The purpose of the 401(k) plan is to serve as a supplementary retirement plan for employees who are eligible to participate. It is primarily intended to provide a convenient program of regular savings and investment for eligible employees. The Retirement Committee of CCBG presently administers the 401(k) plan. Capital City Trust Company, an indirect wholly-owned subsidiary of CCBG, serves as trustee of the trust fund into which funds contributed under the 401(k) plan and the earnings under the 401(k) plan are held. One investment option provided by the 401(k) plan is a fund of CCBG's common stock.

Up to 50,000 shares of common stock may be purchased under the 401(k) plan. During fiscal year 2003, no shares of common stock were issued under the 401(k) plan, but plan participants made open market purchases in the amount of 3,396 shares. Purchases of CCBG's common stock under this plan are voluntary, and CCBG does not restrict the sale of its common stock under the 401(k) plan. In 2003, CCBG began making matching cash contributions of up to 6% of the participant's compensation for qualifying associates whose employment commenced after January 1, 2003.

### **Transactions with Management and Related Parties**

During 2003, Capital City Bank, a wholly-owned subsidiary of CCBG, had outstanding loans to several of CCBG's directors, executive officers, their associates and members of the immediate families of these directors and executive officers. These loans were made in the ordinary course of business and were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. These loans do not involve more than the normal risk of collectability or present other unfavorable features.

DuBose Ausley, a director of CCBG, is employed by and is the former Chairman of Ausley & McMullen, CCBG's general counsel. During 2003, CCBG and CCBG's subsidiaries paid legal fees to this law firm of approximately \$765,000.

Capital City Bank's Apalachee Parkway Office is located on land leased from the Smith Interests General Partnership L.L.P. ("SIGP") in which William G. Smith, Jr. (Chairman, President, and Chief Executive Officer of CCBG), Robert H. Smith (a Vice President of CCBG), and Lina S. Knox (a Director of CCBG) are partners. In addition, a trust for the benefit of Elaine W. Smith, a relative of William G. Smith, Jr. and Robert H. Smith, of which DuBose Ausley, a director of CCBG, is trustee, is also a partner of SIGP. As trustee of this trust, Mr. Ausley has the power to vote the SIGP interests owned by the trust. Under a lease agreement expiring in 2024, Capital City Bank provides annual lease payments of approximately \$85,000, to be adjusted for inflation in future years.

### **Five-Year Performance Graph**

This performance graph compares the cumulative total shareholder return on the Company's common stock with the NASDAQ - Total US and the NASDAQ Bank Index for the past five years. The graph assumes that \$100 was invested on December 31, 1998 in the Company's common stock and each of the above indices, and that dividends are reinvested. The shareholder return shown below for the five-year historical period may not be indicative of future performance.



Index	Period Ending					
	12/31/98	12/31/99	12/31/00	12/31/01	12/31/02	12/31/03
Capital City Bank Group, Inc.	100.00	79.75	94.52	93.02	156.34	233.50
NASDAQ - Total US	100.00	185.95	113.19	89.65	61.67	92.90
NASDAQ Bank Index*	100.00	96.15	109.84	118.92	121.74	156.62
SNL \$1B-\$5B Bank Index	100.00	91.91	104.29	126.72	146.28	198.92

\* Source: CRSP, Center for Research in Security Prices, Graduate School of Business, The University of Chicago 2004.

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## SECTION VI

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2003

Management's discussion and analysis ("MD&A") provides supplemental information, which sets forth the major factors that have affected CCBG's 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 "Executive Overview," "Earnings Analysis," "Financial Condition," "Liquidity and Capital Resources," "Off-Balance Sheet Arrangements," and "Accounting Policies." Information therein should facilitate a better understanding of the major factors and trends that affect CCBG's earnings performance and financial condition, and how CCBG's performance during 2003 compares with prior years. Throughout this section, Capital City Bank Group, Inc., and its subsidiary, collectively, are referred to as "CCBG."

The period-to-date averages used in this report are based on daily balances for each respective period. In certain circumstances, comparing average balances for the fourth quarters of consecutive years may be more meaningful than simply analyzing year-to-date averages. Therefore, where appropriate, quarterly averages have been presented for analysis and have been noted as such. See Table 2 for annual averages and Table 15 for financial information presented on a quarterly basis.

This Report and other Company communications and statements may contain "forward-looking statements." 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" and similar expressions are intended to identify forward-looking statements. The following factors, among others, could cause our financial performance to differ materially from what is contemplated in those forward-looking statements:

The strength of the United States economy in general and the strength of the local economies in which we conduct operations may be different than expected resulting in, among other things, a deterioration in credit quality or a reduced demand for credit, including the resultant effect on our loan portfolio and allowance for loan losses;

The effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System;

- Inflation, interest rate, market and monetary fluctuations;
- Adverse conditions in the stock market and other capital markets and the impact of those conditions on our capital markets and capital management activities, including our investment and wealth management advisory businesses and brokerage activities;
- Changes in U.S. foreign or military policy;

- The timely development of competitive new products and services by us and the acceptance of those products and services by new and existing customers;
  - The willingness of customers to accept third-party products marketed by us;
- The willingness of customers to substitute competitors' products and services for our products and services and vice versa;
- The impact of changes in financial services laws and regulations (including laws concerning taxes, banking, securities and insurance);
  - Technological changes;
  - Changes in consumer spending and saving habits;
- The effect of corporate restructuring, acquisitions or dispositions, including the actual restructuring and other related charges and the failure to achieve the expected gains, revenue growth or expense savings from such corporate restructuring, acquisitions or dispositions;
  - The growth and profitability of our noninterest or fee income being less than expected;
  - Unanticipated regulatory or judicial proceedings;
  - The impact of changes in accounting policies by the Securities and Exchange Commission;
- Adverse changes in the financial performance and/or condition of our borrowers, which could impact the repayment of those borrowers' outstanding loans; and
  - Our success at managing the risks involved in the foregoing.

