

CAPITAL CITY BANK GROUP INC
Form 10-K
March 04, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2009

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

(Exact name of Registrant as specified in its charter)

Florida
(State of Incorporation)

0-13358
(Commission File Number)

59-2273542
(IRS Employer
Identification No.)

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

32301
(Zip Code)

(850) 671-0300

(Registrant's telephone number, including area code)

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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§

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232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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

The aggregate market value of the registrant's common stock, \$0.01 par value per share, held by non-affiliates of the registrant on June 30, 2009, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$141,409,946 (based on the closing sales price of the registrant's common stock on that date). Shares of the registrant's common stock held by each officer and director and each person known to the registrant to own 10% or more of the outstanding voting power of the registrant have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not a determination for other purposes.

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

| Class | Outstanding at February 26, 2010 |
|--|----------------------------------|
| Common Stock, \$0.01 par value per share | 17,056,303 shares |

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our Proxy Statement for the Annual Meeting of Shareowners to be held on April 20, 2010, are incorporated by reference in Part III.

CAPITAL CITY BANK GROUP, INC.
ANNUAL REPORT FOR 2009 ON FORM 10-K

TABLE OF CONTENTS

| <u>PART I</u> | | PAGE |
|-------------------|---|------|
| Item 1. | <u>Business</u> | 4 |
| Item 1A. | <u>Risk Factors</u> | 16 |
| Item 1B. | <u>Unresolved Staff Comments</u> | 25 |
| Item 2. | <u>Properties</u> | 25 |
| Item 3. | <u>Legal Proceedings</u> | 25 |
| Item 4. | <u>Reserved</u> | 25 |
| | | |
| <u>PART II</u> | | |
| Item 5. | <u>Market for the Registrant's Common Equity, Related Shareowner Matters, and Issuer Purchases of Equity Securities</u> | 25 |
| Item 6. | <u>Selected Financial Data</u> | 27 |
| Item 7. | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 28 |
| Item 7A. | <u>Quantitative and Qualitative Disclosure About Market Risk</u> | 55 |
| Item 8. | <u>Financial Statements and Supplementary Data</u> | 56 |
| Item 9. | <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u> | 94 |
| Item 9A. | <u>Controls and Procedures</u> | 94 |
| Item 9B. | <u>Other Information</u> | 94 |
| | | |
| <u>PART III</u> | | |
| Item 10. | <u>Directors, Executive Officers, and Corporate Governance</u> | 96 |
| Item 11. | <u>Executive Compensation</u> | 96 |
| Item 12. | <u>Security Ownership of Certain Beneficial Owners and Management and Related Shareowner Matters</u> | 96 |
| Item 13. | <u>Certain Relationships and Related Transactions, and Director Independence</u> | 97 |
| Item 14. | <u>Principal Accountant Fees and Services</u> | 97 |
| | | |
| <u>PART IV</u> | | |
| Item 15. | <u>Exhibits and Financial Statement Schedules</u> | 98 |
| <u>Signatures</u> | | 100 |

INTRODUCTORY NOTE

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

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

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

- § legislative or regulatory changes;
- § the strength of the United States economy in general and the strength of the local economies in which we conduct operations;
- § the accuracy of our financial statement estimates and assumptions, including the estimate for our loan loss provision;
- § the effects of the health and soundness of other financial institutions, including the FDIC’s need to increase Deposit Insurance Fund assessments;
 - § our ability to declare and pay dividends;
 - § changes in the securities and real estate markets;
- § changes in monetary and fiscal policies of the U.S. Government;
 - § inflation, interest rate, market and monetary fluctuations;
 - § the frequency and magnitude of foreclosure of our loans;
- § the effects of our lack of a diversified loan portfolio, including the risks of geographic and industry concentrations;
 - § our need and our ability to incur additional debt or equity financing;
- § our ability to integrate the business and operations of companies and banks that we have acquired, and those we may acquire in the future;
 - § the effects of harsh weather conditions, including hurricanes;
 - § our ability to comply with the extensive laws and regulations to which we are subject;
- § the willingness of clients to accept third-party products and services rather than our products and services and vice versa;
 - § increased competition and its effect on pricing;
 - § technological changes;
- § the effects of security breaches and computer viruses that may affect our computer systems;
 - § changes in consumer spending and saving habits;
 - § growth and profitability of our noninterest income;
 - § changes in accounting principles, policies, practices or guidelines;
 - § the limited trading activity of our common stock;
 - § the concentration of ownership of our common stock;
- § anti-takeover provisions under federal and state law as well as our Articles of Incorporation and our Bylaws;
- § other risks described from time to time in our filings with the Securities and Exchange Commission; and
 - § our ability to manage the risks involved in the foregoing.

