CAPITAL CITY BANK GROUP INC
Form 10-Q
August 08, 2011

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

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2011

OR

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

For the transition period from ____________ to ____________

Commission File Number: 0-13358

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

Florida (State or other jurisdiction of incorporation or organization)	59-2273542 (I.R.S. Employer Identification No.)
217 North Monroe Street, Tallahassee, Florida (Address of principal executive office)	32301 (Zip Code)

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

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

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

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

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

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

At July 31, 2011, 17,151,996 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, 2011
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INTRODUCTORY NOTE
Caution Concerning Forward-Looking Statements

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

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

Our ability to achieve our financial objectives could be adversely affected by the factors discussed in detail in Part I, Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Part II, Item 1A. “Risk Factors” in this Quarterly Report on Form 10-Q, the following sections of our Annual Report on Form 10-K for the year ended December 31, 2010 (the “2010 Form 10-K”): (a) “Introductory Note” in Part I, Item 1. “Business”; (b) “Risk Factors” in Part I, Item 1A., as updated in our subsequent quarterly reports filed on Form 10-Q, and (c) “Introduction” in “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” in Part II, Item 7 as well as:

§ legislative or regulatory changes, including the Dodd-Frank Wall Street Reform and Consumer Protection Act;
§ the strength of the United States economy in general and the strength of the local economies in which we conduct operations;
§ the accuracy of our financial statement estimates and assumptions, including the estimate for our loan loss provision and the valuation allowance on deferred tax assets;
§ the frequency and magnitude of foreclosure of our loans;
§ continued depression of the market value of the Company that could result in an impairment of goodwill;
§ restrictions on our operations, including the inability to pay dividends without our regulators’ consent;
§ the effects of the health and soundness of other financial institutions, including the FDIC’s need to increase Deposit Insurance Fund assessments;
§ our ability to declare and pay dividends;
§ changes in the securities and real estate markets;
§ changes in monetary and fiscal policies of the U.S. Government;
§ increased competition and its effect on pricing, including the effect of the repeal of Regulation Q on our net interest income;
§ inflation, interest rate, market and monetary fluctuations;
§ the effects of our lack of a diversified loan portfolio, including the risks of geographic and industry concentrations;
§ our need and our ability to incur additional debt or equity financing;
§ the effects of harsh weather conditions, including hurricanes, and man-made disasters;
§ 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;
§ technological changes;
§ negative publicity and the impact on our reputation;
§ 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;
- § our ability to integrate the business and operations of companies and banks that we have acquired, and those we may acquire in the future;
- § 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, 2011 AND DECEMBER 31, 2010

(Dollars In Thousands, Except Share Data)	Unaudited June 30, 2011	December 31, 2010
ASSETS		
Cash and Due From Banks	$ 71,554	$ 35,410
Federal Funds Sold and Interest Bearing Deposits	223,183	200,783
Total Cash and Cash Equivalents	294,737	236,193
Investment Securities, Available-for-Sale	304,313	309,731
Loans, Net of Unearned Interest	1,687,602	1,758,671
Allowance for Loan Losses	(31,080)	(35,436)
Loans, Net	1,656,522	1,723,235
Premises and Equipment, Net	112,576	115,356
Goodwill	84,811	84,811
Other Intangible Assets	888	1,348
Other Real Estate Owned	61,016	57,937
Other Assets	84,395	93,442
Total Assets	$ 2,599,258	$ 2,622,053
LIABILITIES		
Deposits:		
Noninterest Bearing Deposits	$ 568,813	$ 546,257
Interest Bearing Deposits	1,532,198	1,557,719
Total Deposits	2,101,011	2,103,976
Short-Term Borrowings	65,237	92,928
Subordinated Notes Payable	62,887	62,887
Other Long-Term Borrowings	49,196	50,101
Other Liabilities	60,383	53,142
Total Liabilities	2,338,714	2,363,034
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; 17,127,320 and 17,100,081 shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively	171	171
Additional Paid-In Capital	37,724	36,920
Retained Earnings	237,709	237,679
Accumulated Other Comprehensive Loss, Net of Tax	(15,060)	(15,751)

Total Shareowners' Equity	260,544	259,019
Total Liabilities and Shareowners' Equity	$ 2,599,258	$ 2,622,053

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	
(Dollars in Thousands, Except Per Share Data)	2011	2010	2011	2010
INTEREST INCOME				
Interest and Fees on Loans	$ 24,305	$ 26,644	$ 48,252	$ 53,636
Investment Securities:				
U.S. Treasuries	405	330	806	433
U.S. Government Agencies	336	299	693	619
States and Political Subdivisions	193	406	412	896
Other Securities	83	79	177	156
Federal Funds Sold	145	176	316	348
Total Interest Income	25,467	27,934	50,656	56,088
INTEREST EXPENSE				
Deposits	1,083	2,363	2,341	5,301
Short-Term Borrowings	110	12	221	29
Subordinated Notes Payable	343	639	683	1,290
Other Long-Term Borrowings	492	551	986	1,077
Total Interest Expense	2,028	3,565	4,231	7,697
NET INTEREST INCOME	23,439	24,369	46,425	48,391
Provision for Loan Losses	3,545	3,633	7,678	14,373
Net Interest Income After Provision For Loan Losses	19,894	20,736	38,747	34,018
NONINTEREST INCOME				
Service Charges on Deposit Accounts	6,309	7,039	12,292	13,667
Data Processing	764	919	1,738	1,819
Asset Management Fees	1,080	1,080	2,160	2,100
Retail Brokerage Fees	939	846	1,668	1,411
Securities Transactions	-	-	-	5
Mortgage Banking Fees	568	641	1,185	1,149
Bank Card Fees	2,558	2,362	5,054	4,537
Other	2,230	1,787	6,685	3,953
Total Noninterest Income	14,448	14,674	30,782	28,641
NONINTEREST EXPENSE				
Salaries and Associate Benefits	16,000	15,584	32,577	32,363
Occupancy, Net	2,447	2,585	4,843	4,993
Furniture and Equipment	2,117	2,192	4,343	4,373
Intangible Amortization	107	710	460	1,420
Other Real Estate	3,033	4,082	6,710	6,907
Other	7,463	9,476	15,565	17,957
Total Noninterest Expense	31,167	34,629	64,498	68,013
INCOME (LOSS) BEFORE INCOME TAXES	3,175	781	5,031	(5,354)
Income Tax Expense (Benefit)	1,030	50	1,576	(2,622)