We caution that the foregoing list of important factors is not exhaustive. Also, we do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by us or on our behalf.

## **Executive Overview**

CCBG is a financial holding company and a bank holding company headquartered in Tallahassee, Florida that provides through its wholly owned subsidiary, Capital City Bank, a broad array of products and services in 17 Florida counties, four Georgia counties, and one Alabama county. Capital City Bank also has mortgage lending offices in four additional Florida communities. Capital City Bank offers commercial and retail banking services, as well as trust and asset management, brokerage, and data processing services.

From an industry and national perspective, CCBG's 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, to a lesser extent, non-interest income such as service charges on deposit accounts, trust service fees, mortgage banking revenues, and data processing revenues. Economic conditions, competition and the monetary and fiscal policies of the Federal government in general, significantly affect financial institutions, including CCBG. During 2003, the Federal government's focus was marked by steady low interest rates intended to stabilize the current economy and to provide stimulation to future industrial economic growth. Lending activities are also significantly influenced by regional and local economic factors. Some specific factors may include the demand for and supply of housing, competition among lenders, interest rate conditions and prevailing market rates on competing investments, customer preferences and levels of personal income and savings in CCBG's primary market area.

CCBG's philosophy is to grow and prosper, building long-term relationships based on quality service, high ethical standards, and safe and sound banking practices. CCBG is a super-community bank in the relationship banking business with a locally oriented, community-based focus, which is augmented by experienced, centralized support in select specialized areas. CCBG's local market orientation is reflected in its network of banking office locations, experienced community executives, and community advisory boards which support CCBG's focus of responding to local banking needs. CCBG strives to offer a broad array of sophisticated products and to provide quality service by empowering associates to make decisions in their local markets.

CCBG plans to continue its expansion, emphasizing a combination of growth in existing markets and acquisitions. Acquisitions will be focused on a three state area including Florida, Georgia, and Alabama with a particular focus on acquiring banks and branches, which are \$100 million to \$400 million in asset size, located on the outskirts of major metropolitan areas. CCBG will evaluate de novo expansion opportunities in attractive new markets in the event that acquisition opportunities are not feasible. Other expansion opportunities that will be evaluated include asset management, insurance, and mortgage banking. Management anticipates that roughly half of CCBG's future earnings growth will be generated through growth in existing markets and half through acquisitions.

### **Pending Acquisition**

On January 8, 2004, CCBG announced the signing of a definitive agreement to acquire Quincy State Bank, located in Quincy, Florida from Synovus Financial Corp. Quincy State Bank is a \$127 million asset institution (as of December 31, 2003) with offices in Quincy and Havana, Florida. Both markets adjoin Leon County, home to CCBG's Tallahassee headquarters. The purchase price is \$26.1 million in cash and the closing is scheduled for late in the first quarter of 2004.

### **Previous Acquisitions**

On March 9, 2001, CCBG completed a purchase and assumption transaction with Wachovia Bank, NA, formerly First Union National Bank ("Wachovia") and acquired six of Wachovia's offices in Georgia which included real estate, loans and deposits. The transaction resulted in approximately \$11.3 million in intangible assets, primarily core deposit intangibles, which are being amortized over a 10-year period. CCBG purchased approximately \$18 million in loans and assumed deposits of approximately \$105 million.

On March 2, 2001, CCBG completed its acquisition of First Bankshares of West Point, Inc., and its subsidiary, First National Bank of West Point. At the time of the acquisition, First National Bank of West Point had approximately \$144 million in assets with one office in West Point, Georgia, and two offices in the Greater Valley area of Alabama. First Bankshares of West Point, Inc., merged with CCBG, and First National Bank of West Point merged with Capital City Bank. CCBG issued 3.6419 shares and \$17.7543 in cash for each of the 192,481 outstanding shares of First Bankshares of West Point, Inc., resulting in the issuance of 701,000 shares of CCBG common stock and the payment of \$3.4 million in cash for a total purchase price of approximately \$17.0 million. The transaction was accounted for as a purchase and resulted in approximately \$2.5 million of intangible assets, primarily goodwill.

### Earnings Analysis

Earnings for 2003 totaled \$25.2 million, or \$1.90 per diluted share. This compares to \$23.1 million, or \$1.74 per diluted share in 2002, and \$16.9 million, or \$1.27 per diluted share in 2001. Return on average assets was 1.40% and return on average shareowners' equity was 12.82% for 2003, compared to 2002's results of 1.34% and 12.85%, respectively, and 2001's performance of .99% and 10.00%, respectively.

The increase in 2003 earnings was primarily attributable to growth in operating revenues (defined as the total of net interest income and noninterest income) of 5.8%, driven by 16.2% growth in noninterest income. The increase in noninterest income reflects higher deposit fees, merchant service fee income and mortgage banking revenues. These and other significant factors are discussed throughout the Financial Review. A condensed earnings summary is presented in Table 1.

Table 1  
**Condensed Summary Of Earnings**  
*(Dollars in Thousands, Except Per Share Data)*

	For the Years Ended December 31,					
	2003		2002		2001	
Interest Income	\$	99,487	\$	106,095	\$	118,983
Taxable Equivalent Adjustments		1,413		1,682		1,775
Total Interest Income (FTE)		100,900		107,777		120,758
Interest Expense		14,839		22,503		48,249
Net Interest Income (FTE)		86,061		85,274		72,509
Provision for Loan Losses		3,436		3,297		3,983
Taxable Equivalent Adjustments		1,413		1,682		1,775
Net Interest Income After Provision for Loan Losses		81,212		80,295		66,751
Noninterest Income		41,939		36,103		31,159
Noninterest Expense		84,378		80,625		71,926
Income Before Income Taxes		38,773		35,773		25,984
Income Taxes		13,580		12,691		9,118
Net Income	\$	25,193	\$	23,082	\$	16,866
Basic Net Income Per Share	\$	1.91	\$	1.75	\$	1.27
Diluted Net Income Per Share	\$	1.90	\$	1.74	\$	1.27

### Net Interest Income

Net interest income represents CCBG's 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. An analysis of CCBG's net interest income, including average yields and rates, is presented in Tables 2 and 3. This information

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is presented 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.

