

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

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2009

OR

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

For the transition period from _____ to _____

Commission File Number: 0-13358



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

Florida
(State or other jurisdiction of incorporation or organization)

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

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

32301
(Zip Code)

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

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

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

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

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐
(Do not check if smaller reporting company)

Smaller reporting company ☐

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

At July 31, 2009, 17,024,508 shares of the Registrant's Common Stock, \$.01 par value, were outstanding.

**CAPITAL CITY BANK GROUP, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE PERIOD ENDED JUNE 30, 2009**

TABLE OF CONTENTS

	Page
PART I – Financial Information	
Item 1. Consolidated Financial Statements (Unaudited)	
Consolidated Statements of Financial Condition – June 30, 2009 and December 31, 2008	4
Consolidated Statements of Income – Three and Six Months Ended June 30, 2009 and 2008	5
Consolidated Statement of Changes in Shareowners' Equity – Six Months Ended June 30, 2009	6
Consolidated Statements of Cash Flow – Six Months Ended June 30, 2009 and 2008	7
Notes to Consolidated Financial Statements	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	19
Item 3. Quantitative and Qualitative Disclosure About Market Risk	36
Item 4. Controls and Procedures	36
PART II – Other Information	
Item 1. Legal Proceedings	36
Item 1A. Risk Factors	36
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	36
Item 3. Defaults Upon Senior Securities	36
Item 4. Submission of Matters to a Vote of Security Holders	37
Item 5. Other Information	37
Item 6. Exhibits	37
Signatures	38

INTRODUCTORY NOTE
Caution Concerning Forward-Looking Statements

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

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

Our ability to achieve our financial objectives could be adversely affected by the factors discussed in detail in Part I, Item 2., "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Part II, Item 1A. "Risk Factors" in this Quarterly Report on Form 10-Q, the following sections of our Annual Report on Form 10-K for the year ended December 31, 2008 (the "2008 Form 10-K"): (a) "Introductory Note" in Part I, Item 1. "Business"; (b) "Risk Factors" in Part I, Item 1A., as updated in our subsequent quarterly reports filed on Form 10-Q, and (c) "Introduction" in "Management's Discussion and Analysis of Financial Condition and Results of Operations," in Part II, Item 7. as well as:

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

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

PART I. FINANCIAL INFORMATION

Item 1. CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

**CAPITAL CITY BANK GROUP, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
AS OF JUNE 30, 2009 AND DECEMBER 31, 2008**

(Dollars In Thousands, Except Share Data)

	June 30, 2009	December 31, 2008
ASSETS		
Cash and Due From Banks	\$ 92,394	\$ 88,143
Federal Funds Sold and Interest Bearing Deposits	2,016	6,806
Total Cash and Cash Equivalents	94,410	94,949
Investment Securities, Available-for-Sale	194,002	191,569
Loans, Net of Unearned Interest	1,977,063	1,957,797
Allowance for Loan Losses	(41,782)	(37,004)
Loans, Net	1,935,281	1,920,793
Premises and Equipment, Net	109,050	106,433
Goodwill	84,811	84,811
Other Intangible Assets	6,051	8,072
Other Assets	102,234	82,072
Total Assets	<u>\$ 2,525,839</u>	<u>\$ 2,488,699</u>
LIABILITIES		
Deposits:		
Noninterest Bearing Deposits	\$ 424,125	\$ 419,696
Interest Bearing Deposits	1,581,805	1,572,478
Total Deposits	2,005,930	1,992,174
Short-Term Borrowings	73,989	62,044
Subordinated Notes Payable	62,887	62,887
Other Long-Term Borrowings	52,354	51,470
Other Liabilities	57,973	41,294
Total Liabilities	<u>2,253,133</u>	<u>2,209,869</u>
SHAREOWNERS' EQUITY		
Preferred Stock, \$.01 par value, 3,000,000 shares authorized; no shares outstanding	-	-
Common Stock, \$.01 par value, 90,000,000 shares authorized; 17,009,676 and 17,126,997 shares issued and outstanding at June 30, 2009 and December 31, 2008, respectively	170	171
Additional Paid-In Capital	35,698	36,783
Retained Earnings	257,828	262,890
Accumulated Other Comprehensive Loss, Net of Tax	(20,990)	(21,014)
Total Shareowners' Equity	272,706	278,830
Total Liabilities and Shareowners' Equity	<u>\$ 2,525,839</u>	<u>\$ 2,488,699</u>

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

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

	Three Months Ended		Six Months Ended	
	2009	2008	2009	2008
<i>(Dollars in Thousands, Except Per Share Data)</i>				
INTEREST INCOME				
Interest and Fees on Loans	\$ 29,742	\$ 33,422	\$ 59,279	\$ 68,677
Investment Securities:				
U.S. Treasuries	157	182	319	349
U.S. Government Agencies	501	665	1,031	1,426
States and Political Subdivisions	695	781	1,432	1,567
Other Securities	84	182	168	361
Federal Funds Sold	1	1,028	4	2,603
Total Interest Income	31,180	36,260	62,233	74,983
INTEREST EXPENSE				
Deposits	2,500	7,162	4,995	17,643
Short-Term Borrowings	88	296	156	817
Subordinated Notes Payable	931	931	1,858	1,862
Other Long-Term Borrowings	566	396	1,134	727
Total Interest Expense	4,085	8,785	8,143	21,049
NET INTEREST INCOME	27,095	27,475	54,090	53,934
Provision for Loan Losses	8,426	5,432	16,836	9,574
Net Interest Income After Provision For Loan Losses	18,669	22,043	37,254	44,360
NONINTEREST INCOME				
Service Charges on Deposit Accounts	7,162	7,060	13,860	13,825
Data Processing	896	812	1,766	1,625
Asset Management Fees	930	1,125	1,900	2,275
Securities Transactions	6	30	6	95
Mortgage Banking Fees	902	506	1,486	1,000
Bank Card Fees	2,666	3,908	5,542	7,869
Other	2,072	2,277	4,116	6,828
Total Noninterest Income	14,634	15,718	28,676	33,517
NONINTEREST EXPENSE				
Salaries and Associate Benefits	16,049	15,318	33,286	30,922
Occupancy, Net	2,540	2,491	4,885	4,853
Furniture and Equipment	2,304	2,583	4,642	5,165
Intangible Amortization	1,010	1,459	2,021	2,917
Other	11,027	8,905	20,353	16,697
Total Noninterest Expense	32,930	30,756	65,187	60,554
INCOME BEFORE INCOME TAXES	373	7,005	743	17,323
Income Tax (Benefit) Expense	(401)	2,195	(681)	5,233
NET INCOME	\$ 774	\$ 4,810	\$ 1,424	\$ 12,090
Basic Net Income Per Share	\$ 0.04	\$ 0.28	\$ 0.08	\$ 0.70
Diluted Net Income Per Share	\$ 0.04	\$ 0.28	\$ 0.08	\$ 0.70
Average Basic Shares Outstanding	17,009,672	17,146,395	17,059,175	17,158,312
Average Diluted Shares Outstanding	17,010,157	17,146,837	17,059,741	17,159,052

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

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

<i>(Dollars In Thousands, Except Share Data)</i>	Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income, Net of Taxes	Total
Balance, December 31, 2008	17,126,997	\$ 171	\$ 36,783	\$ 262,890	\$ (21,014)	\$ 278,830
Comprehensive Income:						
Net Income	-	-	-	1,424	-	1,424
Net Change in Unrealized Gain On Available-for-Sale Securities (net of tax)	-	-	-	-	24	24
Total Comprehensive Income	-	-	-	-	-	1,448
Cash Dividends (\$.38 per share)	-	-	-	(6,486)	-	(6,486)
Stock Performance Plan Compensation	-	-	(154)	-	-	(154)
Issuance of Common Stock	28,567	-	629	-	-	629
Repurchase of Common Stock	(145,888)	(1)	(1,560)	-	-	(1,561)
Balance, June 30, 2009	17,009,676	\$ 170	\$ 35,698	\$ 257,828	\$ (20,990)	\$ 272,706

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

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

(Dollars in Thousands)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 1,424	\$ 12,090
Adjustments to Reconcile Net Income to		
Cash Provided by Operating Activities:		
Provision for Loan Losses	16,836	9,574
Depreciation	3,350	3,447
Net Securities Amortization	1,044	337
Amortization of Intangible Assets	2,021	2,917
Gain on Securities Transactions	(6)	(95)
Origination of Loans Held-for-Sale	(56,294)	(32,269)
Proceeds From Sales of Loans Held-for-Sale	58,927	35,931
Net Gain From Sales of Loans Held-for-Sale	(1,486)	(1,000)
Non-Cash Compensation	-	17
Increase in Deferred Income Taxes	2,061	(730)
Net (Increase) Decrease in Other Assets	(12,870)	7,922
Net Increase (Decrease) in Other Liabilities	20,653	(1,387)
Net Cash Provided By Operating Activities	35,660	36,754
CASH FLOWS FROM INVESTING ACTIVITIES		
Securities Available-for-Sale:		
Purchases	(40,544)	(49,001)
Sales	1,986	3,508
Payments, Maturities, and Calls	35,184	49,846
Net Increase in Loans	(46,025)	(13,216)
Purchase of Premises & Equipment	(5,969)	(7,395)
Proceeds From Sales of Premises & Equipment	2	-
Net Cash Used In Investing Activities	(55,366)	(16,258)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in Deposits	13,757	20,582
Net Increase (Decrease) in Short-Term Borrowings	11,950	(1,343)
Increase in Other Long-Term Borrowings	2,666	11,623
Repayment of Other Long-Term Borrowings	(1,788)	(1,504)
Dividends Paid	(6,486)	(6,214)
Repurchase of Common Stock	(1,561)	(2,414)
Issuance of Common Stock	629	535
Net Cash Provided by Financing Activities	19,167	21,265
NET CHANGE IN CASH AND CASH EQUIVALENTS	(539)	41,761
Cash and Cash Equivalents at Beginning of Period	94,949	259,697
Cash and Cash Equivalents at End of Period	\$ 94,410	\$ 301,458
Supplemental Disclosure:		
Interest Paid on Deposits	\$ 5,181	\$ 18,607
Interest Paid on Debt	\$ 3,153	\$ 3,391
Taxes Paid	\$ 5,643	\$ 8,961
Loans Transferred to Other Real Estate Owned	\$ 13,553	\$ 4,467
Issuance of Common Stock as Non-Cash Compensation	\$ 154	\$ -

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

The unaudited consolidated financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission, including Regulation S-X. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. Prior period financial statements have been reformatted and amounts reclassified, as necessary, to conform with the current presentation. The Company and its subsidiary follow accounting principles generally accepted in the United States ("GAAP") and reporting practices applicable to the banking industry. The principles that materially affect its financial position, results of operations and cash flows are set forth in the Notes to Consolidated Financial Statements which are included in the 2008 Form 10-K.

In the opinion of management, the consolidated financial statements contain all adjustments, which are those of a recurring nature, and disclosures necessary to present fairly the financial position of the Company as of June 30, 2009 and December 31, 2008, the results of operations for the three and six months ended June 30, 2009 and 2008, and cash flows for the six months ended June 30, 2009 and 2008. The Company has evaluated subsequent events for potential recognition and/or disclosure through August 10, 2009, the date the consolidated financial statements included in this Quarterly Report on Form 10-Q were issued.

NOTE 2 - INVESTMENT SECURITIES

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

	June 30, 2009			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
<i>(Dollars in Thousands)</i>				
U.S. Treasury	\$ 27,899	\$ 297	\$ -	\$ 28,196
U.S. Government Agencies	5,597	61	-	5,658
States and Political Subdivisions	105,925	1,420	68	107,277
Residential Mortgage-Backed Securities	39,493	677	18	40,152
Other Securities ⁽¹⁾	12,719	-	-	12,719
Total Investment Securities	<u>\$ 191,633</u>	<u>\$ 2,455</u>	<u>\$ 86</u>	<u>\$ 194,002</u>

	December 31, 2008			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
<i>(Dollars in Thousands)</i>				
U.S. Treasury	\$ 29,094	\$ 577	\$ -	\$ 29,671
U.S. Government Agencies	7,091	180	-	7,271
States and Political Subdivisions	100,370	1,224	32	101,562
Residential Mortgage-Backed Securities	39,860	332	116	40,076
Other Securities ⁽¹⁾	12,882	107	-	12,989
Total Investment Securities	<u>\$ 189,297</u>	<u>\$ 2,420</u>	<u>\$ 148</u>	<u>\$ 191,569</u>

⁽¹⁾ Includes Federal Home Loan Bank and Federal Reserve Bank stock recorded at cost of \$6.9 million and \$4.8 million, respectively, at June 30, 2009, and \$7.0 million and \$4.8 million, respectively, at December 31, 2008. Also, balance includes a bank preferred stock issue recorded at \$1.0 million and \$1.1 million at June 30, 2009 and December 31, 2008, respectively.