NET INCOME (LOSS)	$	2,145	$	731	$	3,455	$	(2,732)
Basic Net Income (Loss) Per Share	$	0.12	$	0.04	$	0.20	$	(0.16)
Diluted Net Income (Loss) Per Share	$	0.12	$	0.04	$	0.20	$	(0.16)
Average Basic Shares Outstanding		17,127,302		17,063,176		17,124,468		17,060,135
Average Diluted Shares Outstanding		17,139,234		17,074,202		17,134,520		17,071,031

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

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

(Dollars In Thousands, Except Share Data)	Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income, Net of Taxes	Total
Balance, December 31, 2010	17,100,081	$ 171	$ 36,920	$ 237,679	$ (15,751)	$ 259,019
Comprehensive Income:						
Net Income	-	-	-	3,455	-	3,455
Net Change in Unrealized Gain On Available-for-Sale Securities (net of tax)	-	-	-	-	691	691
Total Comprehensive Income	-	-	-			4,146
Cash Dividends ($0.20 per share)	-	-	-	(3,425)	-	(3,425)
Stock Performance Plan Compensation	-	-	391	-	-	391
Issuance of Common Stock	27,239	-	413	-	-	413
Balance, June 30, 2011	17,127,320	$ 171	$ 37,724	$ 237,709	$ (15,060)	$ 260,544

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)	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (Loss)	$ 3,455	$ (2,732)
Adjustments to Reconcile Net Income to		
Cash Provided by Operating Activities:		
Provision for Loan Losses	7,678	14,373
Depreciation	3,464	3,495
Net Securities Amortization	1,951	1,537
Amortization of Intangible Assets	460	1,420
Gain (Loss) on Securities Transactions	-	(5)
Loss on Impaired Security	-	61
Origination of Loans Held-for-Sale	(51,887)	(59,639)
Proceeds From Sales of Loans Held-for-Sale	54,181	56,119
Net Gain From Sales of Loans Held-for-Sale	(1,186)	(1,149)
Non-Cash Compensation	391	115
Decrease in Deferred Income Taxes	417	538
Net Decrease in Other Assets	28,048	7,495
Net Increase in Other Liabilities	7,353	10,186
Net Cash Provided By Operating Activities	54,325	31,814
CASH FLOWS FROM INVESTING ACTIVITIES		
Securities Available-for-Sale:		
Purchases	(41,915)	(91,038)
Sales	-	505
Payments, Maturities, and Calls	46,502	47,871
Net Decrease in Loans	35,001	54,993
Purchase of Premises & Equipment	(685)	(4,858)
Net Cash Provided By Investing Activities	38,903	7,473
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in Deposits	(2,965)	(57,923)
Net Decrease in Short-Term Borrowings	(27,690)	(14,465)
Increase in Other Long-Term Borrowings	789	8,015
Repayment of Other Long-Term Borrowings	(1,695)	(1,790)
Dividends Paid	(3,425)	(4,949)
Issuance of Common Stock	302	420
Net Cash Used by Financing Activities	(34,684)	(70,692)
NET CHANGE IN CASH AND CASH EQUIVALENTS	58,544	(31,405)
Cash and Cash Equivalents at Beginning of Period	236,193	334,293
Cash and Cash Equivalents at End of Period	$ 294,737	$ 302,888
Supplemental Disclosure:		

Interest Paid on Deposits	$	2,641	$	5,804
Interest Paid on Debt		1,975		2,407
Taxes Paid		2,737		338
Loans Transferred to Other Real Estate Owned		22,926		23,904
Issuance of Common Stock as Non-Cash Compensation		413		420
Transfer of Current Portion of Long-Term Borrowings	$	-	$	16

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 to 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 2010 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, 2011 and December 31, 2010, the results of operations for the three and six months ended June 30, 2011 and 2010, and cash flows for the six months ended June 30, 2011 and 2010.

NOTE 2 - INVESTMENT SECURITIES

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

	June 30, 2011			
(Dollars in Thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. Treasury	$ 168,585	$ 1,625	$ 3	$ 170,207
U.S. Government Agencies and Corporations	10,367	-	4	10,363
States and Political Subdivisions	56,577	255	14	56,818
Mortgage-Backed Securities	54,149	985	59	55,075
Other Securities(1)	12,450	-	600	11,850
Total Investment Securities	$ 302,128	$ 2,865	$ 680	$ 304,313

	December 31, 2010			
(Dollars in Thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. Treasury	$ 160,913	$ 1,371	$ 134	$ 162,150
	-	-	-	-

U.S. Government Agencies and Corporations								
States and Political Subdivisions		78,990		319		9		79,300
Mortgage-Backed Securities		56,099		678		560		56,217
Other Securities(1)		12,664		-		600		12,064
Total Investment Securities	$	308,666	$	2,368	$	1,303	$	309,731

(1) Includes Federal Home Loan Bank and Federal Reserve Bank stock recorded at cost of $7.0 million and $4.8 million, respectively, at June 30, 2011 and $7.2 million and $4.8 million, respectively, at December 31, 2010.

Securities with an amortized cost of $130.8 million and $131.6 million at June 30, 2011 and December 31, 2010, respectively, were pledged to secure public deposits and for other purposes.

The Company's subsidiary, Capital City Bank, as a member of the Federal Home Loan Bank ("FHLB") of Atlanta, is required to own capital stock in the FHLB of Atlanta based generally upon the balances of residential and commercial real estate loans, and FHLB advances. FHLB stock of $7.0 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, 2011, the Company's investment securities had the following maturity distribution based on contractual maturities:

(Dollars in Thousands)		Amortized Cost		Market Value
Due in one year or less	$	107,175	$	107,682
Due after one through five years		169,954		172,110
Due after five through 10 years		10,797		10,926
Due after 10 years		1,752		1,745
No Maturity		12,450		11,850
Total Investment Securities	$	302,128	$	304,313

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

Other Than Temporarily Impaired Securities. The following table summarizes the investment securities with unrealized losses at June 30, 2011 aggregated by major security type and length of time in a continuous unrealized loss position:

	June 30, 2011											
	Less Than 12 Months				Greater Than 12 Months				Total			
(Dollars in Thousands)		Market Value		Unrealized Losses		Market Value		Unrealized Losses		Market Value		Unrealized Losses
U.S. Treasury	$	3,481	$	3	$	-	$	-	$	3,481	$	3
U.S. Government Agencies and Corporations		10,367		4		-		-		10,367		4
States and Political Subdivisions		3,716		14		-		-		3,716		14
Mortgage-Backed Securities		7,011		59		-		-		7,011		59
Other Securities		-		-		-		600		-		600
Total Investment Securities	$	24,575	$	80	$	-	$	600	$	24,575	$	680

Management evaluates securities for other than temporary impairment at least quarterly, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the nature of the securities, the underlying collateral, the financial condition of the issuer, the extent and duration of the loss, our intent related to the individual securities, and the likelihood that we will have to sell the securities prior to the expected recovery. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by rating agencies have occurred, regulatory issues, and analysts' reports.