In 2003, taxable equivalent net interest income increased \$787,000, or 1.0%. This follows an increase of \$12.8 million, or 17.6%, in 2002, and \$7.8 million, or 12.1%, in 2001. The favorable impact was a result of lower funding costs and a shift in earning assets mix, partially offset by declining asset yields attributable to the low interest rate environment. Lower interest rates paid on deposit products and a favorable shift in deposit mix led to a net reduction in interest expense of \$7.7 million over 2002. This favorable variance continued to be partially offset by declining yields on earning assets, which produced a decline in taxable equivalent interest income of \$6.9 million. Over the last three years, management has aggressively repriced interest bearing liabilities in response to the Federal Reserve's reduction in its target rate on overnight funds.

Table 2

**Average Balances and Interest Rates***(Taxable Equivalent Basis - Dollars in Thousands)*

	2003			2002			2001		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
<b>Assets:</b>									
Loans, Net of Unearned Interest <sup>(1)(2)</sup>	\$ 1,318,080	\$ 92,264	7.00%	\$ 1,256,107	\$ 95,222	7.58%	\$ 1,184,290	\$ 102,737	8.68%
Taxable Investment Securities	124,541	3,724	2.98	135,865	6,941	5.11	170,328	9,619	5.65
Tax-Exempt Investment Securities <sup>(2)</sup>	61,387	3,651	5.95	68,915	4,133	6.00	78,928	4,792	6.07
Funds Sold	120,672	1,261	1.03	95,613	1,481	1.53	101,002	3,610	3.55
Total Earning Assets	1,624,680	100,900	6.21	1,556,500	107,777	6.92	1,534,548	120,758	7.87
Cash & Due From Banks	79,625			72,960			69,242		
Allowance For Loan Losses	(12,544)			(12,409)			(11,910)		
Other Assets	113,134			110,129			112,287		
<b>TOTAL ASSETS</b>	<b>\$ 1,804,895</b>			<b>\$ 1,727,180</b>			<b>\$ 1,704,167</b>		
<b>Liabilities:</b>									
NOW Accounts	264,159	676	0.26%	241,873	1,272	0.53%	214,881	4,046	1.88%
Money Market Accounts	215,597	1,312	0.61	224,275	2,904	1.30	208,526	6,237	2.99
Savings Accounts	109,837	189	0.17	104,967	500	0.48	108,284	1,865	1.72
Time Deposits	433,176	9,390	2.17	493,956	15,875	3.21	604,909	33,066	5.47
Total Interest Bearing Deposits	1,022,769	11,567	1.13	1,065,071	20,551	1.93	1,136,600	45,214	3.98
Short-Term Borrowings	101,274	1,270	1.25	72,594	767	1.06	58,111	2,164	3.72
Long-Term Debt	55,594	2,002	3.60	30,423	1,185	3.90	15,308	871	5.69
Total Interest Bearing Liabilities	1,179,637	14,839	1.26	1,168,088	22,503	1.93	1,210,019	48,249	3.99
Noninterest Bearing Deposits	409,039			359,928			306,316		
Other Liabilities	19,631			19,512			19,180		
<b>TOTAL LIABILITIES</b>	<b>1,608,307</b>			<b>1,547,528</b>			<b>1,535,515</b>		
<b>Shareowners' Equity:</b>									
Common Stock	132			132			132		



Additional Paid-In Capital	15,272	15,386	18,940	
Retained Earnings	181,184	164,184	149,580	
TOTAL SHAREOWNERS' EQUITY	196,588	179,652	168,652	
TOTAL LIABILITIES AND SHAREOWNERS' EQUITY	\$ 1,804,895	\$ 1,727,180	\$ 1,704,167	
Interest Rate Spread		4.95%	4.99%	3.88%
Net Interest Income	\$ 86,061	\$ 85,274	\$ 72,509	
Net Interest Margin <sup>(3)</sup>		5.30%	5.47%	4.73%

*Average balances include nonaccrual loans. Interest income includes fees on loans of approximately \$6.4 million, \$4.6 million and \$4.3 million in 2003, 2002 and 2001, respectively.*

*Interest income includes the effects of taxable equivalent adjustments using a 35% tax rate to adjust interest on tax-exempt loans and securities to a taxable equivalent basis.*

*Taxable equivalent net interest income divided by average earning assets.*

Table 3  
**Rate/Volume Analysis<sup>(1)</sup>**  
*(Taxable Equivalent Basis - Dollars in Thousands)*

	2003 Changes from 2002			2002 Changes from 2001		
	Total	Due To Average		Total	Due to Average	
		Volume	Rate		Volume	Rate
<b>Earning Assets:</b>						
Loans, Net of Unearned Interest <sup>(2)</sup>	\$ (2,958)	\$ 5,916	\$ (8,874)	\$ (7,515)	\$ 6,698	\$ (14,213)
<b>Investment Securities:</b>						
Taxable	(3,217)	(2,448)	(769)	(2,678)	(1,987)	(691)
Tax-Exempt	(482)	(450)	(32)	(659)	(608)	(51)
Funds Sold	(220)	389	(609)	(2,129)	(215)	(1,914)
Total	(6,877)	3,407	(10,284)	(12,981)	3,888	(16,869)
<b>Interest Bearing Liabilities:</b>						
NOW Accounts	(596)	117	(713)	(2,774)	509	(3,283)
Money Market Accounts	(1,592)	(111)	(1,481)	(3,333)	471	(3,804)
Savings Accounts	(311)	23	(334)	(1,365)	(57)	(1,308)
Time Deposits	(6,485)	(1,953)	(4,532)	(17,191)	(6,065)	(11,126)
Short-Term Borrowings	503	578	(75)	(1,397)	447	(1,844)
Long-Term Debt	817	981	(164)	314	860	(546)
Total	(7,664)	(365)	(7,299)	(25,746)	(3,835)	(21,911)
Changes in Net Interest Income	\$ 787	\$ 3,772	\$ (2,985)	\$ 12,765	\$ 7,723	\$ 5,042