The Company's subsidiary, Capital City Bank, as a member of the Federal Home Loan Bank ("FHLB") of Atlanta, is required to own capital stock in the FHLB of Atlanta based generally upon the balances of residential and commercial real estate loans, and FHLB advances. FHLB stock of \$6.9 million which is included in other securities is pledged to secure FHLB advances. No ready market exists for this stock, and it has no quoted market value. However, redemption of this stock has historically been at par value.

Maturity Distribution. As of June 30, 2009, the Company's investment securities had the following maturity distribution based on contractual maturities:

	Amortized Cost	Market Value
<i>(Dollars in Thousands)</i>		
Due in one year or less	\$ 80,324	\$ 81,143
Due after one through five years	96,207	97,682
Due after five through ten years	1,833	1,847
Due over ten years	1,550	1,611
No Maturity	11,719	11,719
Total Investment Securities	<u>\$ 191,633</u>	<u>\$ 194,002</u>

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

NOTE 3 - LOANS

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

	June 30, 2009	December 31, 2008
<i>(Dollars in Thousands)</i>		
Commercial, Financial and Agricultural	\$ 201,589	\$ 206,230
Real Estate-Construction	153,507	141,973
Real Estate-Commercial	686,420	656,959
Real Estate-Residential ⁽¹⁾	448,216	481,034
Real Estate-Home Equity	235,473	218,500
Real Estate-Loans Held-for-Sale	7,369	3,204
Consumer	244,489	249,897
Loans, Net of Unearned Interest	<u>\$ 1,977,063</u>	<u>\$ 1,957,797</u>

⁽¹⁾ Includes loans in process with outstanding balances of \$8.4 million and \$13.9 million for June 30, 2009 and December 31, 2008, respectively.

Net deferred fees included in loans at June 30, 2009 and December 31, 2008 were \$2.0 million and \$1.9 million, respectively.

NOTE 4 - ALLOWANCE FOR LOAN LOSSES

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

	2009	2008
<i>(Dollars in Thousands)</i>		
Balance, Beginning of Period	\$ 37,004	\$ 18,066
Provision for Loan Losses	16,836	9,574
Recoveries on Loans Previously Charged-Off	1,604	1,287
Loans Charged-Off	(13,662)	(6,409)
Balance, End of Period	<u>\$ 41,782</u>	<u>\$ 22,518</u>

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

	June 30, 2009		December 31, 2008	
<i>(Dollars in Thousands)</i>	Balance	Valuation Allowance	Balance	Valuation Allowance
Impaired Loans:				
With Related Valuation Allowance	\$ 99,646	\$ 18,483	\$ 68,705	\$ 15,901
Without Related Valuation Allowance	26,656	-	37,723	-

NOTE 5 - INTANGIBLE ASSETS

The Company had net intangible assets of \$90.9 million and \$92.9 million at June 30, 2009 and December 31, 2008, respectively. Intangible assets were as follows:

	June 30, 2009		December 31, 2008	
<i>(Dollars in Thousands)</i>	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Core Deposit Intangibles	\$ 47,176	\$ 42,017	\$ 47,176	\$ 40,092
Goodwill	84,811	-	84,811	-
Customer Relationship Intangible	1,867	975	1,867	879
Total Intangible Assets	<u>\$ 133,854</u>	<u>\$ 42,992</u>	<u>\$ 133,854</u>	<u>\$ 40,971</u>

Net Core Deposit Intangibles: As of June 30, 2009 and December 31, 2008, the Company had net core deposit intangibles of \$5.1 million and \$7.1 million, respectively. Amortization expense for the first six months of 2009 and 2008 was approximately \$2.0 million and \$2.9 million, respectively. Estimated annual amortization expense for 2009 is \$3.8 million.

Goodwill: As of June 30, 2009 and December 31, 2008, the Company had goodwill, net of accumulated amortization, of \$84.8 million. Goodwill is the Company's only intangible asset that is no longer subject to amortization under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets."

Other: As of June 30, 2009 and December 31, 2008, the Company had a customer relationship intangible asset, net of accumulated amortization, of \$0.9 million and \$1.0 million, respectively. This intangible asset was recorded as a result of the March 2004 acquisition of trust customer relationships from Synovus Trust Company. Amortization expense for the first six months of 2009 and 2008 was approximately \$96,000. Estimated annual amortization expense is approximately \$191,000 based on use of a 10-year useful life.

NOTE 6 - DEPOSITS

The composition of the Company's interest bearing deposits at June 30, 2009 and December 31, 2008 was as follows:

	June 30, 2009	December 31, 2008
<i>(Dollars in Thousands)</i>		
NOW Accounts	\$ 733,526	\$ 758,976
Money Market Accounts	300,683	324,646
Savings Deposits	123,257	115,261
Other Time Deposits	424,339	373,595
Total Interest Bearing Deposits	<u>\$ 1,581,805</u>	<u>\$ 1,572,478</u>

NOTE 7 - STOCK-BASED COMPENSATION

The Company recognizes the cost of stock-based associate stock compensation in accordance with SFAS No. 123R, "Share-Based Payment" (Revised) under the fair value method.

As of June 30, 2009, the Company had three stock-based compensation plans, consisting of the 2008 Associate Stock Incentive Plan ("ASIP"), the 2005 Associate Stock Purchase Plan ("ASPP"), and the 2005 Director Stock Purchase Plan ("DSPP"). Total compensation expense associated with these plans for the six months ended June 30, 2009 and 2008 was \$81,000 and \$208,000, respectively. In the first quarter of 2008, under the provisions of an incentive plan substantially similar to the ASIP, the Company reversed approximately \$577,000 in related stock compensation expense in conjunction with the termination of the Company's 2011 strategic initiative.

ASIP. The Company's ASIP allows the Company's Board of Directors to award key associates various forms of equity-based incentive compensation. Under the ASIP, all participants in this plan are eligible to earn an equity award, in the form of restricted stock. The award for 2009 is tied to an internally established earnings goal. The grant-date fair value of the shares eligible to be awarded in 2009 is approximately \$718,000. In addition, each plan participant is eligible to receive from the Company a tax supplement bonus equal to 31% of the stock award value at the time of issuance. A total of 53,795 shares are eligible for issuance. There has been no expense recognized for the first six months of 2009 as results fell short of the earnings performance goal.

A total of 875,000 shares of common stock have been reserved for issuance under the ASIP. To date, the Company has issued a total of 67,022 shares of common stock under the ASIP.

Executive Stock Option Agreement. Prior to 2007, the Company maintained a stock option arrangement for a key executive officer (William G. Smith, Jr. - Chairman, President and CEO, CCBG). The status of the options granted under this arrangement is detailed in the table provided below. In 2007, the Company replaced its practice of entering into a stock option arrangement by establishing a Performance Share Unit Plan under the provisions of the ASIP that allows the executive to earn shares based on the compound annual growth rate in diluted earnings per share over a three-year period. The details of this program for the executive are outlined in a Form 8-K filing dated January 31, 2007. No expense related to this plan was recognized for the first six months of 2009 and 2008 as results fell short of the earnings performance goal.

A summary of the status of the Company's option shares as of June 30, 2009 is presented below:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Term	Aggregate Intrinsic Value
Outstanding at January 1, 2009	60,384	\$ 32.79	5.9	\$ -
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited or expired	-	-	-	-
Outstanding at June 30, 2009	60,384	\$ 32.79	5.4	\$ -
Exercisable at June 30, 2009	60,384	\$ 32.79	5.4	\$ -

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

DSPP. The Company's DSPP allows the directors to purchase the Company's common stock at a price equal to 90% of the closing price on the date of purchase. Stock purchases under the DSPP are limited to the amount of the director's annual cash compensation. The DSPP has 93,750 shares reserved for issuance. A total of 50,736 shares have been issued since the inception of the DSPP. For the first six months 2009, the Company recognized approximately \$14,000 in expense related to this plan. For the first six months of 2008, the Company recognized approximately \$21,000 in expense related to the DSPP.

ASPP. Under the Company's ASPP, substantially all associates may purchase the Company's common stock through payroll deductions at a price equal to 90% of the lower of the fair market value at the beginning or end of each six-month offering period. Stock purchases under the ASPP are limited to 10% of an associate's eligible compensation, up to a maximum of \$25,000 (fair market value on each enrollment date) in any plan year. Shares are issued at the beginning of the quarter following each six-month offering period. The ASPP has 593,750 shares of common stock reserved for issuance. A total of 96,757 shares have been issued since inception of the ASPP. For the first six months of 2009, the Company recognized approximately \$67,000 in expense related to the ASPP plan compared to \$58,000 in expense for the same period in 2008.

NOTE 8 - EMPLOYEE BENEFIT PLANS

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
<i>(Dollars in Thousands)</i>				
Discount Rate	6.00%	6.25%	6.00%	6.25%
Long-Term Rate of Return on Assets	8.00%	8.00%	8.00%	8.00%
Service Cost	\$ 1,525	\$ 1,279	\$ 3,050	\$ 2,558
Interest Cost	1,200	1,063	2,400	2,126
Expected Return on Plan Assets	(1,275)	(1,253)	(2,550)	(2,506)
Prior Service Cost Amortization	125	75	250	151
Net Loss Amortization	750	280	1,500	561
Net Periodic Benefit Cost	\$ 2,325	\$ 1,444	\$ 4,650	\$ 2,890

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
<i>(Dollars in Thousands)</i>				
Discount Rate	6.00%	6.25%	6.00%	6.25%
Service Cost	\$ 5	\$ 22	\$ 10	\$ 44
Interest Cost	74	56	148	111
Prior Service Cost Amortization	45	2	90	4
Net Loss Amortization	(5)	1	(11)	3
Net Periodic Benefit Cost	\$ 119	\$ 81	\$ 237	\$ 162

NOTE 9 - COMMITMENTS AND CONTINGENCIES

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

The Company's maximum exposure to credit loss under standby letters of credit and commitments to extend credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in establishing commitments and issuing letters of credit as it does for on-balance sheet instruments. As of June 30, 2009, the amounts associated with the Company's off-balance sheet obligations were as follows:

	Amount
<i>(Dollars in Millions)</i>	
Commitments to Extend Credit ⁽¹⁾	\$ 393
Standby Letters of Credit	\$ 17

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

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

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

Indemnification Obligation. The Company is a member of the Visa U.S.A. network. Visa U.S.A. believes that its member banks are required to indemnify Visa U.S.A. for potential future settlement of certain litigation (the "Covered Litigation"). The Company recorded a charge in its fourth quarter 2007 financial statements of approximately \$1.9 million, or \$0.07 per diluted common share, to recognize its proportionate contingent liability related to the costs of the judgments and settlements from the Covered Litigation.

The Company reversed a portion of the Covered Litigation accrual in the amount of approximately \$1.1 million to account for the establishment of a litigation escrow account by Visa Inc., the parent company of Visa U.S.A., in conjunction with Visa's initial public offering during the first quarter of 2008. This escrow account was established to pay the costs of the judgments and settlements from the Covered Litigation. Approximately \$0.8 million remains accrued for the contingent liability related to remaining Covered Litigation.

In October 2008 and July 2009, Visa Inc. funded additional amounts of \$1.1 billion and \$700 million into the litigation escrow account to fund the settlement of the Discover Financial Services litigation and additional pending litigation, which in effect reduced the exchange ratio for the Company's Class B shares of Visa Inc. While the Company could be required to separately fund its proportionate share of any Covered Litigation losses, it is expected that this litigation escrow account will be used to pay all or a substantial amount of the losses.

NOTE 10 - COMPREHENSIVE INCOME

SFAS No. 130, "Reporting Comprehensive Income," requires that certain transactions and other economic events that bypass the income statement be displayed as other comprehensive income. Comprehensive income totaled \$1.4 million for the six months ended June 30, 2009 and \$12.0 million for the comparable period in 2008. The Company's comprehensive income consists of net income and changes in unrealized gains and losses on securities available-for-sale (net of income taxes) and changes in the pension liability (net of taxes). The after-tax increase in net unrealized gains on securities totaled approximately \$24,000 for the six months ended June 30, 2009. The after-tax decrease in the net unrealized gains on securities totaled approximately \$79,000 for the six months ended June 30, 2008. Reclassification adjustments consist only of realized gains and losses on sales of investment securities and were not material for the same comparable periods. There was no change in the company's pension liability for the period ended June 30, 2009 as this liability is adjusted on an annual basis at December 31st.

NOTE 11 - FAIR VALUE MEASUREMENTS

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

SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact, and (iv) willing to transact.