However, other factors besides those listed in Item 1A Risk Factors or discussed in this Annual Report also could adversely affect our results, and you should not consider any such list of factors to be a complete set of all potential risks or uncertainties. Any forward-looking statements made by us or on our behalf speak only as of the date they are made. We do not undertake to update any forward-looking statement, except as required by applicable law.

PART I

Item 1. Business

About Us

General

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

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

At December 31, 2009, we had total consolidated assets of approximately \$2.708 billion, total deposits of approximately \$2.258 billion and shareowners’ equity was approximately \$268 million. Our financial condition and results of operations are more fully discussed in our consolidated financial statements.

CCBG’s principal asset is the capital stock of the Bank. CCB accounted for approximately 100% of consolidated assets at December 31, 2009, and approximately 100% of consolidated net income for the year ended December 31, 2009. In addition to our banking subsidiary, we have seven indirect subsidiaries, Capital City Trust Company, Capital City Mortgage Company (inactive), Capital City Banc Investments, Inc., Capital City Services Company, First Insurance Agency of Grady County, Inc., Southern Oaks, Inc., and FNB Financial Services, Inc., all of which are wholly-owned subsidiaries of CCB, and two direct wholly-owned subsidiaries of CCBG, CCBG Capital Trust I and CCBG Capital Trust II.

Dividends and management fees received from the Bank are our primary source of income. Dividend payments by the Bank to us depend on the capitalization, earnings and projected growth of the Bank, and are limited by various regulatory restrictions. See the section entitled “Regulatory Considerations” in this Item 1 and Note 15 in the Notes to Consolidated Financial Statements for additional information. We had a total of 1,006 (full-time equivalent) associates at February 26, 2010. Page 27 contains other financial and statistical information about us.

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

Regulatory Matter

In late February 2010, the Board of Directors of the Bank and the Board of Directors of CCBG agreed to approve certain board resolutions requested by the Federal Reserve (the “Federal Reserve Resolutions”). From a regulatory perspective, this is an informal, nonpublic agreement; however, in the interest of full disclosure, we are summarizing the main obligations of the Federal Reserve Resolutions. The Federal Reserve Resolutions require the Bank and CCBG to take actions to address areas of concern and to provide periodic reports to the Federal Reserve. For the Bank, these actions include, among other things, requiring the Bank to receive approval from the Federal Reserve prior to declaring or paying dividends and requiring the preparation of a written capital plan that demonstrates the Bank’s ability to remain “well capitalized”. Without the prior approval of the Federal Reserve, CCBG agreed to not (i)

incur any new debt or refinance existing debt; (ii) declare any dividends on any class of stock or make any payments on its trust preferred securities; (iii) reduce its capital position by redeeming shares of stock; or (iv) make any payment that would reduce capital outside of normal and routine operating expenses.

We have received approval from the Federal Reserve to pay a \$0.19 per share dividend in March 2010.

Going forward, we may be unable to obtain the required approvals discussed above. If we are unable to obtain these approvals, then the Federal Reserve Resolutions may have a significant effect on our future operations, as well as our ability to continue paying dividends and repurchase stock. As of December 31, 2009, without the need to draw additional dividends from the Bank, we believe CCBG has sufficient cash to fund shareowner dividends in 2010 should the Board choose to declare and pay a quarterly dividend during the year and we receive the required approval from the Federal Reserve.

In addition to the above, we may elect to withdraw our election to be designated as a financial holding company. At this time, because we are not engaged in any of the activities permitted by this designation, we do not expect there to be a material impact on our operations if we choose to withdraw that election.