*This table shows the change in taxable equivalent net interest income for comparative periods based on either changes in average volume or changes in average rates for earning assets and interest bearing liabilities. Changes which are not solely due to volume changes or solely due to rate changes have been attributed to rate changes.*

*Interest income includes the effects of taxable equivalent adjustments using a 35% tax rate to adjust interest on tax-exempt loans and securities to a taxable equivalent basis.*

For the year 2003, taxable equivalent interest income decreased \$6.9 million, or 6.4%, over 2002, and \$13.0 million, or 10.7%, in 2002 over 2001. New loan production and repricing of existing earning assets produced a 71 basis point reduction in the yield on earning assets, which declined from 6.92% for 2002 to 6.21% for 2003. This compares to a 95 basis point reduction in 2002 over 2001. The unfavorable impact of declining yields was partially mitigated by growth in earning assets of \$68.2 million, which produced an overall improvement in the mix. The yield on the investment securities portfolio continued to decline as a result of the low rate environment. As shown in Table 3, both the investment and loan portfolios were significant contributors to the net reduction in interest income. In the current rate environment, portfolio repricing will continue to put pressure on interest income, but may be partially or completely offset by earning asset growth.

Interest expense decreased \$7.7 million, or 34.1%, over 2002, and \$25.7 million, or 53.4%, in 2002 over 2001. The general decline in interest rates produced favorable rate variances on interest bearing liabilities throughout the year. This was further enhanced by a favorable shift in mix, as certificates of deposit (generally a higher cost deposit product) declined relative to total deposits. Certificates of deposit, as a percent of total average deposits, declined from 34.7% in 2002 to 30.2% in 2003. Lower interest rates and a favorable shift in mix led to a decline in the average rate paid on interest bearing liabilities in 2003 of 67 basis points compared to 2002.

CCBG's interest rate spread (defined as the taxable equivalent yield on average earning assets less the average rate paid on interest bearing liabilities) decreased 4 basis points in 2003 and increased 111 basis points in 2002. The decrease in 2003 was attributable to the continued decline in the earning asset yield. The significant increase in 2002 is attributable to management's ability to rapidly adjust the average rate paid on interest bearing liabilities relative to the decline in yield on earning assets.

CCBG's net interest margin (defined as taxable equivalent interest income less interest expense divided by average earning assets) was 5.30% in 2003, compared to 5.47% in 2002 and 4.73% in 2001. In 2003, the lower yields on earning assets (partially offset by lower rates paid on interest bearing liabilities) resulted in the 17 basis point decline in the margin.

Loan growth is anticipated to have a favorable impact on the net interest margin during the upcoming year along with any favorable changes in the Federal Reserve's target rate on overnight funds. However, depending on the magnitude of the loan growth, the improvement attributable to growth may be partially or completely offset by unfavorable repricing variances associated with loans and securities and any further unfavorable changes in the Federal Reserve's target rate on overnight funds. A further discussion of CCBG's earning assets and funding sources can be found in the section entitled "Financial Condition."

### **Provision for Loan Losses**

The provision for loan losses was \$3.4 million in 2003, compared to \$3.3 million in 2002 and \$4.0 million in 2001. The slight increase in the 2003 provision reflects a slightly higher level of net charge-offs. CCBG's stable provision over the last three-year period reflects continued stable credit quality supported by an adequate allowance for loan losses.

Net charge-offs remain at historically low levels relative to the size of the portfolio. Net charge-offs for 2003 totaled \$3.5 million, or .27% of average loans.

This compares to \$2.9 million, or .23% for 2002. The increase is due primarily to a higher level of consumer loan net charge-offs, primarily automobile loans. In addition, the increase in 2003 over 2002 is reflective of an above normal level of consumer loan recoveries in 2002.

At December 31, 2003, the allowance for loan losses totaled \$12.4 million compared to \$12.5 million in 2002. At year-end 2003, the allowance represented 0.93% of total loans and provided coverage of 530% of nonperforming loans. Management considers the allowance to be adequate based on the current level of nonperforming loans and the estimate of losses inherent in the portfolio at year-end. See the section entitled "Financial Condition" and Tables 7 and 8 for further information regarding the allowance for loan losses.

### **Noninterest Income**

In 2003, noninterest income increased \$5.8 million, or 16.2%, and represented 33.1% of operating revenue, compared to an increase of \$4.9 million, or 15.9%, and 30.2%, respectively, in 2002. The increase in the level of noninterest income is attributable primarily to growth in deposit service charges, merchant service fee income, and mortgage banking revenues. The increase in 2002 was attributable to growth in deposit service charges, mortgage banking revenues, and other income (primarily retail brokerage fees and ATM/debit/credit card transaction fees). Factors affecting noninterest income are discussed below.

Service charges on deposit accounts increased \$3.6 million, or 28.0%, in 2003, compared to an increase of \$2.1 million, or 19.7%, in 2002. Service charge revenues in any one year are dependent on the number of accounts, primarily transaction accounts, the level of activity subject to service charges, and the collection rate. The increase in service charges in 2003 was primarily attributable to growth in NSF/overdraft fees associated with a new overdraft protection program implemented in the fourth quarter of 2002. Integration of acquisitions during 2004 will further enhance deposit service charge revenues. The increase in service charges in 2002 reflects an increase in the number of deposit accounts, primarily attributable to the 2001 Georgia banking office acquisitions, and increased NSF/overdraft fees in the fourth quarter of 2002.