At June 30, 2011, the Company had securities of $302.1 million with net pre-tax unrealized gains of $2.2 million on these securities, of which $25.0 million have unrealized losses totaling $0.1 million and have been in a loss position for less than 12 months. These securities are primarily in a loss position because they were acquired when the general level of interest rates was lower than that on June 30, 2011. The Company believes that the losses in these securities are temporary in nature and that the full principal will be collected as anticipated. Because the declines in the market value of these investments are attributable to changes in interest rates and not credit quality and because the Company has the ability and intent to hold these investments until there is a recovery in fair value, which may be at maturity, the Company does not consider these investments to be other-than-temporarily impaired at June 30, 2011. One preferred bank stock issue for $0.6 million has been in a loss position for greater than 12 months. The Company continues to closely monitor the fair value of this security as the subject bank continues to experience negative operating trends.

NOTE 3 - LOANS

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

(Dollars in Thousands)	June 30, 2011	December 31, 2010
Commercial, Financial and Agricultural	$ 149,830	$ 157,394
Real Estate-Construction	30,867	43,239
Real Estate-Commercial	660,058	671,702
Real Estate-Residential(1)	395,199	424,229
Real Estate-Home Equity	248,228	251,565
Real Estate-Loans Held-for-Sale	5,914	6,312
Consumer	197,506	204,230
Loans, Net of Unearned Interest	$ 1,687,602	$ 1,758,671

(1) Includes loans in process with outstanding balances of $6.3 million and $10.0 million for June 30, 2011 and December 31, 2010, respectively.

Net deferred fees included in loans at June 30, 2011 and December 31, 2010 were $1.7 million and $1.8 million, respectively.

Past Due Loans. A loan is defined as a past due loan when one full payment is past due or a contractual maturity is over 30 days past due ("DPD").

The following table presents the aging of the recorded investment in past due loans as of June 30, 2011 and December 31, 2010 by class of loans:

June 30, 2011 (Dollars in Thousands)	30-59 DPD	60-89 DPD	90 + DPD	Total Past Due	Total Current	Total Loans
Commercial, Financial and Agricultural	$ 754	208	-	962	147,736	$ 149,830
Real Estate - Construction	140	-	-	140	29,571	30,867
Real Estate - Commercial Mortgage	3,681	1,217	-	4,898	627,931	660,058
Real Estate - Residential	4,695	2,398	271	7,364	360,256	395,126
Real Estate - Home Equity	1,519	431	-	1,950	243,004	248,228
Consumer	2,787	273	-	3,060	196,772	203,493
Total Past Due Loans	$ 13,576	4,527	271	18,374	1,605,270	$ 1,687,602

December 31, 2010 (Dollars in Thousands)	30-59 DPD	60-89 DPD	90 + DPD	Total Past Due	Total Current	Total Loans
Commercial, Financial and Agricultural	$ 645	193	-	838	155,497	$ 157,394
Real Estate - Construction	314	129	-	443	40,890	43,239
Real Estate - Commercial Mortgage	5,577	840	-	6,417	638,411	671,702
Real Estate - Residential	7,171	3,958	120	11,249	389,103	430,541
Real Estate - Home Equity	1,444	698	39	2,182	244,579	251,565
Consumer	2,867	356	-	3,223	200,139	204,230

Total Past Due Loans	$ 18,018	6,174	159	24,352	1,668,619	$ 1,758,671

Nonaccrual Loans. Loans are generally placed on non-accrual status if principal or interest payments become 90 days past due and/or management deems the collectability of the principal and/or interest to be doubtful. Loans are returned to accrual status when the principal and interest amounts contractually due are brought current or when future payments are reasonably assured.

The following table presents the recorded investment in nonaccrual loans and loans past due over 90 days and still on accrual by class of loans as of June 30, 2011 and December 31, 2010:

	June 30, 2011		December 31, 2010	
(Dollars in Thousands)	Nonaccrual	90 + DPD	Nonaccrual	90+ DPD
Commercial, Financial and Agricultural	$1,133	$-	$1,059	$-
Real Estate - Construction	1,156	-	1,907	-
Real Estate - Commercial Mortgage	27,229	-	26,874	-
Real Estate - Residential	27,505	271	30,189	120
Real Estate - Home Equity	3,275	-	4,803	39
Consumer	778	-	868	-
Total Nonaccrual Loans	$61,076	$271	$65,700	$159

Credit Quality Indicators. As part of the ongoing monitoring of the Company's loan portfolio quality, management categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment performance, credit documentation, and current economic/market trends, among other factors. Risk ratings are assigned to each loan and revised as needed through established monitoring procedures for individual loan relationships over a predetermined amount and review of smaller balance homogenous loan pools. The Company uses the following definitions for the categorizing and managing its problem loans.

Special Mention – Loans in this category are presently protected from loss, but weaknesses are apparent which, if not corrected, could cause future problems. Adverse economic or market conditions may negatively impact the borrower's ability to repay. Loans in this category may not meet required underwriting criteria and have no mitigating factors. More than the ordinary amount of attention is warranted for these loans.

Substandard – Loans in this category exhibit well-defined weaknesses that would typically bring normal repayment into jeopardy. These loans are no longer adequately protected due to well-defined weaknesses that affect the repayment capacity of the borrower. The possibility of loss is much more evident and above average supervision is required for these loans.

Nonaccrual – Loans in this category are on nonaccrual status due to the borrower's inability to meet the repayment terms and where future capacity to repay is remote.