SFAS 157 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, SFAS 157 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

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

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

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

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

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

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

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of June 30, 2009, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

<i>(Dollars in Thousands)</i>	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs ⁽¹⁾	Total Fair Value
Securities Available for Sale	\$ 33,670	\$ 147,613	\$ 1,000	\$ 182,283

⁽¹⁾ Reflects one bank preferred stock issue of \$1.0 million whose fair value has been determined based on an internal valuation model.

The change in the fair value of Level 3 securities from December 31, 2008 to June 30, 2009 primarily relates to the change in the unrealized gain for one security and was not material to the Company's financial statements.

Certain financial and non-financial assets measured at fair value on a nonrecurring basis are detailed below; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial and non-financial liabilities measured at fair value on a nonrecurring basis were not significant at June 30, 2009.

Impaired Loans. On a non-recurring basis, certain impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the liquidation of collateral. Collateral values are estimated using Level 3 inputs based on customized discounting criteria. Impaired loans had a carrying value of \$126.3 million, with a valuation allowance of \$18.5 million, resulting in an additional provision for loan losses of \$2.6 million for the six month period ended June 30, 2009.

Loans Held for Sale. Loans held for sale were \$7.4 million as of June 30, 2009. These loans are carried at the lower of cost or fair value and are adjusted to fair value on a nonrecurring basis. Fair value is based on observable markets rates for comparable loan products which is considered a Level 2 fair value measurement.

Other Real Estate Owned. During the first six months of 2009, certain foreclosed assets, upon initial recognition, were measured and reported at fair value through a charge-off to the allowance for possible loan losses based on the fair value of the foreclosed asset. The fair value of the foreclosed asset, upon initial recognition, is estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria. Foreclosed assets measured at fair value upon initial recognition totaled \$19.2 million during the six months ended June 30, 2009. In connection with the measurement and initial recognition of the foregoing foreclosed assets, the Company recognized gross charge-offs to the allowance for loan losses totaling \$5.7 million. In addition, the Company recognized subsequent losses totaling \$1.6 million for foreclosed assets that were re-valued during the six months ended June 30, 2009.

Effective January 1, 2008, the Company adopted the provisions of SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115." SFAS 159 permits the Company to choose to measure eligible items at fair value at specified election dates. Changes in fair value on items for which the fair value measurement option has been elected are reported in earnings at each subsequent reporting date. The fair value option (i) is applied instrument by instrument, with certain exceptions, thus the Company may record identical financial assets and liabilities at fair value or by another measurement basis permitted under generally accepted accounting principals, (ii) is irrevocable (unless a new election date occurs), and (iii) is applied only to entire instruments and not to portions of instruments. Adoption of SFAS 159 on January 1, 2008 did not have a significant impact on the Company's financial statements because the Company did not elect fair value measurement under SFAS 159.

SFAS 107, "Disclosures about Fair Value of Financial Instruments," as amended, requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis. A detailed description of the valuation methodologies used in estimating the fair value of financial instruments is set forth in the 2008 Form 10-K.

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

	June 30, 2009		December 31, 2008	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
<i>(Dollars in Thousands)</i>				
Financial Assets:				
Cash	\$ 92,394	\$ 92,394	\$ 88,143	\$ 88,143
Short-Term Investments	2,016	2,016	6,806	6,806
Investment Securities	194,002	194,002	191,569	191,569
Loans, Net of Allowance for Loan Losses	1,935,281	1,906,340	1,920,793	1,915,887
Total Financial Assets	\$ 2,223,693	\$ 2,194,752	\$ 2,207,311	\$ 2,202,405
Financial Liabilities:				
Deposits	\$ 2,005,930	\$ 1,925,772	\$ 1,992,174	\$ 1,960,361
Short-Term Borrowings	73,989	73,839	62,044	61,799
Subordinated Notes Payable	62,887	63,794	62,887	63,637
Long-Term Borrowings	52,354	55,939	51,470	57,457
Total Financial Liabilities	\$ 2,195,160	\$ 2,119,344	\$ 2,168,575	\$ 2,143,254

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

NOTE 12 – NEW ACCOUNTING STANDARDS

Statement of Financial Accounting Standards

SFAS No. 141, “Business Combinations (Revised 2007).” SFAS 141R replaces SFAS 141, “Business Combinations,” and applies to all transactions and other events in which one entity obtains control over one or more other businesses. SFAS 141R requires an acquirer, upon initially obtaining control of another entity, to recognize the assets, liabilities and any non-controlling interest in the acquiree at fair value as of the acquisition date. Contingent consideration is required to be recognized and measured at fair value on the date of acquisition rather than at a later date when the amount of that consideration may be determinable beyond a reasonable doubt. This fair value approach replaces the cost-allocation process required under SFAS 141 whereby the cost of an acquisition was allocated to the individual assets acquired and liabilities assumed based on their estimated fair value. SFAS 141R requires acquirers to expense acquisition-related costs as incurred rather than allocating such costs to the assets acquired and liabilities assumed, as was previously the case under SFAS 141. Under SFAS 141R, the requirements of SFAS 146, “Accounting for Costs Associated with Exit or Disposal Activities,” would have to be met in order to accrue for a restructuring plan in purchase accounting. Pre-acquisition contingencies are to be recognized at fair value, unless it is a non-contractual contingency that is not likely to materialize, in which case, nothing should be recognized in purchase accounting and, instead, that contingency would be subject to the probable and estimable recognition criteria of SFAS 5, “Accounting for Contingencies.” SFAS 141R is applicable to the Company’s accounting for business combinations closing on or after January 1, 2009.

SFAS No. 160, “Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB Statement No. 51.” SFAS 160 amends Accounting Research Bulletin (“ARB”) No. 51, “Consolidated Financial Statements,” to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 clarifies that a non-controlling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as a component of equity in the consolidated financial statements. Among other requirements, SFAS 160 requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the non-controlling interest. SFAS 160 became effective for the Company on January 1, 2009 and did not have an impact on the Company’s financial statements.

SFAS No. 161, “Disclosures About Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133.” SFAS 161 amends SFAS 133, “Accounting for Derivative Instruments and Hedging Activities,” to amend and expand the disclosure requirements of SFAS 133 to provide greater transparency about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedge items are accounted for under SFAS 133 and its related interpretations, and (iii) how derivative instruments and related hedged items affect an entity’s financial position, results of operations and cash flows. To meet those objectives, SFAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 became effective for the Company on January 1, 2009 and did not have an impact on the Company’s financial statements.

SFAS No. 165, “Subsequent Events.” SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. SFAS 165 defines (i) the period after the balance sheet date during which a reporting entity’s management should evaluate events or transactions that may have occurred for potential recognition or disclosure in the financial statements (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and (iii) the disclosure an entity should make about events or transactions that occurred after the balance sheet date. SFAS 165 became effective for the Company’s financial statement for periods ending after June 15, 2009. SFAS 165 did not have a significant impact on the Company’s financial statements.

SFAS No. 166, “Accounting for Transfers of Financial Assets, an Amendment of FASB Statement No. 140.” SFAS 166 amends SFAS 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,” to enhance reporting about transfers of financial assets, including securitizations, and where companies have continuing exposure to the risks related to transferred financial assets. SFAS 166 eliminates the concept of a “qualifying special-purpose entity” and changes the requirements for derecognizing financial assets. SFAS 166 also requires additional disclosures about all continuing involvements with transferred financial assets including information about gains and losses resulting from transfers during the period. SFAS 166 will be effective January 1, 2010 and is not expected to have a significant impact on the Company’s financial statements.

SFAS No. 167, Amendments to FASB Interpretation No. 46(R).” SFAS 167 amends FIN 46 (Revised December 2003), “Consolidation of Variable Interest Entities,” to change how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity’s purpose and design and a company’s ability to direct the activities of the entity that most significantly impact the entity’s economic performance. SFAS 167 requires additional disclosures about the reporting entity’s involvement with variable-interest entities and any significant changes in risk exposure due to that involvement as well as its affect on the entity’s financial statements. SFAS 167 will be effective January 1, 2010 and is not expected to have a significant impact on the Company’s financial statements.

SFAS No. 168, “The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a Replacement of FASB Statement 162.” SFAS 168 replaces SFAS 162, “The Hierarchy of Generally Accepted Accounting Principles” and establishes the FASB Accounting Standards Codification (the “Codification”) as the source of authoritative accounting principles recognized by the FASB to be applied by non-governmental entities in the preparation of financial statements in conformity with generally accepted accounting principles. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative guidance for SEC registrants. All guidance contained in the Codification carries an equal level of authority. All non-grandfathered, non-SEC accounting literature not included in the Codification is superseded and deemed non-authoritative. SFAS 168 will be effective for the Company’s financial statements for the periods ending after September 15, 2009.

Financial Accounting Standards Board Staff Positions and Interpretations

FSP No. EITF 03-6-1, “Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities.” FSP EITF 03-6-1 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. FSP EITF 03-6-1 became effective on January 1, 2009 and did not have a significant impact on the Company’s financial statements.

FSP No. 132(R)-1 “Employers’ Disclosures about Postretirement Benefit Plan Assets.” FSP 132(R)-1 provides guidance related to an employer’s disclosures about plan assets of defined benefit pension or other post-retirement benefit plans. Under FSP 132(R)-1, disclosures should provide users of financial statements with an understanding of how investment allocation decisions are made, the factors that are pertinent to an understanding of investment policies and strategies, the major categories of plan assets, the inputs and valuation techniques used to measure the fair value of plan assets, the effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period and significant concentrations of risk within plan assets. The disclosures required by FSP 132(R)-1 will be included in the Company’s financial statements beginning with the financial statements for the year-ended December 31, 2009.

FSP SFAS 157-4, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly.” FSP SFAS 157-4 affirms that the objective of fair value when the market for an asset is not active is the price that would be received to sell the asset in an orderly transaction, and clarifies and includes additional factors for determining whether there has been a significant decrease in market activity for an asset when the market for that asset is not active. FSP SFAS 157-4 requires an entity to base its conclusion about whether a transaction was not orderly on the weight of the evidence. FSP SFAS 157-4 also amended SFAS 157, “Fair Value Measurements,” to expand certain disclosure requirements. The Company adopted the provisions of FSP 157-4 during the second quarter of 2009 and it did not significantly impact the Company’s financial statements.

FSP SFAS 115-2 and SFAS 124-2, “Recognition and Presentation of Other-Than-Temporary Impairments.” FSP SFAS 115-2 and SFAS 124-2 (i) changes existing guidance for determining whether an impairment is other than temporary to debt securities and (ii) replaces the existing requirement that the entity’s management assert it has both the intent and ability to hold an impaired security until recovery with a requirement that management assert: (a) it does not have the intent to sell the security; and (b) it is more likely than not it will not have to sell the security before recovery of its cost basis. Under FSP SFAS 115-2 and SFAS 124-2, declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses to the extent the impairment is related to credit losses. The amount of the impairment related to other factors is recognized in other comprehensive income. The Company adopted the provisions of FSP SFAS 115-2 and SFAS 124-2 during the second quarter of 2009 and it did not significantly impact the Company’s financial statements.

FSP SFAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments." FSP SFAS 107-1 and APB 28-1 amends SFAS 107, "Disclosures about Fair Value of Financial Instruments," to require an entity to provide disclosures about fair value of financial instruments in interim financial information and amends Accounting Principles Board ("APB") Opinion No. 28, "Interim Financial Reporting," to require those disclosures in summarized financial information at interim reporting periods. Under FSP SFAS 107-1 and APB 28-1, a publicly traded company shall include disclosures about the fair value of its financial instruments whenever it issues summarized financial information for interim reporting periods. In addition, entities must disclose, in the body or in the accompanying notes of its summarized financial information for interim reporting periods and in its financial statements for annual reporting periods, the fair value of all financial instruments for which it is practicable to estimate that value, whether recognized or not recognized in the statement of financial position, as required by SFAS 107. The new interim disclosures required by FSP SFAS 107-1 and APB 28-1 are included in the Company's interim financial statements for the second quarter of 2009.

FSP SFAS 141R-1, "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies." FSP SFAS 141R-1 amends the guidance in SFAS 141R to require that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value if fair value can be reasonably estimated. If fair value of such an asset or liability cannot be reasonably estimated, the asset or liability would generally be recognized in accordance with SFAS 5, "Accounting for Contingencies," and FASB Interpretation ("FIN") No. 14, "Reasonable Estimation of the Amount of a Loss." FSP SFAS 141R-1 removes subsequent accounting guidance for assets and liabilities arising from contingencies from SFAS 141R and requires entities to develop a systematic and rational basis for subsequently measuring and accounting for assets and liabilities arising from contingencies. FSP SFAS 141R-1 eliminates the requirement to disclose an estimate of the range of outcomes of recognized contingencies at the acquisition date. For unrecognized contingencies, entities are required to include only the disclosures required by SFAS 5. FSP SFAS 141R-1 also requires that contingent consideration arrangements of an acquiree assumed by the acquirer in a business combination be treated as contingent consideration of the acquirer and should be initially and subsequently measured at fair value in accordance with SFAS 141R. FSP SFAS 141R-1 is effective for assets or liabilities arising from contingencies the Company acquires in business combinations occurring after January 1, 2009.