Data processing revenues increased \$396,000, or 19.8%, in 2003 versus a decrease of \$73,000, or 3.5%, in 2002. The data processing center provides computer services to both financial and non-financial clients in North Florida and South Georgia. The increase in 2003 was due to higher revenues from both financial clients and government contract processing. CCBG added one financial client in late 2002 increasing the number currently being processed to six. In addition, government contract processing increased 20.0% during 2003 primarily due to increased processing volume with one client. In 2003, processing revenues for non-financial entities represented approximately 39.3% of total processing, compared to 41.5% in 2002. The decrease in total processing revenues for 2002 was primarily the result of a decline in revenues for financial clients. Management expects data processing revenues to remain stable during 2004.

In 2003, asset management fees increased \$129,000, or 5.1%, versus a decrease of \$35,000, or 1.4%, in 2002. At year-end 2003, assets under management totaled \$404 million, reflecting growth of \$61 million, or 17.8% over 2002. This growth is due to an increase in new business in existing markets and appreciation in stock market values over 2002. At year-end 2002, assets under management totaled \$343 million, reflecting growth of \$6.0 million, or 1.8% over 2001.

CCBG continues to be among the leaders in the production of residential mortgage loans in many of its markets. In 2003, mortgage banking revenues increased \$588,000, or 10.7%, compared to \$2.4 million, or 75.3% in 2002. The increase in 2003 was due to the continued low interest rate environment resulting in a high level of fixed rate loan production through the third quarter of the year. CCBG generally sells all fixed rate residential loan production into the secondary market. Fixed rate mortgage refinancing activity slowed significantly in the fourth quarter of 2003 and as a result mortgage banking revenues declined in the fourth quarter. Management does not expect mortgage banking revenues to remain at the levels experienced in 2003. The increase in revenue in 2002 was due to higher fixed rate mortgage production driven by the low interest rate environment, and a gain (pre-tax) of \$675,000 on the one-time sale of \$23.5 million in residential mortgage loans during the fourth quarter of 2002. The level of interest rates, origination volume and percent of fixed rate production have a significant impact on CCBG's mortgage banking revenues.

Other noninterest income increased \$1.2 million, or 8.7%, in 2003 versus an increase of \$580,000, or 4.5% in 2002. The increase in 2003 was attributable primarily to an increase in merchant service fee income and miscellaneous recoveries. Merchant service fee income increased \$848,000, or 22.8%, due to increased transaction volume and was partially offset with higher interchange service fees, which is reflected in noninterest expense. Miscellaneous recoveries were \$241,000, or 86.5%, higher as a result of recovering legal and settlement costs associated with two lawsuits. The 2002 increase in noninterest income was attributable primarily to higher retail brokerage fees and ATM/debit/credit card transaction fees.

Noninterest income as a percent of average assets increased to 2.32% in 2003, compared to 2.09% in 2002, and 1.83% in 2001, driven primarily by service charge income, mortgage banking revenues and merchant service fee income.

### **Noninterest Expense**

Noninterest expense for 2003 was \$84.4 million, an increase of \$3.8 million, or 4.7%, over 2002, compared with an increase of \$8.7 million, or 12.1%, in 2002. Factors impacting CCBG's noninterest expense during 2003 and 2002 are discussed below.

CCBG's aggregate compensation expense in 2003 totaled \$45.1 million, an increase of \$3.0 million, or 7.1%, over 2002. The increase is primarily attributable to associate salary increases, higher performance-based compensation (commissions), increased pension costs, and higher healthcare insurance premiums. The increase in associate salaries reflects normal annual merit increases and higher performance-based compensation, which is reflective of higher commissions paid to mortgage originators. The higher pension cost is a result of an increase in the number of plan participants and the lower than expected return on plan assets resulting from the general stock market decline in recent years. Pension costs are expected to increase in 2004 by approximately 13%. Healthcare premiums are expected to continue to increase due to additional participants and rising costs from healthcare providers. In 2002, aggregate compensation increased \$5.3 million, or 14.5%, over 2001. This increase was primarily due to the addition of Georgia and Alabama offices, higher performance-based compensation (profit participation, commissions, and incentives), increased pension costs, and higher healthcare insurance premiums.

Occupancy expense (including furniture, fixtures and equipment) increased by \$416,000, or 3.1%, in 2003, compared to \$726,000, or 5.7% in 2002. The increase in 2003 was primarily due to higher furniture/fixture, utility, and building

depreciation expenses associated with the addition of four new offices. The increase in 2002 was primarily due to the addition of nine offices associated with the Georgia acquisitions, and costs associated with the conversion and full implementation of a new data processing system. Additional increases were experienced for 2002 in office leases and building maintenance/repairs.

Other noninterest expense increased \$360,000, or 1.4%, in 2003, compared to \$2.6 million, or 11.7%, in 2002. The increase in 2003 was attributable to: (1) higher legal costs of \$106,000 primarily resulting from corporate governance compliance work associated with the Sarbanes-Oxley Act; (2) increased processing expenses of \$272,000 associated with implementation of new database systems in human resources, and custom programming work performed by Capital City Bank's core processing system vendor to facilitate the implementation of new applications (platform automation and home banking); and (3) increased interchange service fees of \$717,000 associated with higher merchant card processing volume. These increases were partially offset with approximately \$617,000 lower expense for contingency reserves, and lower seminar/education expense of \$123,000.