The following table presents the risk category of loans by segment as of June 30, 2011 and December 31, 2010:

June 30, 2011 (Dollars in Thousands)	Commercial, Financial, Agriculture	Real Estate	Consumer	Total
Special Mention	$ 9,165	$94,141	$116	$103,422
Substandard	8,627	152,207	623	161,457
Nonaccrual	1,133	59,165	778	61,076

Total Loans	$ 18,925	$305,513	$1,517	$325,955

December 31, 2010 (Dollars in Thousands)	Commercial, Financial, Agriculture	Real Estate	Consumer	Total
Special Mention	$ 20,539	$100,008	$102	$120,649
Substandard	10,599	165,143	719	176,461
Nonaccrual	1,060	63,773	867	65,700
Total Loans	$ 32,198	$328,924	$1,688	$362,810

NOTE 4 - ALLOWANCE FOR LOAN LOSSES

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

(Dollars in Thousands)	2011	2010
Balance, Beginning of Year	$ 35,436	$ 43,999
Provision for Loan Losses	7,678	14,373
Recoveries on Loans Previously Charged-Off	1,226	2,129
Loans Charged-Off	(13,260)	(22,059)
Balance, End of Period	$ 31,080	$ 38,442

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio class based on impairment method as of June 30, 2011 and December 31, 2010:

June 30, 2011 (Dollars in Thousands)	Commercial, Financial, Agricultural	Real Estate Construction	Real Estate Commercial Mortgage	Real Estate Residential	Real Estate Home Equity	Consumer	Unallocated	Total
Allowance Allocated to:								
Loans Individually Evaluated for Impairment	$ 591	487	3,582	5,800	506	41	-	$11,007
Loans Collectively Evaluated for Impairment	1,193	1,258	4,979	8,147	1,742	1,754	1,000	20,073
Total	$ 1,784	1,745	8,561	13,947	2,248	1,795	1,000	$ 31,080
Total Loans:								
Individually Evaluated for Impairment	$ 1,730	1,311	42,531	29,829	2,351	79	-	$ 77,831
Collectively Evaluated for Impairment	148,100	29,556	617,526	365,297	245,878	203,414	-	1,609,771
Total	$ 149,830	30,867	660,057	395,126	248,229	203,493	-	$ 1,687,602

December 31, 2010 (Dollars in Thousands)	Commercial, Financial, Agricultural	Real Estate Construction	Real Estate Commercial Mortgage	Real Estate Residential	Real Estate Home Equity	Consumer	Unallocated	Total
Allowance Allocated to:								
Loans Individually Evaluated	$ 252	413	$ 4,640	7,965	$ 1,389	$ 71	-	$ 14,730

for Impairment								
Loans Collectively Evaluated for Impairment	1,292	1,647	4,005	9,081	1,133	2,541	1,007	20,706
Total	$ 1,544	2,060	8,645	17,046	2,522	2,612	1,007	$ 35,436
Total Loans:								
Individually Evaluated for Impairment	$ 1,685	2,533	$ 42,369	37,779	$ 3,278	$ 144	-	$ 87,788
Collectively Evaluated for Impairment	155,709	40,706	629,333	392,762	248,287	204,086	-	1,670,883
Total	$ 157,394	43,239	671,702	430,541	251,565	204,230	-	$ 1,758,671

Impaired Loans. Loans are deemed to be impaired when, based on current information and events, it is probable that the Company will not be able to collect all amounts due (principal and interest payments), according to the contractual terms of the loan agreement. Loans, for which the terms have been modified, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired. Interest income recognized on impaired loans was approximately $1.2 million for the six month periods ended June 30, 2011 and June 30, 2010, respectively.

The following table presents loans individually evaluated for impairment by class of loans as of June 30, 2011 and December 31, 2010:

(Dollars in Thousands)	Unpaid Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Related Allowance	Average Recorded Investment
June 30, 2011:					
Commercial, Financial and Agricultural	$1,730	$273	$1,458	$591	$1,563
Real Estate - Construction	1,311	10,557	1,311	487	1,950
Real Estate - Commercial Mortgage	42,531	4,746	31,974	3,582	46,145
Real Estate - Residential	29,829	522	25,083	5,800	30,782
Real Estate - Home Equity	2,351	4	1,829	506	2,844
Consumer	79	-	74	41	108
Total	$77,831	$16,102	$61,729	$11,007	$83,392
December 31, 2010:					
Commercial, Financial and Agricultural	$1,684	$389	$1,295	$252	$2,768
Real Estate - Construction	2,533	-	2,533	413	5,801
Real Estate - Commercial Mortgage	42,370	9,030	33,340	4,640	48,820
Real Estate - Residential	37,780	3,295	34,485	7,965	41,958
Real Estate - Home Equity	3,278	375	2,903	1,389	3,087
Consumer	143	-	143	71	172
Total	$87,788	$13,089	$74,699	$14,730	$102,606

NOTE 5 - INTANGIBLE ASSETS

The Company had net intangible assets of $85.7 million and $86.2 million at June 30, 2011 and December 31, 2010, respectively. Intangible assets were as follows:

	June 30, 2011		December 31, 2010	
(Dollars in Thousands)	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Core Deposit Intangibles	$ 47,176	$ 46,798	$ 47,176	$ 46,434
Goodwill	84,811	-	84,811	-
Customer Relationship Intangible	1,867	1,357	1,867	1,261
Total Intangible Assets	$ 133,854	$ 48,155	$ 133,854	$ 47,695

Net Core Deposit Intangibles: As of June 30, 2011 and December 31, 2010, the Company had net core deposit intangibles of $0.4 million and $0.7 million, respectively. Amortization expense for the first six months of 2011 and 2010 was approximately $0.4 million and $1.4 million, respectively. Estimated annual amortization expense for 2011 is $0.5 million. All of our core deposit intangibles will be fully amortized in January 2013.

Goodwill: As of June 30, 2011 and December 31, 2010, the Company had goodwill, net of accumulated amortization, of $84.8 million.

Goodwill is tested for impairment on an annual basis, or more often if impairment indicators exist. A goodwill impairment test consists of two steps. Step One compares the estimated fair value of the reporting unit to its carrying amount. If the carrying amount exceeds the estimated fair value, Step Two is performed by comparing the fair value of the reporting unit's implied goodwill to the carrying value of goodwill. If the carrying value of the reporting unit's goodwill exceeds the estimated fair value, an impairment charge is recorded equal to the excess.
As of June 30, 2011, the book value of the Company's equity exceeded its market capitalization, and as such the Company performed goodwill impairment testing. The Step One test indicated that the carrying amount (including goodwill) of the Company's reporting unit exceeded its estimated fair value. The Step Two test indicated the estimated fair value of our reporting unit's implied goodwill exceeded its carrying amount. Based on the results of the Step Two analysis, the Company concluded that goodwill was not impaired as of June 30, 2011. The Company will continue to test goodwill as defined by ASC Topic 350.