QUARTERLY FINANCIAL DATA (UNAUDITED)

	2009		2008				2007		
(Dollars in Thousands, Except Per Share Data)	Second	First	Fourth	Third ⁽¹⁾	Second	First	Fourth	Third	
Summary of Operations:									
Interest Income	\$ 31,180	\$ 31,053	\$ 33,229	\$ 34,654	\$ 36,260	\$ 38,723	\$ 40,786	\$ 41,299	
Interest Expense	4,085	4,058	5,482	7,469	8,785	12,264	13,241	13,389	
Net Interest Income	27,095	26,995	27,747	27,185	27,475	26,459	27,545	27,910	
Provision for Loan Losses	8,426	8,410	12,497	10,425	5,432	4,142	1,699	1,552	
Net Interest Income After Provision for Loan Losses	18,669	18,585	15,250	16,760	22,043	22,317	25,846	26,358	
Noninterest Income	14,634	14,042	13,311	20,212	15,718	17,799	15,823	14,431	
Noninterest Expense	32,930	32,257	31,002	29,916	30,756	29,798	31,614	29,919	
Income Before Provision for Income Taxes	373	370	(2,441)	7,056	7,005	10,318	10,055	10,870	
Provision for Income Taxes	(401)	(280)	(738)	2,218	2,195	3,038	2,391	3,699	
Net Income	\$ 774	\$ 650	\$ (1,703)	\$ 4,838	\$ 4,810	\$ 7,280	\$ 7,664	\$ 7,171	
Net Interest Income (FTE)	\$ 27,679	\$ 27,578	\$ 28,387	\$ 27,802	\$ 28,081	\$ 27,078	\$ 28,196	\$ 28,517	
Per Common Share:									
Net Income Basic	\$ 0.04	\$ 0.04	\$ (0.10)	\$ 0.29	\$ 0.28	\$ 0.42	\$ 0.44	\$ 0.41	
Net Income Diluted	0.04	0.04	(0.10)	0.29	0.28	0.42	0.44	0.41	
Dividends Declared	0.190	0.190	0.190	0.185	0.185	0.185	0.185	0.175	
Diluted Book Value	16.03	16.18	16.27	17.45	17.33	17.33	17.03	16.95	
Market Price:									
High	17.35	27.31	33.32	34.50	30.19	29.99	34.00	36.40	
Low	11.01	9.50	21.06	19.20	21.76	24.76	24.60	27.69	
Close	16.85	11.46	27.24	31.35	21.76	29.00	28.22	31.20	
Selected Average									
Balances:									
Loans	\$ 1,974,197	\$ 1,964,086	\$ 1,940,083	\$ 1,915,008	\$ 1,908,802	\$ 1,909,574	\$ 1,908,069	\$ 1,907,235	
Earning Assets	2,175,281	2,166,237	2,150,841	2,207,670	2,303,971	2,301,463	2,191,230	2,144,737	
Assets	2,506,352	2,486,925	2,463,318	2,528,638	2,634,771	2,646,474	2,519,682	2,467,703	
Deposits	1,971,190	1,957,354	1,945,866	2,030,684	2,140,545	2,148,874	2,016,736	1,954,160	
Shareowners' Equity	277,114	281,634	302,227	303,595	300,890	296,804	299,342	301,536	
Common Equivalent Shares:									
Basic	17,010	17,109	17,125	17,124	17,146	17,170	17,444	17,709	
Diluted	17,010	17,131	17,135	17,128	17,147	17,178	17,445	17,719	
Ratios:									
ROA	0.12%	0.11%	(0.28)%	0.76%	0.73%	1.11%	1.21%	1.15%	
ROE	1.12%	0.94%	(2.24)%	6.34%	6.43%	9.87%	10.16%	9.44%	
Net Interest Margin (FTE)	5.11%	5.16%	5.26%	5.01%	4.90%	4.73%	5.10%	5.27%	
Efficiency Ratio	75.44%	75.07%	71.21%	59.27%	66.89%	63.15%	68.51%	66.27%	

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

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

Management's discussion and analysis ("MD&A") provides supplemental information, which sets forth the major factors that have affected our financial condition and results of operations and should be read in conjunction with the Consolidated Financial Statements and related notes. The MD&A is divided into subsections entitled "Business Overview," "Financial Overview," "Results of Operations," "Financial Condition," "Market Risk and Interest Rate Sensitivity," "Liquidity and Capital Resources," "Off-Balance Sheet Arrangements," and "Accounting Policies." The following information should provide a better understanding of the major factors and trends that affect our earnings performance and financial condition, and how our performance during 2009 compares with prior years. Throughout this section, Capital City Bank Group, Inc., and subsidiaries, collectively, are referred to as "CCBG," "Company," "we," "us," or "our."

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

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

Reconciliation of operating efficiency ratio to efficiency ratio:

	Three Months Ended			Six Months Ended	
	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Efficiency ratio	77.83%	77.50%	70.22%	77.67%	68.29%
Effect of intangible amortization expense	(2.39)%	(2.43)%	(3.33)%	(2.41)%	(3.29)%
Operating efficiency ratio	75.44%	75.07%	66.89%	75.26%	65.00%

Reconciliation of operating net noninterest expense ratio:

	Three Months Ended			Six Months Ended	
	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Net noninterest expense as a percent of average assets	2.93%	2.97%	2.30%	2.95%	2.06%
Effect of intangible amortization expense	(0.16)%	(0.16)%	(0.23)%	(0.16)%	(0.22)%
Operating net noninterest expense as a percent of average assets	2.77%	2.81%	2.07%	2.79%	1.84%

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

CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

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

All forward-looking statements, by their nature, are subject to risks and uncertainties. Our actual future results may differ materially from those set forth in our forward-looking statements. Please see the Introductory Note and *Item 1A. Risk Factors* of our 2008 Report on Form 10-K, as updated in our subsequent quarterly reports filed on Form 10-Q, and in our other filings made from time to time with the SEC after the date of this report.

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

BUSINESS OVERVIEW

We are a financial holding company headquartered in Tallahassee, Florida and we are the parent of our wholly-owned subsidiary, Capital City Bank (the "Bank" or "CCB"). The Bank offers a broad array of products and services through a total of 68 full-service offices located in Florida, Georgia, and Alabama. The Bank offers commercial and retail banking services, as well as trust and asset management, retail securities brokerage and data processing services.

Our profitability, like most financial institutions, is dependent to a large extent upon net interest income, which is the difference between the interest received on earning assets, such as loans and securities, and the interest paid on interest-bearing liabilities, principally deposits and borrowings. Results of operations are also affected by the provision for loan losses, operating expenses such as salaries and employee benefits, occupancy and other operating expenses including income taxes, and noninterest income such as service charges on deposit accounts, asset management and trust fees, retail securities brokerage fees, mortgage banking revenues, bank card fees, and data processing revenues.

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

Our long-term vision is to continue our expansion, emphasizing a combination of growth in existing markets and acquisitions. Acquisitions will continue to be focused on a three state area including Florida, Georgia, and Alabama with a particular focus on financial institutions, which are \$100 million to \$400 million in asset size and generally located on the outskirts of major metropolitan areas. Five markets have been identified, four in Florida and one in Georgia, in which management will proactively pursue expansion opportunities. These markets include Alachua, Marion, and Hernando and Pasco counties in Florida and the western panhandle in Florida and Bibb and surrounding counties in central Georgia. We continue to evaluate de novo expansion opportunities in attractive new markets in the event that acquisition opportunities are not feasible. Other expansion opportunities that will be evaluated include asset management and mortgage banking.

Recent Industry Developments

The global and U.S. economies are experiencing significantly reduced business activity as a result of, among other factors, disruptions in the financial system in the past year. In fact, the National Bureau of Economic Research announced that the U.S. entered into a recession in December 2007. Dramatic declines in the housing market during the past year, with falling home prices and increasing foreclosures and unemployment, have resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities and major commercial and investment banks. These write-downs, initially of mortgage-backed securities but spreading to credit default swaps and other derivative securities, as well as other areas of the credit market, including investment grade and non-investment grade corporate debt, convertible securities, emerging market debt and equity, and leveraged loans, have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to fail.

The magnitude of these declines led to a crisis of confidence in the financial sector as a result of concerns about the capital base and viability of certain financial institutions. During this period, interbank lending and commercial paper borrowing fell sharply, precipitating a credit freeze for both institutional and individual borrowers. This market turmoil and tightening of credit have led to an increased level of consumer and commercial delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of business activity generally. The resulting economic pressure on consumers and lack of confidence in the financial markets has, in some cases, adversely affected the financial services industry.

Since 2007, the landscape of the U.S. financial services industry has changed dramatically, especially during the fourth quarter of 2008. Lehman Brothers Holdings Inc. declared bankruptcy and many major U.S. financial institutions consolidated or were forced to merge or were put into conservatorship by the U.S. Federal Government, including The Bear Stearns Companies, Inc., Wachovia Corporation, Washington Mutual, Inc., Federal Home Loan Mortgage Corporation and Federal National Mortgage Association. In addition, the U.S. Federal Government provided a sizable loan to American International Group Inc. ("AIG") in exchange for an equity interest in AIG.

Much of our lending operations are in the State of Florida, which has been particularly hard hit in the current U.S. recession. Evidence of the economic downturn in Florida is reflected in current unemployment statistics. The Florida unemployment rate at June 2009 increased to 10.6% from 8.1% at the end of 2008 and 4.7% at the end of 2007. A worsening of the economic condition in Florida would likely exacerbate the adverse effects of these difficult market conditions on our clients, which may have a negative impact on our financial results.

In response to the financial crises affecting the banking system and financial markets and going concern threats to investment banks and other financial institutions, on October 3, 2008, the Emergency Economic Stabilization Act of 2008 (the "EESA") was signed into law. Pursuant to the EESA, the U.S. Treasury was given the authority to, among other things, purchase up to \$700 billion of mortgages, mortgage-backed securities and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets.

On October 14, 2008, the Secretary of the Department of the Treasury announced that the Department of the Treasury would purchase equity stakes in a wide variety of banks and thrifts. Under the program, known as the Troubled Asset Relief Program Capital Purchase Program (the "TARP Capital Purchase Program"), from the \$700 billion authorized by the EESA, the Treasury made \$250 billion of capital available to U.S. financial institutions in the form of preferred stock. In conjunction with the purchase of preferred stock, the Treasury received, from participating financial institutions, warrants to purchase common stock with an aggregate market price equal to 15% of the preferred investment. Participating financial institutions were required to adopt the Treasury's standards for executive compensation and corporate governance for the period during which the Treasury holds equity issued under the TARP Capital Purchase Program. On November 13, 2008, we announced that we would not apply for funds available through the TARP Capital Purchase Program. In March 2009, the U.S. Treasury announced a public-private investment program (commonly known as P-PIP), which is designed to (1) remedy the illiquidity in the secondary markets for certain mortgage-backed securities and (2) create a market for troubled loans on the balance sheets of U.S. banks and thrifts. At this time, we have no plans to participate in the P-PIP.

On November 21, 2008, the Board of Directors of the FDIC adopted a final rule relating to the Temporary Liquidity Guarantee Program ("TLG Program"). The TLG Program was announced by the FDIC on October 14, 2008 as an initiative to counter the system-wide crisis in the nation's financial sector. Under the TLG Program the FDIC will (i) guarantee, through the earlier of maturity or June 30, 2012, certain newly issued senior unsecured debt issued by participating institutions on or after October 14, 2008, and before June 30, 2009 and (ii) provide full FDIC deposit insurance coverage for non-interest bearing transaction deposit accounts, Negotiable Order of Withdrawal ("NOW") accounts paying less than 0.5% interest per annum and Interest on Lawyers Trust Accounts held at participating FDIC insured institutions through December 31, 2009. Coverage under the TLG Program was available for the first 30 days without charge. The fee assessment for coverage of senior unsecured debt ranges from 50 basis points to 100 basis points per annum, depending on the initial maturity of the debt. The fee for deposit insurance coverage is an annualized 10 basis points assessed on a per quarter basis on amounts in covered accounts exceeding \$250,000. The FDIC has extended the debt guarantee program until October 31, 2009; however, the FDIC has imposed an additional 10 basis points surcharge for guaranteed debt issued on or after April 1, 2009. On December 12, 2008, we announced that we would participate in both guarantee programs; however, since we did not issue any guaranteed debt under the program, we will be required to submit an application and obtain approval to participate in the extension of the debt guarantee program.