The increase in 2002 was attributable to: (1) higher legal costs of \$351,000 primarily resulting from merchant credit card processing; (2) increased professional fees associated with external audit, tax and pension consulting of \$594,000; (3) increased processing expenses of \$390,000 associated with customization of a newly implemented data processing system, increased ATM processing and trust account processing; (4) increased contributions of \$175,000 attributable to increased funding for Capital City Bank Group Foundation, Inc.; (5) increased telephone costs of \$215,000 resulting from Georgia acquisitions and line upgrades to the existing wide-area network; and (6) higher miscellaneous expense of \$1.2 million attributable to: loan underwriting/closing costs (\$302,000), other losses/cash short (\$304,000), credit card interchange fees (\$262,000), seminars/education (\$139,000), and other miscellaneous (\$248,000).

The net noninterest expense ratio (defined as noninterest income minus noninterest expense, net of intangible amortization and conversion/merger-related expenses, as a percent of average assets) was 2.17% in 2003 compared to 2.38% in 2002, and 2.14% in 2001. CCBG's efficiency ratio (expressed as noninterest expense, net of intangible amortization and conversion/merger-related expenses, as a percent of taxable equivalent operating revenues) was 63.4%, 63.6%, and 65.2% in 2003, 2002 and 2001, respectively.

### **Income Taxes**

The consolidated provision for federal and state income taxes was \$13.6 million in 2003, compared to \$12.7 million in 2002, and \$9.1 million in 2001. The increase in the 2003 tax provision was a result of higher taxable income and a decline in tax exempt income. The increase in the 2002 tax provision from 2001 was also due to higher taxable income and lower tax exempt income.

The effective tax rate was 35.0% in 2003, 35.5% in 2002, and 35.1% in 2001. The decrease in the effective tax rate for 2003 is due to an adjustment in federal income tax expense in the amount of \$500,000 made during the fourth quarter of 2003. Following a recent IRS examination, CCBG performed an evaluation of all its tax accounts. Upon completion of this analysis in the fourth quarter of 2003, CCBG determined certain tax accounts should be adjusted to more appropriately reflect its current and deferred assets and liabilities. The effective tax rates previously noted differ from the combined federal and state statutory tax rates due primarily to tax-exempt income.

The increase in the effective tax rate for 2002 was primarily attributable to an increase in state taxable income as well as a decline of tax-exempt income relative to pre-tax income.

### **Financial Condition**

Average assets totaled \$1.8 billion, an increase of \$78.0 million, or 4.5%, in 2003 versus the comparable period in 2002. Average earning assets for 2003 were \$1.6 billion, representing an increase of \$68.0 million, or 4.4%, over 2002. During 2003, average loans increased \$62.0 million, or 4.9%, and average funds sold increased \$25.1 million, or 26.2%. These increases were partially offset by a decline in average securities of \$19.0 million, or 9.2%. Loan growth during 2003 was primarily funded through existing liquidity and deposit growth.

Table 2 provides information on average balances and rates, Table 3 provides an analysis of rate and volume variances, while Table 4 highlights the changing mix of CCBG's earning assets over the last three years.

### **Loans**

Average loans increased \$62.0 million, or 4.9%, over the comparable period in 2002. Loan growth was slow for the first quarter of the year, but picked up momentum during the second and third quarters. Loans, on average, increased \$27.5 million in the second quarter and \$19.4 million in the third quarter. Loan growth fell off during the fourth quarter primarily due to a decline in the residential held-for-sale loan portfolio. Loans as a percent of average earning assets increased to 81.1% for the year, compared to 80.7% for the comparable period of 2002. Loan growth occurred in all loan categories during the year with the exception of residential 1-4 family. The decline in the residential 1-4 family was due to a decline in held-for-sale loans resulting from a slow down in refinancing activity during the fourth quarter of 2003. Management anticipates that the pace of loan refinancing will slow in 2004 resulting in loan production producing greater net growth for the total loan portfolio.

Although management is continually evaluating alternative sources of revenue, lending is a major component of CCBG's business and is key to profitability. While management strives to identify opportunities to increase loans outstanding and enhance the portfolio's overall contribution to earnings, it can do so only by adhering to sound lending principles applied in a prudent and consistent manner. Thus, management will not relax its underwriting standards in order to achieve designated growth goals.

Table 4  
**Sources of Earning Asset Growth**  
*(Average Balances - Dollars in Thousands)*

	2002 to 2003 Change	Percentage of Total Change	Components of Average Earning Assets		
			2003	2002	2001
<b>Loans:</b>					
Commercial, Financial and Agricultural	\$ 16,100	23.6%	9.2%	8.6%	8.0%
Real Estate - Construction	7,996	11.7	5.5	5.3	5.3
Real Estate - Commercial Mortgage	57,250	84.0	23.4	20.7	17.6
Real Estate - Residential	(35,386)	(51.9)	29.1	32.6	32.8
Consumer	16,013	23.5	13.9	13.5	13.5
Total Loans	61,973	90.9	81.1	80.7	77.2
<b>Securities:</b>					
Taxable	(11,324)	(16.6)	7.7	8.8	11.1
Tax-Exempt	(7,528)	(11.1)	3.8	4.4	5.1
Total Securities	(18,852)	(27.7)	11.5	13.2	16.2
Funds Sold	25,059	36.8	7.4	6.1	6.6
Total Earning Assets	\$ 68,180	100.0%	100.0%	100.0%	100.0%

CCBG's average loan-to-deposit ratio increased to 92.1% in 2003 from 88.1% in 2002. This compares to an average loan-to-deposit ratio in 2001 of 82.1%. The higher average loan-to-deposit ratio in 2003 primarily reflects higher loan growth.

Real estate loans, combined, represented 70.7% of total loans at December 31, 2003, versus 71.7% in 2002. This decline from the prior year reflects the decline in 1-4 family residential loans discussed above. See the section entitled "Risk Element Assets" for a discussion concerning loan concentrations.

The composition of CCBG's loan portfolio at December 31, for each of the past five years is shown in Table 5. Table 6 arrays CCBG's total loan portfolio as of December 31, 2003, based upon maturities. As a percent of the total portfolio, loans with fixed interest rates represent 32.5% as of December 31, 2003, versus 32.9% at December 31, 2002.