Other: As of June 30, 2011 and December 31, 2010, the Company had a customer relationship intangible asset, net of accumulated amortization, of $0.5 million and $0.6 million, respectively. This intangible asset was recorded as a result of the March 2004 acquisition of trust customer relationships. Amortization expense for the first six months of 2011 and 2010 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, 2011 and December 31, 2009 was as follows:

(Dollars in Thousands)	June 30, 2011	December 31, 2010
NOW Accounts	$ 764,480	$ 770,149
Money Market Accounts	283,230	275,416
Savings Deposits	153,403	139,888
Other Time Deposits	331,085	372,266
Total Interest Bearing Deposits	$ 1,532,198	$ 1,557,719

NOTE 7 - STOCK-BASED COMPENSATION

The Company recognizes the cost of stock-based associate stock compensation in accordance with ASC-718-20-05-1 and ASC 718-50-05-01, (formerly SFAS No. 123R), "Share-Based Payment" (Revised) under the fair value method.

As of June 30, 2011, the Company had three stock-based compensation plans, consisting of the 2011 Associate Stock Incentive Plan ("ASIP"), the 2011 Associate Stock Purchase Plan ("ASPP"), and the 2011 Director Stock Purchase Plan ("DSPP"). These plans are new plans replacing substantially similar plans approved by the shareowners in 2004. Total compensation expense associated with these plans for the six months ended June 30, 2011 and 2010 was $448,000 and $184,000, respectively.

ASIP. The Company's ASIP allows the Company's Board of Directors to award key associates various forms of equity-based incentive compensation. Under the ASIP, all participants in this plan are eligible to earn an equity award, in the form of performance shares. The Company, under the terms and conditions of the ASIP, created the 2011 Incentive Plan ("2011 Plan"), which has an award tied to an internally established earnings goal. The grant-date fair value of the shares eligible to be awarded in 2011 is approximately $895,000. A total of 51,952 shares are eligible for issuance. For the first six months of 2011 and 2010, the Company recognized approximately $319,000 and $115,000 in expense related to the ASIP.

Executive Stock Option Agreement. Prior to 2007, the Company maintained a stock option program 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 an annual 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. For the first six months of 2011, the Company recognized $72,000 in expense related this plan. No expense was recognized under this plan for the first six months of 2010.

A summary of the status of the Company's options as of June 30, 2011 is presented below:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining	Aggregate Intrinsic

				Term	Value
Outstanding at January 1, 2011	60,384	$	32.79	3.9	$-
Granted	-		-	-	-
Exercised	-		-	-	-
Forfeited or expired	-		-	-	-
Outstanding at June 30, 2011	60,384	$	32.79	3.4	$-
Exercisable at June 30, 2011	60,384	$	32.79	3.4	$-

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. For the first six months 2011 and 2010, the Company recognized approximately $15,000 and $14,000 in expense related to this plan or its predecessor plan, the 2005 Director Stock Purchase Plan.

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. For the first six months of 2011, the Company recognized approximately $42,000 in expense related to the ASPP plan or its processor plan, the 2005 Associate Stock Purchase Plan compared to approximately $56,000 in expense for the same period in 2010.

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,	
(Dollars in Thousands)	2011	2010	2011	2010
Discount Rate	5.55%	5.75%	5.55%	5.75%
Long-Term Rate of Return on Assets	8.00%	8.00%	8.00%	8.00%
Service Cost	$ 1,550	$ 1,525	$ 3,100	$ 3,050
Interest Cost	1,325	1,175	2,650	2,350
Expected Return on Plan Assets	(1,650)	(1,525)	(3,300)	(3,050)
Prior Service Cost Amortization	125	125	250	250
Net Loss Amortization	550	525	1,100	1,050
Net Periodic Benefit Cost	$ 1,900	$ 1,825	$ 3,800	$ 3,650

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,	
(Dollars in Thousands)	2011	2010	2011	2010
Discount Rate	5.55%	5.75%	5.55%	5.75%
Service Cost	$ -	$ -	$ -	$ -
Interest Cost	40	42	80	84
Prior Service Cost Amortization	45	45	90	90
Net Loss Amortization	(98)	(85)	(196)	(170)
Net Periodic Benefit Cost	$ (13)	$ 2	$ (26)	$ 4

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, 2011, the amounts associated with the Company's off-balance sheet obligations were as follows:

(Dollars in Millions)	Amount
Commitments to Extend Credit(1)	$ 308
Standby Letters of Credit	$ 11

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

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

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

Indemnification Obligation. The Company is a member of the Visa U.S.A. network. Visa U.S.A believes that its member banks are required to indemnify it for potential future settlement of certain litigation (the "Covered Litigation"). In 2008, the Company, as a member of the Visa U.S.A. network, obtained Class B shares of Visa, Inc. upon its initial public offering. Since its initial public offering, Visa, Inc. has funded a litigation reserve for the Covered Litigation resulting in a reduction in the Class B shares held by the Company. During the first quarter of 2011, the Company sold its remaining Class B shares resulting in a $3.2 million pre-tax gain. Associated with this sale, the Company entered into a swap contract with the purchaser of the shares that requires a payment to the counterparty in the event that Visa, Inc. makes subsequent revisions to the conversion ratio for its Class B shares. Further information on the swap contract is contained within Note 10 below.

NOTE 10 – FAIR VALUE MEASUREMENTS

The fair value of an asset or liability is the price that would be received to sell that asset or paid to transfer that liability in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for such asset or liability. In estimating fair value, the Company utilizes valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability. ASC Topic 820 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.

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. A more detailed description of the valuation methodologies used for assets and liabilities measured at fair value is set forth in the Company's 2010 Form 10-K.

Financial Assets and Financial Liabilities. The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of June 30, 2011 segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

(Dollars in Thousands)	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
June 30, 2011				
ASSETS:				
Securities available for sale:				
US Treasury	$ 170,207	$ -	$ -	$ 170,207
States and Political Subdivisions	1,481	55,337	-	56,818
Residential Mortgage-Backed Securities	-	65,438	-	65,438
Other Securities	-	11,850	-	11,850
LIABILITIES:				
Fair Value Swap	-	-	445	445

Fair Value Swap. During the first quarter of 2011, the Company entered into a stand-alone derivative contract with the purchaser of its Visa Class B shares. The valuation represents an internally developed estimate of the exposure based upon probability-weighted potential Visa litigation losses and related carrying cost obligations required under the contract.