Banking Services

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

- § Business Banking – The Bank provides banking services to corporations and other business clients. Credit products are available for a wide variety of general business purposes, including financing for commercial business properties, equipment, inventories and accounts receivable, as well as commercial leasing and letters of credit. We also provide treasury management services, and, through a marketing alliance with Elavon, Inc., merchant credit card transaction processing services.
- § Commercial Real Estate Lending – The Bank provides a wide range of products to meet the financing needs of commercial developers and investors, residential builders and developers, and community development. Credit products are available to facilitate the purchase of land and/or build structures for business use and for investors who are developing residential or commercial property.
- § Residential Real Estate Lending – The Bank provides products to help meet the home financing needs of consumers, including conventional permanent and construction/permanent (fixed or adjustable rate) financing arrangements, and FHA/VA loan products. The bank offers both fixed-rate and adjustable rate residential mortgage (ARM) loans. As of December 31, 2009, approximately 13.2% of the Bank’s loan portfolio consisted of residential ARM loans. A portion of our loans originated are sold into the secondary market. The Bank offers these products through its existing network of banking offices. We do not originate subprime residential real estate loans.
- § Retail Credit – The Bank provides a full range of loan products to meet the needs of consumers, including personal loans, automobile loans, boat/RV loans, home equity loans, and credit card programs.
- § Institutional Banking – The Bank provides banking services to meet the needs of state and local governments, public schools and colleges, charities, membership and not-for-profit associations including customized checking and savings accounts, cash management systems, tax-exempt loans, lines of credit, and term loans.
- § Retail Banking – The Bank provides a full range of consumer banking services, including checking accounts, savings programs, automated teller machines (ATMs), debit/credit cards, night deposit services, safe deposit facilities, PC/Internet banking, and mobile banking. Clients can use Capital City Bank Direct which offers both a “live” call center between the hours of 8 a.m. to 6 p.m. five days a week, and an automated phone system offering 24-hour access to their deposit and loan account information, and transfer funds between linked accounts. The Bank is a member of the “Star” ATM Network that permits banking clients to access cash at ATMs or point of sale merchants.

Data Processing Services

Capital City Services Company (the “Services Company”) provides data processing services to financial institutions (including CCB), government agencies, and commercial clients located in North Florida and South Georgia. As of February 26, 2010, the Services Company is providing data processing services to seven correspondent banks, which have relationships with CCB.

Trust Services and Asset Management

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

Administration of pension, profit sharing, and 401(k) plans is a significant product line. Associations, endowments, and other non-profit entities hire the Trust Company to manage their investment portfolios. Additionally, a staff of well-trained professionals serves individuals requiring the services of a trustee, personal representative, or a guardian. The market value of trust assets under discretionary management exceeded \$706.8 million as of December 31, 2009, with total assets under administration exceeding \$784.9 million.

Brokerage Services

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

Expansion of Business

Since 1984, we have completed 15 acquisitions totaling approximately \$1.6 billion in deposits within existing and new markets. In 2009, we opened one replacement office in Gainesville, Florida. In 2009, we implemented a branding program for our retail banking offices - we expect to open two replacement offices in Macon, Georgia and Palatka, Florida, and a new office for Capital City Trust Company in Tallahassee, Florida during the first half of 2010.

We plan to continue our expansion, emphasizing a combination of growth in existing markets and acquisitions. The restructuring in late 2007 of our community banking model has resulted in a more tactical focus on organic growth within certain higher growth metro markets, including Macon, Tallahassee, Gainesville, and Hernando/Pasco counties. Acquisitions will be focused on Florida, Georgia, and Alabama with particular focus on acquiring banks and banking offices that are \$100 million to \$400 million in asset size, located on the outskirts of major metropolitan areas. We will evaluate de novo expansion opportunities in attractive new markets in the event that acquisition opportunities are not feasible. Other expansion opportunities that will be evaluated include asset management and mortgage banking. Subject to regulatory approval, we will continue to seek expansion opportunities which meet our financial and strategic objectives.

Competition

We operate in a highly competitive environment, especially with respect to services and pricing. In addition, the banking business is experiencing enormous changes. In 2009, 140 financial institutions failed in the U.S., including 25 in Georgia and 14 in Florida, nearly all of which were community banks. The assets and deposits of many of these failed community banks were acquired mostly by large financial institutions, and we expect significant consolidation to continue during 2010. We believe this consolidation further enhances our competitive position and opportunities in many of our markets. Our primary market area is 20 counties in Florida, five counties in Georgia, and one county in Alabama. In these markets, the Bank competes against a wide range of banking and nonbanking institutions including savings and loan associations, credit unions, money market funds, mutual fund advisory companies, mortgage banking companies, investment banking companies, finance companies and other types of financial institutions. All of Florida's major banking concerns have a presence in Leon County. CCB's Leon County deposits totaled \$844.8 million, or 37.4%, of our consolidated deposits at December 31, 2009.

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

| | Market Share as of June 30,(1) | | |
|-----------------|--------------------------------|-------|-------|
| | 2009 | 2008 | 2007 |
| Florida | | | |
| Alachua County | 3.9% | 4.6% | 4.7% |
| Bradford County | 51.3% | 50.1% | 47.6% |
| Citrus County | | | |