As an FDIC-insured institution, the Bank is required to pay deposit insurance premiums to the FDIC. Because the FDIC's deposit insurance fund fell below prescribed levels in 2008, the FDIC has announced increased premiums for all insured depository institutions in order to begin recapitalizing the fund. Effective April 1, 2009, insurance assessments were increased to a range from 0.07% to 0.78%, depending on an institution's risk classification and other factors.

In addition, the FDIC has imposed a 5 basis point special assessment on insured depository institutions to be paid on September 30, 2009, based on assets minus Tier 1 capital at June 30, 2009. We expect the assessment to be approximately \$1.2 million. In addition, the FDIC has indicated that an additional assessment of up to five basis points later in 2009 is probable.

FINANCIAL OVERVIEW

A summary overview of our financial performance is provided below.

Financial Performance Highlights –

- Net income for the second quarter of 2009 totaled \$0.8 million (\$0.04 per diluted share) compared to net income of \$0.6 million (\$0.04 per diluted share) for the first quarter of 2009 and \$4.8 million (\$0.28 per diluted share) for the second quarter of 2008. Net income for the first six months of 2009 totaled \$1.4 million (\$0.08 per diluted share) compared to \$12.1 million (\$0.70 per diluted share) for the comparable period of 2008.
 - Net income for the second quarter and first half of 2009 reflects loan loss provisions of \$8.4 million (\$0.30 per diluted share) and \$16.8 million (\$0.61 per diluted share), respectively, and a one-time special FDIC assessment of approximately \$1.2 million (\$0.04 per diluted share) recorded in the second quarter.
 - Tax equivalent net interest income for the second quarter of 2009 was \$27.7 million compared to \$27.6 million for the first quarter of 2009 and \$28.1 million for the second quarter of 2008. For the first half of 2009, tax equivalent net interest income totaled \$55.3 million compared to \$55.2 million in 2008.
 - Noninterest income increased \$0.6 million, or 4.2%, from the prior linked quarter due to higher deposit fees and mortgage banking fees. Year over year, noninterest income declined \$1.1 million, or 6.9%, and \$4.8 million, or 14.4%, for the three and six-month periods, respectively, due to lower merchant fees reflective of the sale of a major portion of our merchant services portfolio in July 2008. A \$2.4 million pre-tax gain from the redemption of Visa shares realized in the first quarter of 2008 also impacted the unfavorable variance for the six month period.
 - Noninterest expense increased \$0.7 million, or 2.1%, from the prior linked quarter due primarily to the one-time FDIC special assessment (\$1.2 million). Year over year, noninterest expense increased \$2.2 million, or 7.1%, and \$4.6 million, or 7.7%, for the three and six-month periods, respectively, primarily due to an increase in pension expense, higher expense for other real estate properties, and higher FDIC insurance premiums, including the one-time special assessment. A one-time entry of \$1.1 million in the first quarter of 2008 to reverse a portion of our Visa litigation accrual also contributed to the increase for the six month period.
 - Loan loss provision for the quarter was \$8.4 million, comparable to the prior linked quarter. Year over year, the loan loss provision increased \$3.0 million and \$7.3 million for the three and six-month periods, respectively, generally reflective of current depressed economic conditions, and stress within our real estate markets, including property devaluation. As of June 30, 2009, the allowance for loan losses was 2.12% of total loans compared to 1.18% for the same period in 2008.
 - Average earnings assets have increased \$9.0 million, or 0.4%, from the prior linked quarter and \$24.4 million, or 1.1%, from the prior year-end primarily reflective of loan growth. Average loans grew \$10.1 million, or .51%, and \$34.1 million, or 1.8%, from the same comparable periods. Average deposits grew by \$13.8 million, or 0.7%, and \$25.3 million, or 1.3%, from the prior linked quarter and prior year-end, respectively. Growth in both loans and deposits reflects the efforts of our bankers to reach clients who are interested in moving or expanding their banking relationships.
 - As of June 30, 2009, we are well-capitalized with a risk based capital ratio of 14.20% and a tangible capital ratio of 7.47% compared to 14.69% and 7.76%, respectively, at year-end 2008 and 14.35% and 7.87%, respectively, at June 30, 2008.
-

RESULTS OF OPERATIONS

Net Income

Net income for the second quarter of 2009 totaled \$0.8 million (\$0.04 per diluted share) compared to \$0.6 million or (\$0.04 per diluted share) for the first quarter of 2009 and \$4.8 million (\$0.28 per diluted share) for the second quarter of 2008. For the first six months of 2009, net income totaled \$1.4 million (\$0.08 per diluted share) compared to \$12.1 million (\$0.70 per diluted share), for the same period of 2008.

Earnings for the three and six month periods of 2009 reflect loan loss provisions of \$8.4 million (\$0.30 per diluted share) and \$16.8 million (\$0.61 per diluted share), respectively, and a one-time special FDIC assessment of approximately \$1.2 million (\$0.04 per diluted share) recorded in the second quarter of 2009. An increase in noninterest income of \$0.6 million, or 4.2%, driven by higher deposit fees and mortgage banking fees as well as a reduction in our incentive plan expense of approximately \$0.8 million drove the improvement in net income over the linked first quarter.

Year over year, the \$4.0 million decline in net income for the three month period is primarily attributable to an increase in our loan loss provision (\$3.0 million), lower noninterest income (\$1.1 million), higher noninterest expense (\$2.2 million), partially offset by lower income tax expense (\$2.6 million). A slight reduction in net interest income of \$0.4 million also contributed to the unfavorable variance. The unfavorable variance in noninterest income was driven primarily by lower merchant fees (\$1.4 million) due to a July 2008 sale of a major portion of our merchant services portfolio, partially offset by higher mortgage banking fees (\$0.4 million). The increase in noninterest expense primarily reflects higher pension expense (\$1.0 million), higher FDIC insurance premiums (\$2.0 million), an increase in other real estate owned expenses (\$1.2 million), partially offset by lower interchange fees (\$1.3 million) related to the lower costs for processing our merchant services portfolio, a reduction in intangible amortization (\$0.4 million), and lower incentive plan expense (\$0.3 million).

For the six month period, the decline in net income of \$10.7 million is attributable to a higher loan loss provision (\$7.3 million), lower noninterest income (\$4.8 million), higher noninterest expense (\$4.6 million), partially offset by lower income tax expense (\$5.9 million). A slight reduction in net interest income of \$0.2 million also contributed to the unfavorable variance. The unfavorable variance in noninterest income reflects a one-time pre-tax gain of \$2.4 million from the redemption of Visa shares in the first quarter of 2008 as well as lower merchant fees (\$2.7 million) attributable to the aforementioned sale of a major portion of our merchant services portfolio, partially offset by higher mortgage banking fees (\$0.5 million). The increase in noninterest expense was primarily attributable to higher pension expense (\$2.1 million), higher FDIC insurance premiums (\$2.7 million), an increase in other real estate owned expenses (\$1.8 million), partially offset by lower interchange fees (\$2.4 million) related to the lower costs for processing our merchant services portfolio, and a reduction in intangible amortization (\$0.9 million). A one-time entry of \$1.1 million in the first quarter of 2008 to reverse a portion of our Visa litigation accrual also contributed to the unfavorable variance for the six month period.

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

	Three Months Ended			Six Months Ended	
	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	June 30, 2008
<i>(Dollars in Thousands, except per share data)</i>					
Interest Income	\$ 31,180	\$ 31,053	\$ 36,260	\$ 62,233	\$ 74,983
Taxable equivalent Adjustments	584	583	606	1,167	1,225
Total Interest Income (FTE)	31,764	31,636	36,866	63,400	76,208
Interest Expense	4,085	4,058	8,785	8,143	21,049
Net Interest Income (FTE)	27,679	27,578	28,081	55,257	55,159
Provision for Loan Losses	8,426	8,410	5,432	16,836	9,574
Taxable Equivalent Adjustments	584	583	606	1,167	1,225
Net Interest Income After provision for Loan Losses	18,669	18,585	22,043	37,254	44,360
Noninterest Income	14,634	14,042	15,718	28,676	33,517
Noninterest Expense	32,930	32,257	30,756	65,187	60,554
Income Before Income Taxes	373	370	7,005	743	17,323
Income Taxes	(401)	(280)	2,195	(681)	5,233
Net Income	\$ 774	\$ 650	\$ 4,810	\$ 1,424	\$ 12,090
Basic Net Income Per Share	\$ 0.04	\$ 0.04	\$ 0.28	\$ 0.08	\$ 0.70
Diluted Net Income Per Share	\$ 0.04	\$ 0.04	\$ 0.28	\$ 0.08	\$ 0.70
Return on Average Equity	1.12%	0.94%	6.43%	1.03%	8.14%
Return on Average Assets	0.12%	0.11%	0.73%	0.12%	0.92%

Net Interest Income

Tax equivalent net interest income for the second quarter of 2009 was \$27.7 million compared to \$27.6 million for the first quarter of 2009 and \$28.1 million for the second quarter of 2008. For the first half of 2009, tax equivalent net interest income totaled \$55.3 million compared to \$55.2 million in 2008.

The increase in the net interest income on a linked quarter basis was partially due to one additional calendar day in the second quarter and was favorably impacted by the recovery of interest on several larger loans, which were resolved during the quarter. Higher foregone interest on nonaccrual loans and a decline in loan fees partially offset the improvement in net interest income. The decline in loan fees resulted from a write-off of uncollectable late fees totaling \$175,000. Additionally, the loan and investment portfolios continued to reprice lower without the offsetting benefit in funding costs.

The decline from the second quarter of 2008 reflects the downward repricing of earning assets, higher foregone interest on nonaccrual loans, and lower loan fees, partially offset by a lower cost of funds. The federal funds rate reductions that began in September 2007 have significantly affected both earning assets yields and funding costs. We have responded aggressively to the federal funds rate reductions. This, coupled with a favorable shift in mix of deposits, has resulted in a significantly lower cost of funds year over year.

The net interest margin of 5.11% declined five basis points over the linked quarter, attributable to lower earning assets yields. As compared to the second quarter of 2008 the margin improved 21 basis points reflecting the favorable shift in the mix of deposits and aggressive deposit repricing.

The slight increase in net interest income for the first half of 2009 as compared to the same period in 2008 resulted from lower costs of funds discussed above; mostly offset by lower earning assets yields, higher foregone interest and lower loan fees.

Over the next couple of quarters, we anticipate some continued reduction in our asset yields without the opportunity to significantly reduce our cost of funds, which during the first half of 2009 has averaged 76 basis points. Therefore, we expect to experience some slight margin compression during the second half of 2009.

Provision for Loan Losses

The provision for loan losses was \$8.4 million for both the second and first quarters of 2009 compared to \$5.4 million for the second quarter of 2008. For the first half of 2009, the provision for loan losses was \$16.8 million compared to \$9.6 million for the comparable period in 2008. Year over year, the increase in the loan loss provision was primarily driven by an increased level of , non-accrual loans and net loan charge-offs, and higher loss ratios associated with real estate loans, primarily loans to builders/investors secured by residential houses and vacant land. Specific reserves held for our impaired loans have also increased due to both a higher level of nonaccrual loans, and real estate collateral devaluation. Compared to the linked first quarter, we resolved some larger problem loans and there was a slowing of loans migrating to nonaccrual status, thus we realized a more modest increase in nonaccrual loans and related impaired loan reserves.

Net charge-offs in the second quarter totaled \$6.8 million, or 1.39%, of average loans compared to \$5.2 million, or 1.08% in the linked first quarter of 2009 and \$3.2 million, or 0.67% in the second quarter of 2008. For the first half of the 2009, net charge-offs totaled \$12.1 million, or 1.23%, compared to \$5.1 million, or 0.54%, for the same period of 2008. During the second quarter of 2009, the increase in our construction loan charge-offs primarily reflects the partial write-down of two large nonaccrual loan relationships that are now reflected in the other real estate owned category. At quarter-end, the allowance for loan losses was 2.12% of outstanding loans (net of overdrafts) and provided coverage of 34% of nonperforming loans.