Non-Financial Assets and Non-Financial Liabilities. Certain 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).

Impaired Loans. On a non-recurring basis, certain impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the liquidation of collateral. Collateral values are estimated using Level 2 inputs based on customized discounting criteria. Impaired loans had a carrying value of $77.8 million, with a valuation allowance of $11.0 million.

Loans Held for Sale. Loans held for sale were $5.9 million as of June 30, 2011. These loans are carried at the lower of cost or fair value and are adjusted to fair value on a non-recurring basis. Fair value is based on observable markets rates for comparable loan products which is considered a Level 2 fair value measurement.

Other Real Estate Owned. During the first six months of 2011, certain foreclosed assets, upon initial recognition, were measured and reported at fair value through a charge-off to the allowance for loan losses based on the fair value of the foreclosed asset. The fair value of the foreclosed asset, upon initial recognition, is estimated using Level 2 inputs based on observable market data. Foreclosed assets measured at fair value upon initial recognition totaled $22.9 million during the six months ended June 30, 2011. In addition, the Company recognized subsequent losses totaling $2.1 million for foreclosed assets that were re-valued during the six months ended June 30, 2011. The carrying value of foreclosed assets was $61.0 million at June 30, 2011.

FASB ASC Topic 825 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 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 Company’s 2010 Form 10-K.

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

	June 30, 2011		December 31, 2010	
(Dollars in Thousands)	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial Assets:				
Cash	$ 71,554	$ 71,554	$ 35,410	$ 35,410
Short-Term Investments	223,183	223,183	200,783	200,783
Investment Securities	304,313	304,313	309,731	309,731
Loans, Net of Allowance for Loan Losses	1,656,522	1,558,801	1,723,235	1,675,997
Total Financial Assets	$ 2,255,572	$ 2,157,851	$ 2,269,159	$ 2,221,921
Financial Liabilities:				
Deposits	$ 2,101,011	$ 2,101,972	$ 2,103,976	$ 2,105,568
Short-Term Borrowings	65,237	62,744	92,928	89,287
Subordinated Notes Payable	62,887	62,890	62,887	62,884
Long-Term Borrowings	49,196	52,106	50,101	52,302
Derivative Instrument – Fair Value Swap	445	445	-	-
Total Financial Liabilities	$ 2,278,776	$ 2,280,157	$ 2,309,892	$ 2,310,041

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 11 – NEW AUTHORITATIVE ACCOUNTING GUIDANCE

ASU No. 2010-20, "Receivables (Topic 310) - Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." ASU 2010-20 requires entities to provide disclosures designed to facilitate financial statement users' evaluation of (i) the nature of credit risk inherent in the entity's portfolio of financing receivables, (ii) how that risk is analyzed and assessed in arriving at the allowance for credit losses and (iii) the changes and reasons for those changes in the allowance for credit losses. Disclosures must be disaggregated by portfolio segment, the level at which an entity develops and documents a systematic method for determining its allowance for credit losses, and class of financing receivable, which is generally a disaggregation of portfolio segment. The required disclosures include, among other things, a roll-forward of the allowance for credit losses as well as information about modified, impaired, non-accrual and past due loans and credit quality indicators. ASU 2010-20 became effective for the Company's financial statements as of December 31, 2010, as it relates to disclosures required as of the end of a reporting period. Disclosures that relate to activity during a reporting period became effective for the Company's financial statements beginning on January 1, 2011. ASU 2011-01, "Receivables (Topic 310) - Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20," temporarily deferred the effective date for disclosures related to troubled debt restructurings to coincide with the effective date of the then proposed ASU 2011-02, "Receivables (Topic 310) - A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring," which is further discussed below. Adoption of ASU 2010-20 is not expected have a significant impact on the Company's financial statements.

ASU No. 2010-28, "Intangibles - Goodwill and Other (Topic 350) - When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts." ASU 2010-28 modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill

impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist such as if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. ASU 2010-28 became effective for the Company on January 1, 2011 and did not have a significant impact on the Company’s financial statements.

ASU No. 2011-02, "Receivables (Topic 310) - A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring." ASU 2011-02 clarifies which loan modifications constitute troubled debt restructurings and is intended to assist creditors in determining whether a modification of the terms of a receivable meets the criteria to be considered a troubled debt restructuring, both for purposes of recording an impairment loss and for disclosure of troubled debt restructurings. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude, under the guidance clarified by ASU 2011-02, that both of the following exist: (a) the restructuring constitutes a concession; and (b) the debtor is experiencing financial difficulties. ASU 2011-02 will be effective for the Company on July 1, 2011, and applies retrospectively to restructurings occurring on or after January 1, 2011. Adoption of ASU 2011-02 is not expected have a significant impact on the Company’s financial statements.

ASU No. 2011-03, "Transfers and Servicing (Topic 860) - Reconsideration of Effective Control for Repurchase Agreements." ASU 2011-03 is intended to improve financial reporting of repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. ASU 2011-03 removes from the assessment of effective control (i) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (ii) the collateral maintenance guidance related to that criterion. ASU 2011-03 will be effective for the Company on January 1, 2012 and is not expected to have a significant impact on the Company's financial statements.

ASU 2011-04, "Fair Value Measurement (Topic 820) - Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." ASU 2011-04 amends Topic 820, "Fair Value Measurements and Disclosures," to converge the fair value measurement guidance in U.S. generally accepted accounting principles and International Financial Reporting Standards. ASU 2011-04 clarifies the application of existing fair value measurement requirements, changes certain principles in Topic 820 and requires additional fair value disclosures. ASU 2011-04 is effective for annual periods beginning after December 15, 2011, and is not expected to have a significant impact on the Company's financial statements.

ASU 2011-05, "Comprehensive Income (Topic 220) - Presentation of Comprehensive Income." ASU 2011-05 amends Topic 220, "Comprehensive Income," to require that all nonowner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, ASU 2011-05 requires entities to present, on the face of the financial statements, reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement or statements where the components of net income and the components of other comprehensive income are presented. The option to present components of other comprehensive income as part of the statement of changes in stockholders' equity was eliminated. ASU 2011-05 is effective for annual periods beginning after December 15, 2011, and is not expected to have a significant impact on the Company's financial statements.