Table 5  
**Loans by Category**

<i>(Dollars in Thousands)</i>	As of December 31,				
	2003	2002	2001	2000	1999
Commercial, Financial and Agricultural	\$ 160,048	\$ 141,459	\$ 128,480	\$ 108,340	\$ 98,894
Real Estate - Construction	89,149	91,110	72,778	84,133	62,166
Real Estate - Commercial					
Mortgage	391,250	356,807	302,239	231,099	214,036
Real Estate - Residential	467,790	474,069	530,546	444,489	383,536
Consumer	233,395	221,776	209,308	183,771	169,854
Total Loans, Net of Unearned Interest	\$ 1,341,632	\$ 1,285,221	\$ 1,243,351	\$ 1,051,832	\$ 928,486

Table 6  
**Loan Maturities**

<i>(Dollars in Thousands)</i>	Maturity Periods			Total
	One Year or Less	Over Five Years	Over One Through Five Years	
Commercial, Financial and Agricultural	\$ 66,448	\$ 69,703	\$ 23,896	\$ 160,048
Real Estate	155,684	126,634	665,871	948,189
Consumer <sup>(1)</sup>	61,872	141,386	30,138	233,395
Total	\$ 284,004	\$ 337,723	\$ 719,905	\$ 1,341,632
Loans with Fixed Rates	\$ 189,337	\$ 222,813	\$ 24,039	\$ 436,189
Loans with Floating or Adjustable Rates	94,667	114,910	695,866	905,443
Total	\$ 284,004	\$ 337,723	\$ 719,905	\$ 1,341,632

(1) Demand loans and overdrafts are reported in the category of one year or less.

### **Allowance for Loan Losses**

Management maintains the 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 the borrowers' inability and unwillingness to repay, and from other risks inherent in the lending process including collateral risk, operations risk, concentration risk and economic risk. As such, 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.

Management evaluates the adequacy of the allowance for loan losses on a quarterly basis. Loans that have been identified as impaired are reviewed for adequacy of collateral, with a specific reserve assigned to those loans when necessary. Impaired loans are defined as those in which the full collection of principal and interest in accordance with the contractual terms is improbable. Impaired loans generally include those that are past due for 90 days or more and

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those classified as doubtful in accordance with CCBG's risk rating system. Loans classified as doubtful have a high possibility of loss, but because of certain factors that may work to strengthen the loan, its classification as a loss is deferred until a more exact status may be determined. Not all loans are considered in the review for impairment; only loans that are for business purposes exceeding \$25,000 are considered. The evaluation is based on current financial condition of the borrower or current payment status of the loan.

The method used to assign a specific reserve depends on whether repayment of the loan is dependent on liquidation of collateral. If repayment is dependent on the sale of collateral, the reserve is equivalent to the recorded investment in the loan less the fair value of the collateral after estimated sales expenses. If repayment is not dependent on the sale of collateral, the reserve is equivalent to the recorded investment in the loan less the estimated cash flows discounted using the loan's effective interest rate. The discounted value of the cash flows is based on the anticipated timing of the receipt of cash payments from the borrower.

The reserve allocations assigned to impaired loans are sensitive to the extent market conditions or the actual timing of cash receipts change.

Once specific reserves have been assigned to impaired loans, general reserves are assigned to the remaining portfolio. General reserves are assigned to commercial purpose loans exceeding \$100,000 that are not impaired, but that have weaknesses requiring closer management attention. General reserves are also assigned to commercial purpose loans exceeding \$100,000 that do not exhibit weaknesses requiring closer monitoring. Finally, general reserves are assigned to large groups of smaller-balance homogenous loans, including commercial purpose loans less than \$100,000, consumer loans, credit card loans and residential mortgage loans.

Large commercial purpose loans exhibiting specific weaknesses are detailed in a monthly Problem Loan Report. These loans are divided into ten different pools based on various risk characteristics and the underlying value of collateral taken to secure specific loans within the pools. These classified loans are monitored for changes in risk ratings that are assigned based on Capital City Bank's Asset Classification Policy, and for the ultimate disposition of the loan. The ultimate disposition may include upgrades in risk ratings, payoff of the loan, or charge-off of the loan. This migration analysis results in a charge-off ratio by loan pool of classified loans that is applied to the balance of the pool to determine general reserves for specifically identified problem loans. This charge-off ratio is adjusted for various environmental factors including past due and nonperforming trends in the loan portfolio, the micro-and macro-economic outlook, and credit administration practices as determined by independent parties.

General reserves are assigned to large commercial purpose loans exceeding \$100,000 that do not exhibit weaknesses and pools of smaller-balance homogenous loans based on calculated overall charge-off ratios over the past three years. The charge-off ratios applied are adjusted as detailed above, with further consideration given to the highest charge-off experience of Capital City Bank dating back to the recession of the late 1980s.

The allowance for loan losses is compared against the sum of the specific reserves assigned to problem loans plus the general reserves assigned to pools of loans that are not specific problem loans. Adjustments are made when appropriate. A most likely reserve value is determined within the computed range of required calculated reserve, with the actual allowance for loan losses compared to the most likely reserve value. The unallocated reserve is monitored on a regular basis and

adjusted based on qualitative factors. Table 7 analyzes the activity in the allowance over the past five years.