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

	Three Months Ended			Six Months Ended	
	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	June 30, 2008
<i>(Dollars in Thousands, except per share data)</i>					
CHARGE-OFFS					
Commercial, Financial and Agricultural	\$ 388	\$ 857	\$ 407	\$ 1,245	\$ 1,043
Real Estate – Construction	3,356	320	158	3,676	730
Real Estate – Commercial Mortgage	123	1,002	1,115	1,125	1,241
Real Estate – Residential	2,379	1,975	817	4,354	993
Consumer	1,145	2,117	1,232	3,262	2,402
Total Charge-offs	7,391	6,271	3,729	13,662	6,409
RECOVERIES					
Commercial, Financial and Agricultural	84	74	55	158	195
Real Estate – Construction	-	385	-	385	-
Real Estate – Commercial Mortgage	1	-	13	1	14
Real Estate – Residential	51	58	24	109	28
Consumer	439	512	446	951	1,051
Total Recoveries	575	1,029	538	1,604	1,288
Net Charge-offs	\$ 6,816	\$ 5,242	\$ 3,191	\$ 12,058	\$ 5,121
Net Charge - Off's (Annualized)	1.39%	1.08%	0.67%	1.23%	0.54%
as a percent of Average					
Loans Outstanding, Net of					
Unearned Interest					

Noninterest Income

Noninterest income increased \$592,000, or 4.2%, over the linked first quarter and declined \$1.1 million, or 6.9% from the second quarter of 2008. Compared to the prior quarter, higher deposit fees (\$464,000) and mortgage banking fees (\$317,000), partially offset by lower merchant fees (\$295,000), drove the improvement for the quarter. Compared to the second quarter of 2008, the decrease reflects lower merchant fees (\$1.4 million) due to a July 2008 sale of a portion of our merchant services portfolio, partially offset by higher mortgage banking fees (\$395,000).

For the first half of 2009, noninterest income decreased \$4.8 million, or 14.4%, compared to same period in 2008 due to the aforementioned impact on merchant fees (\$2.7 million) of the portfolio sale as well as the impact of a \$2.4 million pre-tax gain realized from the redemption of Visa shares in the first quarter of 2008. Higher mortgage banking fees (\$400,000) partially offset these unfavorable variances.

Noninterest income represented 35.1% and 34.7% of operating revenues, respectively, for the three and six month periods of 2009 compared to 34.2% and 38.3%, respectively, for the same three and six month periods of 2008. The higher ratio for 2008 reflects the impact of the \$2.4 million pre-tax gain from the redemption of Visa shares.

The table below reflects the major components of noninterest income.

	Three Months Ended			Six Months Ended	
	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	June 30, 2008
<i>(Dollars in Thousands)</i>					
Noninterest Income:					
Service Charges on Deposit Accounts	\$ 7,162	\$ 6,698	\$ 7,060	\$ 13,860	\$ 13,825
Data Processing Fees	896	870	812	1,766	1,625
Asset Management Fees	930	970	1,125	1,900	2,275
Retail Brokerage Fees	625	493	735	1,118	1,204
Investment Security Gains	6	-	30	6	95
Mortgage Banking Fees	902	584	506	1,486	1,000
Merchant Service Fees (1)	663	958	2,074	1,621	4,282
Interchange Fees (1)	1,118	1,056	1,076	2,174	2,085
ATM/Debit Card Fees (1)	884	863	758	1,747	1,502
Other	1,448	1,550	1,542	2,998	5,624
Total Noninterest Income	\$ 14,634	\$ 14,042	\$ 15,718	\$ 28,676	\$ 33,517

⁽¹⁾ Together called "Bank Card Fees"

Various significant components of noninterest income are discussed in more detail below.

Service Charges on Deposit Accounts. Deposit service charge fees increased \$464,000, or 6.9%, over the linked first quarter of 2009 and \$102,000, or 1.4%, over the second quarter of 2008. The increase is due to an increase in our insufficient funds/overdraft fee midway through the first quarter of 2009. For the first half of 2009, deposit service charge fees increased \$34,000, or .25%, over the same period of 2008, reflective of the aforementioned fee increase which was substantially offset by a lower level of insufficient fund/overdraft activity.

Asset Management Fees. Fees from asset management activities decreased \$40,000, or 4.1%, from the linked first quarter of 2009 and \$195,000, or 17.3%, from the second quarter of 2008. The decrease for both periods reflects lower asset management fees due to asset devaluation which directly impacts our fee revenue. For the first half of 2009, fees decreased \$375,000, or 16.5%, due also to the impact of asset devaluation. At June 30, 2009, assets under management totaled \$651.6 million compared to \$664.7 million for the linked first quarter of 2009 and \$719.3 million at the end of the second quarter of 2008.

Mortgage Banking Fees. Mortgage banking fees increased \$317,000, or 54.3%, over the linked first quarter of 2009 and \$396,000, or 78.3%, over the second quarter of 2008 due to higher secondary market production which picked up momentum in the first quarter primarily due an increase in homeowner refinancing activity driven by the lower interest rate environment. For the first half of the 2009, fees increased \$486,000, or 48.6%, driven also by the increase in homeowner refinance activity. During the second quarter of 2009, there was an increase in the percentage of purchase money mortgages versus refinanced mortgages, perhaps suggesting some modest improvement in the condition of the residential housing market.

Bank Card Fees. Bank card fees (including merchant services fees, interchange fees, and ATM/debit card fees) declined by \$212,000, or 7.4%, from the linked first quarter of 2009 due to a \$295,000 reduction in merchant fees which was due to an expected seasonal variance in processing volume for our lone remaining merchant. Compared to the second quarter of 2008, bank card fees realized a \$1.2 million or 31.8% decline due to lower merchant, fees which reflects the sale in July 2008 sale of a major portion of our merchant services portfolio. For the first half of 2009, bank card fees declined \$2.3 million, or 29.6%, due to aforementioned impact of the merchant services portfolio sale. Fee revenue for our other card products (debit and ATM cards) continues to improve as evidenced by a \$334,000, or 9.3% increase for the first half of 2009 compared to the same period of 2008. During the third quarter, it is anticipated that processing for our remaining merchant will be discontinued and, while we anticipate it will not have a significant impact on our operating profit due to the offsetting expense, it will result in the elimination of our merchant services revenues going forward.

Other. Other income decreased \$102,000, or 6.6%, from the linked first quarter of 2009 and \$94,000, or 6.1% from the same period of 2008 primarily due to lower fees for our working capital financing business. For the first half of 2009, other income decreased \$2.6 million, or 46.7%, from the same period in 2008 due also to lower fees for our working capital financing business, but more significantly, the impact of the \$2.4 million pre-tax gain from the redemption of Visa shares recognized in the first quarter of 2008.

Noninterest Expense

Noninterest expense increased \$676,000, or 2.1%, from the linked first quarter of 2009 and \$2.2 million, or 7.1%, from the second quarter of 2008. Compared to the linked first quarter, the increase was due to the one-time special FDIC insurance assessment (\$1.2 million) which was partially offset by lower cash and stock incentive plan expense. Compared to the same period in 2008, the increase reflects higher pension expense (\$1.0 million), higher FDIC insurance premiums (\$2.0 million), an increase in other real estate owned expenses (\$1.2 million), partially offset by lower interchange fees (\$1.3 million) related to the lower costs for processing our merchant services portfolio, a reduction in intangible amortization (\$0.4 million), and lower incentive plan expense (\$0.4 million).

For the first half of 2009, noninterest expense increased \$4.6 million, or 7.7% due to higher pension expense (\$2.1 million), higher FDIC insurance premiums (\$2.7 million), an increase in other real estate owned expenses (\$1.8 million), partially offset by lower interchange fees (\$2.4 million) related to the lower costs for processing our merchant services portfolio, and a reduction in intangible amortization (\$0.9 million). A one-time entry of \$1.1 million in the first quarter of 2008 to reverse a portion of our Visa litigation accrual also contributed to the increase for the six month period.

The table below reflects the major components of noninterest expense.

	Three Months Ended			Six Months Ended	
	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	June 30, 2008
<i>(Dollars in Thousands, except per share data)</i>					
Noninterest Expense:					
Salaries	\$ 12,337	\$ 13,141	\$ 12,627	\$ 25,478	\$ 25,631
Associate Benefits	3,712	4,096	2,691	7,808	5,291
Total Compensation	16,049	17,237	15,318	33,286	30,922
Premises	2,540	2,345	2,491	4,885	4,853
Equipment	2,304	2,338	2,583	4,641	5,165
Total Occupancy	4,844	4,683	5,074	9,526	10,018
Legal Fees	827	839	474	1,665	976
Professional Fees	931	960	948	1,891	1,819
Processing Services	880	908	877	1,788	1,740
Advertising	752	856	895	1,607	1,673
Travel and Entertainment	234	295	341	528	674
Printing and Supplies	464	477	522	941	1,037
Telephone	547	569	701	1,116	1,294
Postage	452	418	435	870	864
Insurance - Other	2,192	866	230	3,058	396
Intangible Amortization	1,010	1,011	1,459	2,021	2,917
Interchange Fees	483	737	1,738	1,220	3,587
Courier Service	111	138	117	249	244
Other Real Estate Owned	1,296	747	65	2,043	220
Miscellaneous	1,858	1,516	1,562	3,378	2,173
Total Other	12,037	10,337	10,364	22,375	19,614
Total Noninterest Expense	\$ 32,930	\$ 32,257	\$ 30,756	\$ 65,187	\$ 60,554

Various significant components of noninterest expense are discussed in more detail below.

Compensation. Salaries and associate benefit expense decreased \$1.2 million, or 6.9%, from the linked first quarter of 2009 due to lower cash and stock incentive plan expense. Compared to the same quarter of 2008, compensation expense increased \$731,000, or 4.8% due primarily to higher pension expense (\$1.0 million), partially offset by lower cash incentive plan expense (\$300,000). For the first half of 2009, compensation expense increased \$2.4 million, or 7.7%, over the same period in 2008 due to higher pension expense (\$2.1 million) and an increase in associate insurance benefits (\$212,000). The increase in pension cost is primarily driven by a decline in the market value of pension assets during 2008.

Occupancy. Occupancy expense (including premises and equipment) increased \$161,000, or 3.4%, over the linked first quarter of 2009 and decreased \$230,000, or 4.5%, from the same quarter in 2008. Compared to the linked first quarter, higher maintenance and repair expense drove the increase which reflects an increased level of maintenance activity for facilities as well as a seasonal spike in banking office maintenance. The decline in this expense compared to the prior year reflects closer supervision and management of maintenance expenses by management as well as renewal of some maintenance agreements at lower rates. For the first half of 2009, occupancy expense decreased \$491,000, or 4.9%, due to the same factors as well as the full depreciation of some larger components of our core processing system.

Other. Other noninterest expense increased \$1.7 million, or 16.4%, from the linked first quarter of 2009 primarily due to the one-time special FDIC assessment (\$1.2 million) as well as higher expense for other real estate owned properties (\$550,000), including write-downs due to valuation declines. Compared to the same quarter of 2008, other noninterest expense increased \$1.7 million, or 16.2%, due to higher FDIC insurance premiums (\$2.0 million) and an increase in expense for other real estate owned properties (\$1.2 million), partially offset by lower interchange fees (\$1.3 million) due to lower costs for processing our merchant services portfolio and a reduction in intangible amortization expense (\$400,000). For the first half of the year, other noninterest expense increased \$2.8 million, or 14.1%, over the prior year due to the same aforementioned factors, including the impact of the reversal of a portion (\$1.1 million) of our Visa litigation reserve.

The operating net noninterest expense ratio (expressed as noninterest income minus noninterest expense, excluding intangible amortization expense and merger expenses, as a percent of average assets) was 2.77% for the second quarter of 2009 compared to 2.81% for the linked first quarter of 2009 and 2.07% for the second quarter of 2008. Our operating efficiency ratio (expressed as noninterest expense, excluding intangible amortization expense and merger expenses, as a percent of the sum of taxable-equivalent net interest income plus noninterest income) was 75.44% for the second quarter of 2009 compared to 75.07% for the linked first quarter of 2009 and 66.89% for the second quarter of 2008. For the first half of 2009, these metrics were 2.79% and 75.26%, compared to 1.84% and 65.00%, respectively, for the same period of 2008. The variance in these metrics compared to prior year is due to the impact of the aforementioned Visa related entries during the first quarter of 2008, as well as a higher level of operating expenses, reflecting the aforementioned increase in our pension expense and FDIC insurance premiums.

Income Taxes

We realized a tax benefit of \$401,000 for the second quarter of 2009 compared to a tax benefit of \$280,000 for the linked first quarter of 2009 which reflects the impact of a higher level of permanent book/tax differences (primarily tax exempt income) in relation to our book operating profit as well as a favorable permanent tax difference for a land donation. For the three and six months of 2008, we realized a more normalized income tax expense due to higher book operating profit resulting in effective tax rates of 31.3% and 30.2%, respectively. The effective tax rate for the first half of 2008 was affected by the resolution of a tax contingency that occurred during the first quarter of 2008.

FINANCIAL CONDITION

Average earning assets were \$2.175 billion for the second quarter of 2009, an increase of \$24.4 million, or 1.1%, from the fourth quarter of 2008, primarily due to growth in the loan portfolio partially offset by a reduction in short-term investments.

Funds Sold

The Bank maintained an average net overnight funds (deposits with banks plus fed funds sold less fed funds purchased) purchased position of \$49.8 million during the second quarter of 2009 as compared to an average net overnight funds purchased position of \$3.2 million in the fourth quarter. The increase in the net funds purchased position is attributable to an increase in our loan and investment portfolios, higher non-earning assets and lower equity. Deposit growth partially offset the unfavorable variance in the funds position.