QUARTERLY FINANCIAL DATA (UNAUDITED)

(Dollars and Shares in Thousands)	2011		2010				
	Second	First(1)	Fourth	Third	Second	First	Fourth
Summary of Operations:							
Interest Income	$ 25,467	$ 25,189	$ 26,831	$ 27,576	$ 27,934	$ 28,154	$ 29,756
Interest Expense	2,028	2,203	2,473	2,792	3,565	4,132	4,464
Net Interest Income	23,439	22,986	24,358	24,784	24,369	24,022	25,292
Provision for Loan Losses	3,545	4,133	3,783	5,668	3,633	10,740	10,834
Net Interest Income After Provision for Loan Losses	19,894	18,853	20,575	19,116	20,736	13,282	14,458
Noninterest Income	14,448	16,334	14,735	13,449	14,674	13,967	14,411
Noninterest Expense	31,167	33,331	33,540	32,363	34,629	33,384	35,313
Income (Loss) Before Income Taxes	3,175	1,856	1,770	202	781	(6,135)	(6,444)
Income Tax (Benefit) Expense	1,030	546	(148)	(199)	50	(2,672)	(3,037)
Net Income (Loss)	$ 2,145	$ 1,310	$ 1,918	$ 401	$ 731	$ (3,463)	$ (3,407)
Net Interest Income (FTE)	$ 23,704	$ 23,257	$ 24,654	$ 25,116	$ 24,738	$ 24,473	$ 25,845
Per Common Share:							
Net Income (Loss) Basic	$ 0.12	$ 0.08	$ 0.12	$ 0.02	$ 0.04	$ (0.20)	$ (0.20)
Net Income (Loss) Diluted	0.12	0.08	0.12	0.02	0.04	(0.20)	(0.20)
Dividends Declared	0.10	0.10	0.10	0.10	0.10	0.19	0.19
Diluted Book Value	15.20	15.13	15.15	15.25	15.32	15.34	15.72
Market Price:							
High	13.12	13.80	14.19	14.24	18.25	14.61	14.34
Low	9.84	11.87	11.56	10.76	12.36	11.57	11.00
Close	10.26	12.68	12.60	12.14	12.38	14.25	13.84

Selected Average Balances:							
Loans, Net	$ 1,704,348	$ 1,730,330	$ 1,782,916	$ 1,807,483	$ 1,841,379	$ 1,886,367	$ 1,944,873
Earning Assets	2,258,931	2,278,602	2,218,049	2,273,198	2,329,365	2,358,288	2,237,561
Total Assets	2,618,287	2,643,017	2,576,793	2,626,758	2,678,488	2,698,419	2,575,250
Deposits	2,107,301	2,125,379	2,115,867	2,172,165	2,234,178	2,248,760	2,090,008
Shareowners' Equity	262,371	261,603	262,622	263,742	263,873	268,555	268,556
Common Equivalent Average Shares:							
Basic	17,127	17,122	17,095	17,087	17,063	17,057	17,034
Diluted	17,139	17,130	17,096	17,088	17,074	17,070	17,035
Performance Ratios:							
Return on Average Assets	0.33%	0.20%	0.30%	0.06%	0.11%	(0.52)%	(0.52)%
Return on Average Equity	3.28	2.03	2.90	0.60	1.11	(5.23)	(5.03)
Net Interest Margin (FTE)	4.21	4.14	4.41	4.38	4.26	4.21	4.59
Noninterest Income as % of Operating Revenue	38.13	41.54	37.69	35.17	37.58	36.77	36.30
Efficiency Ratio	81.41	83.30	83.75	82.08	86.06	85.00	85.21
Asset Quality:							
Allowance for Loan Losses	31,080	33,873	35,436	37,720	38,442	41,199	43,999
Allowance for Loan Losses to Loans	1.84%	1.98%	2.01%	2.10%	2.11%	2.23%	2.30%
Nonperforming Assets	145,674	153,346	145,286	145,643	149,814	153,669	144,052
Nonperforming Assets to Loans + ORE	8.33	8.66	8.00	7.86	8.01	8.10	7.38
Nonperforming Assets to Total Assets	5.60	5.76	5.54	5.65	5.65	5.66	5.32
Allowance to Non-Performing Loans	36.71	34.57	40.57	39.94	37.80	38.42	40.77
Net Charge-Offs to Average Loans	1.49	1.33	1.35	1.40	1.39	2.91	2.42
Capital Ratios:							

Tier 1 Capital Ratio	13.83%	13.46%	13.24%	12.93%	12.78%	12.81%	12.76%
Total Capital Ratio	15.19	14.82	14.59	14.29	14.14	14.16	14.11
Tangible Common Equity Ratio	6.96	6.73	6.82	6.98	6.80	6.62	6.84
Leverage Ratio	9.95	9.74	10.10	9.75	9.58	9.64	10.39

(1) Includes a $2.6 million (net) pre-tax gain from sale of Visa shares – $3.2 million gain less $0.6 million related swap liability.

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

Management's discussion and analysis ("MD&A") provides supplemental information, which sets forth the major factors that have affected our financial condition and results of operations and should be read in conjunction with the Consolidated Financial Statements and related notes. The MD&A is divided into subsections entitled "Business Overview," "Financial Overview," "Results of Operations," "Financial Condition," "Market Risk and Interest Rate Sensitivity," "Liquidity and Capital Resources," "Off-Balance Sheet Arrangements," and "Critical Accounting Policies." The following information should provide a better understanding of the major factors and trends that affect our earnings performance and financial condition, and how our performance during 2011 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 which is not calculated based on accounting principles generally accepted in the United States ("GAAP"), but that we believe provides important information regarding our results of operations. Our calculation of the operating efficiency ratio is computed by dividing noninterest expense less intangible amortization, by the sum of tax equivalent net interest income and noninterest income. Management uses this non-GAAP measure 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 measure enhances investors' understanding of our business and performance this non-GAAP financial measure should not be considered an alternative to GAAP. In addition, there are material limitations associated with the use of this non-GAAP financial measure such as the risks that readers of our financial statements may disagree as to the appropriateness of items included or excluded in this measure and that our measure may not be directly comparable to other companies that calculate this measure differently. Our management compensates for this limitation by providing a detailed reconciliation 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, 2011	March 31, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Efficiency ratio	81.69 %	84.19 %	87.86 %	82.97 %	87.36 %
Effect of intangible amortization expense	(0.28)%	(0.89)%	(1.80)%	(0.60)%	(1.82)%
Operating efficiency ratio	81.41 %	83.30 %	86.06 %	82.37 %	85.54 %

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 2010 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

Our Business

We are a bank holding company headquartered in Tallahassee, Florida, and we are the parent of our wholly-owned subsidiary, Capital City Bank (the "Bank" or "CCB"). The Bank offers a broad array of products and services through a total of 70 full-service offices located in Florida, Georgia, and Alabama. The Bank offers commercial and retail banking services, as well as trust and asset management, retail securities brokerage and data processing services.