Table 7  
Analysis of Allowance For Loan Losses

(Dollars in Thousands)	For the Years Ended December 31,				
	2003	2002	2001	2000	1999
Balance at Beginning of Year	\$ 12,495	\$ 12,096	\$ 10,564	\$ 9,929	\$ 9,827
Acquired Reserves	—	—	1,206	—	—
Charge-Offs:					
Commercial, Financial and Agricultural	426	818	483	626	480
Real Estate - Construction	—	—	—	7	—
Real Estate - Commercial Mortgage	91	—	32	—	354
Real Estate - Residential	228	175	159	168	251
Consumer	3,794	3,279	3,976	2,387	2,113
Total Charge-Offs	4,539	4,272	4,650	3,188	3,198
Recoveries:					
Commercial, Financial and Agricultural	142	136	44	52	142
Real Estate - Construction	—	—	—	11	—
Real Estate - Commercial Mortgage	—	20	65	73	84
Real Estate - Residential	18	37	116	54	11
Consumer	877	1,181	768	513	623
Total Recoveries	1,037	1,374	993	703	860
Net Charge-Offs	3,502	2,898	3,657	2,485	2,338
Provision for Loan Losses	3,436	3,297	3,983	3,120	2,440
Balance at End of Year	\$ 12,429	\$ 12,495	\$ 12,096	\$ 10,564	\$ 9,929
Ratio of Net Charge-Offs to Average Loans Outstanding	.27%	.23%	.31%	.25%	.26%
Allowance for Loan Losses as a Percent of Loans at End of Year	.93%	.97%	.97%	1.00%	1.07%
Allowance for Loan Losses as a Multiple of Net Charge-Offs	3.55x	4.31x	3.31x	4.25x	4.25x

The allowance for loan losses at December 31, 2003 of \$12.4 million compares to \$12.5 million at year-end 2002. The allowance as a percent of total loans was 0.93% in 2003 and 0.97% in 2002. The allowance for loan losses as a percentage of loans reflects management's current estimation of the credit quality of CCBG's loan portfolio. While there can be no assurance that CCBG will not sustain loan losses in a particular period that are substantial in relation to the size of the allowance, management's assessment of the loan portfolio does not indicate a likelihood of this occurrence. It is management's opinion that the allowance at December 31, 2003 is adequate to absorb losses inherent in the loan portfolio at year-end.

Table 8 provides an allocation of the allowance for loan losses to specific loan types for each of the past five years. The reserve allocations, as calculated using the above methodology, are assigned to specific loan categories corresponding to the type represented within the components discussed. The greatest losses experienced by CCBG have occurred in the consumer loan portfolio, including credit cards. As such, the greatest amount of the allowance is allocated to consumer loans despite its relatively small balance. Management is constantly reviewing the delivery, underwriting and collection of these products to reduce loan losses.

### **Risk Element Assets**

Risk element assets consist of nonaccrual loans, renegotiated loans, other real estate, loans past due 90 days or more, potential problem loans and loan concentrations. Table 9 depicts certain categories of CCBG's risk element assets as of December 31 for each of the last five years. Potential problem loans and loan concentrations are discussed within the narrative portion of this section.

CCBG's nonperforming loans decreased \$164,000, or 6.6% from a level of \$2.5 million at December 31, 2002, to \$2.3 million at December 31, 2003. During 2003 loans totaling approximately \$9.0 million were added, while loans totaling \$9.2 million were removed from nonaccruing status. A single loan of \$3.7 million was both added and removed during the year. Of the \$9.2 million removed, \$1.5 million consisted of principal reductions and loan payoffs, \$5.1 million represented loans transferred to other real estate, \$2.4 million consisted of loans brought current and returned to an accrual status, and \$165,000 was charged off. Where appropriate, management has allocated specific reserves to absorb anticipated losses. The majority (83%) of CCBG's charge-offs in 2003 were in the consumer portfolio where loans are charged off based on past due status and are not recorded as nonaccruing loans.

All nonaccrual loans exceeding \$25,000 not secured by 1-4 family residential properties are reviewed quarterly for impairment. A loan is considered impaired when it is probable that all principal and interest will not be collected according to the contractual terms. When a loan is considered impaired, it is reviewed for exposure to credit loss. If credit loss is probable, a specific reserve is allocated to absorb the anticipated loss. CCBG had \$1.3 million in loans considered impaired at December 31, 2003. The anticipated loss in those impaired loans is only \$178,000.

Table 8  
Allocation of Allowance for Loan Losses

	2003		2002		2001		2000		1999	
	Allowance Amount	Percent of Loans in Each Category To Total Loans	Allowance Amount	Percent of Loans in Each Category To Total Loans	Allowance Amount	Percent of Loans in Each Category To Total Loans	Allowance Amount	Percent of Loans in Each Category To Total Loans	Allowance Amount	Percent of Loans in Each Category To Total Loans
<i>(Dollars in Thousands)</i>										
Commercial, Financial and Agricultural	\$ 2,824	11.9%	\$ 2,740	11.0%	\$ 3,257	10.3%	\$ 1,423	10.3%	\$ 1,873	10.7%
Real Estate:										
Construction	313	6.6	348	7.1	600	5.9	424	8.0	477	6.7
Commercial										
Mortgage	2,831	29.2	2,559	27.8	3,098	24.3	3,157	22.0	3,228	23.0
Residential	853	34.9	1,021	36.9	947	42.7	922	42.3	573	41.3
Consumer	4,169	17.4	4,210	17.2	4,194	16.8	3,423	17.4	3,327	18.3
Not Allocated	1,439	—	1,617	—	—	—	1,215	—	451	—
Total	\$ 12,429	100.0%	\$ 12,495	100.0%	\$ 12,096	100.0%	\$ 10,564	100.0%	\$ 9,929	100.0%

Table 9  
**Risk Element Assets**

<i>(Dollars in Thousands)</i>	As of December 31,				
	2003	2002	2001	2000	1999
Nonaccruing Loans	\$ 2,346	\$ 2,510	\$ 2,414	\$ 2,919	\$ 2,965
Restructured	—	—	20	19	26
Total Nonperforming Loans	2,346	2,510	2,434	2,938	2,991
Other Real Estate	4,955	1,333	1,506	971	934
Total Nonperforming Assets	\$ 7,301	\$ 3,843	\$ 3,940	\$ 3,909	\$