Investment Securities

Our investment portfolio is a significant component of our liquidity and asset/liability management efforts. As of June 30, 2009, the average investment portfolio increased \$2.3 million, or 1.2%, from the fourth quarter of 2008. We will continue to evaluate the need to purchase securities for the investment portfolio for the remainder of 2009, taking into consideration the Bank's overall liquidity position and pledging requirements.

Securities classified as available-for-sale are recorded at fair value and unrealized gains and losses associated with these securities are recorded, net of tax, as a separate component of shareowners' equity. At June 30, 2009 and December 31, 2008, the investment portfolio maintained a net unrealized gain of \$2.4 million and \$2.3 million, respectively. Investment securities totaling \$7.2 million have an unrealized loss totaling \$84,000 and have been in a loss position for less than 12 months. Two million dollars of our investment securities have an unrealized loss totaling \$2,000 and have been in a loss position for more than 12 months. These securities are primarily mortgage-backed securities that are in a loss position because they were acquired when the general level of interest rates was lower than that on June 30, 2009. We believe that these securities are only temporarily impaired and that the full principal will be collected as anticipated; therefore we do not consider these securities to be other-than-temporarily impaired at June 30, 2009.

Loans

Average loans increased \$34.3 million, or 1.8%, from the fourth quarter of 2008 due to the efforts of our bankers to reach clients who are interested in moving or expanding their banking relationships. We have now experienced loan growth for four consecutive quarters driven primarily by both higher levels of loan production for commercial real estate, home equity, and indirect auto loans, and the impact of a slowdown in loan principal pay-downs and pay-offs. We believe this loan growth also reflects the diversity of our loan products and the variety of quality lending opportunities that our banking relationships and markets continue to offer. While we strive to identify opportunities to increase loans outstanding and enhance the portfolio's overall contribution to earnings, we will only do so by adhering to sound lending principles applied in a prudent and consistent manner. Thus, we will not relax our underwriting standards in order to achieve designated growth goals and, where appropriate, have adjusted our standards to reflect risks inherent in the current economic environment.

Loan concentrations are considered to exist when there are amounts loaned to a multiple number of borrowers engaged in similar activities which cause them to be similarly impacted by economic or other conditions and such amount exceeds 10% of total loans. Due to the lack of diversified industry within the markets served by the Bank and the relatively close proximity of the markets, we have both geographic concentrations as well as concentrations in the types of loans funded. Specifically, due to the nature of our markets, a significant portion of the portfolio has historically been secured with real estate.

While we have a majority of our loans (77.0%) secured by real estate, the primary types of real estate collateral are commercial properties and 1-4 family residential properties. At June 30, 2009, commercial real estate mortgage loans and residential real estate mortgage loans accounted for 34.7% and 34.9%, respectively, of the loan portfolio. Furthermore, approximately 13.8% of our loan portfolio is secured by vacant commercial and residential land loans. These loans include both improved and unimproved land and are comprised of loans to individuals as well as developers.

Nonperforming Assets

At June 30, 2009, nonperforming assets (including nonaccrual loans, restructured loans, and other real estate owned) totaled \$143.6 million, an increase of \$16.8 million, or 13%, from the linked first quarter of 2009 and \$35.8 million, or 33%, from the fourth quarter of 2008. The increase from the prior linked quarter reflects an increase of \$7.8 million in restructured loans and an increase of \$8.2 million in other real estate owned properties. Nonaccrual loans totaled \$111.0 million at the end of the second quarter, a net increase of \$0.8 million from the prior linked quarter. Vacant residential land loans represented approximately 43% of our nonaccrual balance at quarter-end. In aggregate, a reserve equal to approximately 29% has been allocated to these land loans. The level of gross additions to non-accruing loans has declined by \$15.2 million and \$6.8 million, respectively, for the last two quarters and the volume of problem loan resolutions has improved including the resolutions of several larger credits during the second quarter. Nonperforming assets represented 7.19% of loans and other real estate at the end of the second quarter compared to 6.39% at the prior quarter-end and 5.48% at year-end 2008.

Allowance for Loan Losses

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

The allowance for loan losses was \$41.7 million at June 30, 2009 compared to \$37.0 million at December 31, 2008. The allowance for loan losses was 2.12% of outstanding loans (net of overdrafts) and provided coverage of 34% of nonperforming loans at June 30, 2009 compared to 1.89% and 38%, respectively, at year-end 2008. The increase in our allowance since year-end 2008 is due to a higher level of impaired loan reserves, primarily driven by a higher level of loan defaults, and real estate collateral devaluation. Higher loan loss factors and an increase in the level of problem loans also increased our level of required general reserves. It is management's opinion that the allowance at June 30, 2009 is adequate to absorb losses inherent in the loan portfolio at quarter-end.

Deposits

Average total deposits were \$1.971 billion for the second quarter of 2009, an increase of \$25.3 million, or 1.3%, from the fourth quarter of 2008 reflective of growth in core deposits (demand deposits (\$19.5 million) and NOW accounts (\$24.8 million)) and certificates of deposit (\$38.3 million). These increases were partially offset by a reduction in public funds balances which realized a spike late in the first quarter of 2009, but we have seen an easing in these balances since early in the second quarter. Money market balances (\$62.9 million) have experienced a steady decline during the first half of 2009 partially offsetting the aforementioned increases. We continue to pursue prudent pricing discipline and to manage the mix of our deposits. Therefore, we are not attempting to compete with higher rate paying competitors for these deposits.

MARKET RISK AND INTEREST RATE SENSITIVITY

Overview

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

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

We have established a comprehensive interest rate risk management policy, which is administered by management's Asset/Liability Management Committee ("ALCO"). The policy establishes limits of risk, which are quantitative measures of the percentage change in net interest income (a measure of net interest income at risk) and the fair value of equity capital (a measure of economic value of equity ("EVE")) at risk resulting from a hypothetical change in interest rates for maturities from one day to 30 years. We measure the potential adverse impacts that changing interest rates may have on our short-term earnings, long-term value, and liquidity by employing simulation analysis through the use of computer modeling. The simulation model captures optionality factors such as call features and interest rate caps and floors imbedded in investment and loan portfolio contracts. As with any method of gauging interest rate risk, there are certain shortcomings inherent in the interest rate modeling methodology used by us. When interest rates change, actual movements in different categories of interest-earning assets and interest-bearing liabilities, loan prepayments, and withdrawals of time and other deposits, may deviate significantly from assumptions used in the model. Finally, the methodology does not measure or reflect the impact that higher rates may have on adjustable-rate loan clients' ability to service their debts, or the impact of rate changes on demand for loan, and deposit products.

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

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

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

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

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

ESTIMATED CHANGES IN NET INTEREST INCOME⁽¹⁾

Changes in Interest Rates	+300 bp	+200 bp	+100 bp	-100 bp
Policy Limit (±)	10.0%	7.5%	5.0%	5.0%
June 30, 2009	2.6%	2.6%	1.6%	-0.0%
March 31, 2009	2.3%	1.9%	1.7%	-0.0%

The Net Interest Income at Risk position decreased slightly in the "up 100 rate scenario", while improving in the "up 200 and up 300 rate scenarios", when compared to the linked quarter. The "down rate" scenario remained unchanged from prior quarter. All of the above measures of net interest income at risk remained well within prescribed policy limits.

ESTIMATED CHANGES IN ECONOMIC VALUE OF EQUITY⁽¹⁾

Changes in Interest Rates	+300 bp	+200 bp	+100 bp	-100 bp
Policy Limit (±)	12.5%	10.0%	7.5%	7.5%
June 30, 2009	0.3%	2.3%	2.4%	-3.7%
March 31, 2009	0.4%	2.4%	2.5%	-3.4%

Our risk profile, as measured by EVE, decreased slightly, when compared to the linked quarter for both the "down rate" and "up rate" scenarios. Although assumed to be unlikely, our largest exposure is at the -100 bp level, with a measure of -3.7%. All of the above measures of economic value of equity are well within prescribed policy limits.

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

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

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

Overall, we have the ability to generate \$621 million in additional liquidity through all of our available resources. In addition to primary borrowing outlets mentioned above, we also have the ability to generate liquidity by borrowing from the Federal Reserve Discount Window and through brokered deposits. The Bank has the ability to declare and pay up to \$40 million in dividends to the parent for the remainder of 2009, more than meeting our ongoing financial obligations. Management recognizes the importance of maintaining liquidity and has developed a Contingent Liquidity Plan which addresses various liquidity stress levels and our response and action based on the level of severity. We periodically test our credit facilities for access to the funds, but also understand that as the severity of the liquidity level increases that certain credit facilities may no longer be available. The liquidity currently available to us is considered sufficient to meet the ongoing needs.

We view our investment portfolio as a liquidity source and have the option to pledge the portfolio as collateral for borrowings or deposits, and/or sell selected securities. The portfolio consists of debt issued by the U.S. Treasury, U.S. governmental agencies, and municipal governments. The weighted average life of the portfolio is 1.33 years and as of quarter-end had a net unrealized pre-tax gain of \$2.4 million.

We maintained an average net overnight funds (deposits with banks plus Fed funds sold less Fed funds purchased) *purchased* position of \$49.8 million during the second quarter of 2009 compared to an average net overnight funds *purchased* position of \$33.9 million in the first quarter and an average overnight funds *purchased* position of \$3.2 million at year-end 2008. The unfavorable variance in funds purchased position during both periods is attributable to an increase in the investment and loan portfolios, higher non-earning assets and lower equity. Deposit growth partially offset this unfavorable variance.

Capital expenditures are expected to approximate \$12.0 million over the next six months, which consist primarily of new banking office construction, office equipment and furniture, and technology purchases. Management believes that these capital expenditures will be funded with existing resources without impairing our ability to meet our on-going obligations.

Borrowings. At June 30, 2009, advances from the FHLB consisted of \$52.1 million in outstanding debt and 44 notes. For the first six months of the year, the Bank made FHLB advance payments totaling approximately \$16.9 million and obtained three new FHLB advances totaling \$17.7 million. The FHLB notes are collateralized by a blanket floating lien on all of our 1-4 family residential mortgage loans, commercial real estate mortgage loans, and home equity mortgage loans.

We have issued two junior subordinated, deferrable interest notes to two wholly-owned Delaware statutory trusts. The first note for \$30.9 million was issued to CCBG Capital Trust I in November 2004. The second note for \$32.0 million was issued to CCBG Capital Trust II in May 2005. The interest payments for the CCBG Capital Trust I borrowing are due quarterly at a fixed rate of 5.71% for five years, then adjustable annually to LIBOR plus a margin of 1.90%. This note matures on December 31, 2034. The proceeds of this borrowing were used to partially fund the acquisition of Farmers and Merchants Bank of Dublin. The interest payments for the CCBG Capital Trust II borrowing are due quarterly at a fixed rate of 6.07% for five years, then adjustable quarterly to LIBOR plus a margin of 1.80%. This note matures on June 15, 2035. The proceeds of this borrowing were used to partially fund the First Alachua Banking Corporation acquisition.

Capital

Equity capital was \$272.7 million as of June 30, 2009, compared to \$278.8 million as of December 31, 2008. Our leverage ratio was 11.07% and 11.51%, respectively, for the same periods. Further, our risk-adjusted capital ratio of 14.20% at June 30, 2009 exceeds the 8.0% minimum requirement and the 10% threshold to be designated as “well-capitalized” under the risk-based regulatory guidelines.

Adequate capital and financial strength is paramount to the stability of CCBG and the Bank. Cash dividends declared and paid should not place unnecessary strain on our capital levels. Although a consistent dividend payment is believed to be favorably viewed by the financial markets and shareowners, the Board of Directors will declare dividends only if we are considered to have adequate capital. Future capital requirements and corporate plans are considered when the Board considers a dividend payment. Our strong capital position has allowed us to continue paying a quarterly dividend to our shareowners despite lower earnings performance. We will continue to monitor our capital and liquidity position to ensure that continuation of our dividend does not place unnecessary strain on our capital levels. Dividends declared and paid during the first six months of 2009 totaled \$.380 per share compared to \$.370 per share for same period of 2008, an increase of 2.7%. The dividend payout ratios for the first six months of 2009 and 2008 were 471.1% and 52.6%, respectively.

State and federal regulations place certain restrictions on the payment of dividends by both CCBG and the Bank. At June 30, 2009, these regulations and covenants did not impair CCBG’s ability to declare and pay dividends or to meet other existing obligations in the normal course of business. During 2009, the Bank may declare and pay dividends to the parent company in an amount which approximates the Bank’s current year earnings and, in addition, the Bank has received authorization from the Office of Financial Regulation to declare and pay dividends totaling up to \$60 million on or before December 31, 2009. If necessary, we may request a continuation of this authorization from the Office of Financial Regulation in 2010. While authorization has been granted in 2008 and 2009, and while we have no reason to believe this authorization would be denied if requested in 2010, there is no assurance that it will be granted.

During the first six months of 2009, shareowners’ equity decreased \$6.1 million, or 4.4%, on an annualized basis. During this same period, shareowners’ equity was positively impacted by net income of \$1.4 million, and the issuance of common stock of \$.6 million. Equity was reduced by dividends paid during the first six months by \$.6 million, or \$.380 per share, and the repurchase/retirement of common stock of \$1.6 million. At June 30, 2009, our common stock had a book value of \$16.03 per diluted share compared to \$16.27 at December 31, 2008.

Our Board of Directors has authorized the repurchase of up to 2,671,875 shares of our outstanding common stock. The purchases are made in the open market or in privately negotiated transactions. To date, we have repurchased a total of 2,520,130 shares at an average purchase price of \$25.19 per share. We repurchased 145,888 shares of our common stock during the first quarter of 2009 at a weighted average purchase price of \$10.65; no shares were repurchased during the second quarter.

OFF-BALANCE SHEET ARRANGEMENTS

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

At June 30, 2009, we had \$392.7 million in commitments to extend credit and \$17.3 million in standby letters of credit. Commitments to extend credit are agreements to lend to a client so long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Standby letters of credit are conditional commitments issued by us to guarantee the performance of a client to a third party. We use the same credit policies in establishing commitments and issuing letters of credit as we do for on-balance sheet instruments.

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

ACCOUNTING POLICIES

Critical Accounting Policies

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

Allowance for Loan Losses. The allowance for loan losses is established through a charge to the provision for loan losses. Provisions are made to reserve for estimated losses in loan balances. The allowance for loan losses is a significant estimate and is evaluated quarterly by us for adequacy. The use of different estimates or assumptions could produce a different required allowance, and thereby a larger or smaller provision recognized as expense in any given reporting period. A further discussion of the allowance for loan losses can be found in the section entitled "Allowance for Loan Losses" and Note 1 in the Notes to Consolidated Financial Statements in our 2008 Form 10-K.

Intangible Assets. Intangible assets consist primarily of goodwill, core deposit assets, and other identifiable intangibles that were recognized in connection with various acquisitions. Goodwill represents the excess of the cost of acquired businesses over the fair market value of their identifiable net assets. We perform an impairment review on an annual basis during the fourth quarter or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment testing requires management to make significant judgments and estimates relating to the fair value of its reporting unit. Significant changes to our estimates, when and if they occur, could result in a non-cash impairment charge and thus have a material impact on our operating results for any particular reporting period. A goodwill impairment charge would not adversely affect the calculation of our risk based and tangible capital ratios. Our annual review for impairment determined that no impairment existed at December 31, 2008. Additionally, for the first and second quarters of 2009, we considered the guidelines set forth in SFAS No. 142 to discern whether further review for impairment was needed. Based on this assessment, we concluded that no further review or testing for impairment was needed as of June 30, 2009 and March 31, 2009.

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

Pension Assumptions. We have a defined benefit pension plan for the benefit of substantially all of our associates. Our funding policy with respect to the pension plan is to contribute amounts to the plan sufficient to meet minimum funding requirements as set by law. Pension expense, reflected in the Consolidated Statements of Income in noninterest expense as "Salaries and Associate Benefits," is determined by an external actuarial valuation based on assumptions that are evaluated annually as of December 31, the measurement date for the pension obligation. The Consolidated Statements of Financial Condition reflect an accrued pension benefit cost due to funding levels and unrecognized actuarial amounts. The most significant assumptions used in calculating the pension obligation are the weighted-average discount rate used to determine the present value of the pension obligation, the weighted-average expected long-term rate of return on plan assets, and the assumed rate of annual compensation increases. These assumptions are re-evaluated annually with the external actuaries, taking into consideration both current market conditions and anticipated long-term market conditions.

The weighted-average discount rate is determined by matching the anticipated Retirement Plan cash flows to a long-term corporate Aa-rated bond index and solving for the underlying rate of return, which investing in such securities would generate. This methodology is applied consistently from year-to-year. We anticipate using a 6.00% discount rate in 2009.

The weighted-average expected long-term rate of return on plan assets is determined based on the current and anticipated future mix of assets in the plan. The assets currently consist of equity securities, U.S. Government and Government Agency debt securities, and other securities (typically temporary liquid funds awaiting investment). We anticipate using a rate of return on plan assets of 8.0% for 2009.

The assumed rate of annual compensation increases is based on expected trends in salaries and the employee base. We used a rate of 5.50% in 2008 and do not expect this assumption to change materially in 2009.

Information on components of our net periodic benefit cost is provided in Note 8 of the Notes to Consolidated Financial Statements included herein and Note 12 of the Notes to Consolidated Financial Statements in our 2008 Form 10-K.

TABLE I
AVERAGE BALANCES & INTEREST RATES

	Three Months Ended June 30,						Six Months Ended June 30,					
	2009			2008			2009			2008		
(Taxable Equivalent Basis - Dollars in Thousands)	Balances	Interest	Rate	Balances	Interest	Rate	Balances	Interest	Rate	Balances	Interest	Rate
Assets:												
Loans, Net of Unearned Interest												
(1)(2)	\$ 1,974,197	\$ 29,954	6.09%	\$ 1,908,802	\$ 33,610	7.08%	\$ 1,969,169	\$ 59,678	6.11%	\$ 1,909,187	\$ 69,063	7.27%
Taxable Investment Securities ⁽²⁾	89,574	742	3.31%	93,814	1,028	4.38%	90,248	1,518	3.37%	94,300	2,136	4.52%
Tax-Exempt Investment Securities	106,869	1,067	4.00%	94,371	1,200	5.09%	104,005	2,200	4.23%	92,581	2,407	5.20%
Funds Sold	4,641	1	0.10%	206,984	1,028	1.96%	7,363	4	0.12%	206,649	2,602	2.49%
Total Earning Assets	2,175,281	31,764	5.86%	2,303,971	36,866	6.43%	2,170,785	63,400	5.89%	2,302,717	76,208	6.65%
Cash & Due From Banks	81,368			82,182			79,109			88,214		
Allowance For Loan Losses	(41,978)			(20,558)			(40,003)			(19,392)		
Other Assets	291,681			269,176			286,801			269,083		
TOTAL ASSETS	\$ 2,506,352			\$ 2,634,771			\$ 2,496,692			\$ 2,640,622		
Liabilities:												
NOW Accounts	\$ 709,039	\$ 249	0.14%	\$ 788,237	\$ 1,935	0.99%	\$ 714,123	\$ 474	0.13%	\$ 781,064	\$ 5,375	1.38%
Money Market Accounts	298,007	192	0.26%	376,996	1,210	1.29%	309,719	382	0.25%	383,412	3,408	1.79%
Savings Accounts	123,034	15	0.05%	117,182	29	0.10%	120,601	29	0.05%	115,172	63	0.11%
Other Time Deposits	417,545	2,044	1.96%	443,006	3,988	3.62%	404,847	4,110	2.05%	455,143	8,797	3.89%
Total Interest Bearing Deposits	1,547,625	2,500	0.65%	1,725,421	7,162	1.67%	1,549,290	4,995	0.65%	1,734,791	17,643	2.05%
Short-Term Borrowings	87,768	88	0.40%	55,830	296	2.13%	86,550	156	0.36%	61,963	817	2.64%
Subordinated Note Payable	62,887	931	5.86%	62,887	931	5.86%	62,887	1,858	5.88%	62,887	1,862	5.86%
Other Long-Term Borrowings	52,775	566	4.30%	34,612	396	4.60%	52,997	1,134	4.31%	31,128	727	4.70%
Total Interest Bearing Liabilities	1,751,055	4,085	0.94%	1,878,750	8,785	1.88%	1,751,724	8,143	0.94%	1,890,769	21,049	2.24%
Noninterest Bearing Deposits	423,566			415,125			415,020			409,918		
Other Liabilities	54,617			40,006			50,585			41,088		
TOTAL LIABILITIES	2,229,238			2,333,881			2,217,330			2,341,775		
SHAREOWNER'S EQUITY												
TOTAL SHAREOWNER'S EQUITY	277,114			300,890			279,362			298,847		
TOTAL LIABILITIES AND SHAREOWNER EQUITY	\$ 2,506,352			\$ 2,634,771			\$ 2,496,692			\$ 2,640,622		
Interest Rate Spread												
			4.92%			4.55%			4.95%			4.41%
Net Interest Income	\$ 27,679			\$ 28,081			\$ 55,257			\$ 55,159		
Net Interest Margin ⁽³⁾			5.11%			4.90%			5.13%			4.81%

(1) Average balances include nonaccrual loans. Interest income includes fees on loans of \$366,000 and \$847,000, for the three and six months ended June 30, 2009 versus \$682,000 and \$1.4 million for the comparable periods ended June 30, 2008.

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

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See “Market Risk and Interest Rate Sensitivity” in Management’s Discussion and Analysis of Financial Condition and Results of Operations, above, which is incorporated herein by reference. Management has determined that no additional disclosures are necessary to assess changes in information about market risk that have occurred since December 31, 2008.

Item 4. CONTROLS AND PROCEDURES**Evaluation of Disclosure Controls and Procedures**

As of June 30, 2009, the end of the period covered by this Form 10-Q, our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer each concluded that as of June 30, 2009, the end of the period covered by this Form 10-Q, we maintained effective disclosure controls and procedures.

Changes in Internal Control over Financial Reporting

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

PART II. OTHER INFORMATION**Item 1. Legal Proceedings**

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

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2008, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds*Purchases of Equity Securities by the Issuer and Affiliated Purchasers*

There were no purchases made by or on behalf of the Corporation or any “affiliated purchaser” (as defined in Rule 10b-18(a)(3) under the Exchange Act of 1934), of the Corporation common stock or other units of any class of our equity securities that is registered pursuant to Section 12 of the Exchange Act.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

The Annual Meeting of Shareowners of Capital City Bank Group, Inc. was held on April 21, 2009. Proxies for the meeting were solicited pursuant to Regulation 14A under the Securities Exchange Act of 1934, and there was no solicitation in opposition to management’s solicitations. The following summarizes all matters voted upon at this meeting.

1. The following directors were elected for terms expiring as noted. These individuals served on the Board of Directors prior to the Annual Meeting. The number of votes cast were as follows:

For terms to expire at the 2012 annual meeting:	For	Against/Withheld
Dubose Ausley	13,349,320	446,224
Frederick Carroll, III	13,727,269	68,275
John K. Humphress	13,721,089	74,455
Henry Lewis, III	13,713,156	82,388

2. The shareowners ratified the selection of Ernst & Young as the Company's independent auditors for the fiscal year ending December 31, 2009. The number of votes cast were as follows:

For	Against/ Withheld	Abstention
13,748,985	25,025	21,534

Item 5. Other Information

None.

Item 6. Exhibits

(A) Exhibits

- 10.1 Form of Participant Agreement for 2009 Stock Based Incentive Plan – incorporated by reference to Exhibit 10.1 of the registrants current report on form 8K (filed 6/30/09) (No. 0-13358)
 - 31.1 Certification of William G. Smith, Jr., Chairman, President and Chief Executive Officer of Capital City Bank Group, Inc., Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
 - 31.2 Certification of J. Kimbrough Davis, Executive Vice President and Chief Financial Officer of Capital City Bank Group, Inc., Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
 - 32.1 Certification of William G. Smith, Jr., Chairman, President and Chief Executive Officer of Capital City Bank Group, Inc., Pursuant to 18 U.S.C. Section 1350.
 - 32.2 Certification of J. Kimbrough Davis, Executive Vice President and Chief Financial Officer of Capital City Bank Group, Inc., Pursuant to 18 U.S.C. Section 1350.
-

SIGNATURES

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

CAPITAL CITY BANK GROUP, INC.

(Registrant)

By: /s/ J. Kimbrough Davis

J. Kimbrough Davis

Executive Vice President and Chief Financial Officer

(Mr. Davis is the Principal Financial Officer and has been duly authorized to sign on behalf of the Registrant)

Date: August 10, 2009

EXHIBIT INDEX

Exhibit Number	Description
31.1	Certification of William G. Smith, Jr., Chairman, President and Chief Executive Officer of Capital City Bank Group, Inc., Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
31.2	Certification of J. Kimbrough Davis, Executive Vice President and Chief Financial Officer of Capital City Bank Group, Inc., Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
32.1	Certification of William G. Smith, Jr., Chairman, President and Chief Executive Officer of Capital City Bank Group, Inc., Pursuant to 18 U.S.C. Section 1350.
32.3	Certification of J. Kimbrough Davis, Executive Vice President and Chief Financial Officer of Capital City Bank Group, Inc., Pursuant to 18 U.S.C. Section 1350.