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

Much of our lending operations are within the State of Florida, which had been particularly hard hit in the recent economic recession. Evidence of the economic downturn in Florida is particularly reflected in current unemployment statistics and realization of real estate property devaluation. According to the U.S. Department of Labor, the Florida unemployment rate (seasonally adjusted) at December 2010 increased to 12.0% from 11.8% at the end of 2009 and 7.6% at the end of 2008. While our Florida markets have generally realized an unemployment rate below the Florida rate, they have been adversely impacted as evidenced by layoffs and business closings, as well as wealth reduction due to depressed real estate markets. Real estate property valuations continue to be depressed during the economic downturn as evidenced by our higher level of problem assets and credit related costs. A second recession in Florida or continued slow recovery would likely exacerbate the adverse effects of these difficult market conditions on our clients, which may have a negative impact on our financial results.

FINANCIAL OVERVIEW

A summary overview of our financial performance is provided below.

Financial Performance Highlights –

- Net income for the second quarter of 2011 totaled $2.1 million, or $0.12 per diluted share, compared to net income of $1.3 million, or $0.08 per diluted share, for the first quarter of 2011 and net income of $0.7 million, or $0.04 per diluted share, for the second quarter of 2010. For the first six months of 2011, we realized net income of $3.5 million, or $0.20 per diluted share, compared to a net loss of $2.7 million, or $0.16 per diluted share, for the comparable period of 2010. Performance in 2011 reflects the sale of our Visa stock in the first quarter which resulted in a net pre-tax gain of $2.6 million.

- Net income for the second quarter of 2011 reflects total credit related costs (loan loss provision and other real estate owned ("OREO") costs) of $6.6 million, compared to $7.8 million for the first quarter of 2011 and $7.7 million for the second quarter of 2010. Credit related costs were $14.4 million for the first half of 2011 compared to $21.3 million for the same period in 2010.

- Tax equivalent net interest income for the second quarter of 2011 was $23.7 million compared to $23.3 million for the first quarter of 2011 and $24.7 million for the second quarter of 2010. For the first half of 2011, tax equivalent net interest income totaled $47.0 million compared to $49.2 million in 2010.

- Loan loss provision for the second quarter of 2011 was $3.5 million compared to $4.1 million for the first quarter of 2011 and $3.6 million for the second quarter of 2010. A decline in impaired loans drove the reduction in the provision for both periods. For the first half of the 2011, the loan loss provision was $7.7 million compared to $14.4 million for the same period in 2010. A reduction in impaired loans as well as a decline in general reserves, primarily due to a lower level of internally classified loans and lower loss rates, drove the lower provision. As of June 30, 2011, the allowance for loan losses was 1.84% of total loans and provided coverage of 37% of nonperforming loans compared to 2.01% and 41%, respectively, at year-end 2010.

- Noninterest income for the second quarter of 2011 totaled $14.4 million, a decrease of $1.9 million from the first quarter of 2011 and $0.2 million from the second quarter of 2010. The decrease from the first quarter of 2011 largely reflects the sale of our Visa stock in the first quarter. For the first six months of 2011, noninterest income totaled $30.8 million, an increase of $2.1 million over the same period in 2010 driven by the Visa gain, partially offset by deposit service charge fees and merchant fees.

- Noninterest expense for the second quarter of 2011 totaled $31.2 million, a decrease of $2.2 million from the first quarter of 2011 and $3.5 million from the second quarter of 2010. The decline from the first quarter of 2011 quarter primarily reflects lower expense for compensation, OREO costs and, to a lesser extent, FDIC insurance premiums, intangible amortization and miscellaneous expense. For the first six months of 2011, noninterest expense totaled $64.5 million, a $3.5 million decline from the same period of 2010 primarily attributable to expense for FDIC insurance, intangible amortization, and interchange fees.

- Average earning assets were $2.259 billion for the second quarter of 2011, an increase of $40.9 million from the fourth quarter of 2010 driven by an increase in the overnight funds sold position and a higher investment portfolio, partially offset by a decline in the loan portfolio.

- As of June 30, 2011, we are well-capitalized with a risk based capital ratio of 15.19% and a tangible common equity ratio of 6.96% compared to 14.50% and 6.82%, respectively, at December 31, 2010.

RESULTS OF OPERATIONS

Net Income

Net income for the second quarter of 2011 totaled $2.1 million, or $0.12 per diluted share, compared to net income of $1.3 million, or $0.08 per diluted share, for the first quarter of 2011 and net income of $0.7 million, or $0.04 per diluted share, for the second quarter of 2010. For the first six months of 2011, we reported net income of $3.5 million, or $0.20 per diluted share, compared to a net loss of $2.7 million, or $0.16 per diluted share, for the same period in 2010.

The increase in earnings over the first quarter of 2011 was due to higher net interest income of $0.4 million, lower loan loss provision of $0.6 million, and a reduction in noninterest expense of $2.2 million, partially offset by a decline in noninterest income of $1.9 million and higher income tax expense of $0.5 million. Compared to the second quarter of 2010, a $3.5 million decline in noninterest expense partially offset by a $1.2 million reduction in operating revenues and higher income tax expense of $1.0 million drove the improvement in earnings.

The increase in earnings for the first six months of 2011 is attributable to a lower loan loss provision of $6.7 million, reduction in noninterest expense of $3.5 million, and higher noninterest income of $2.1 million, partially offset by lower net interest income of $2.0 million and higher income tax expense of $4.1 million.

Performance in 2011 reflects the sale of our Visa Class B shares of stock during the first quarter which resulted in a $3.2 million pre-tax gain included in noninterest income and a swap liability of $0.6 million included in noninterest expense.

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

	Three Months Ended			Six Months Ended	
(Dollars in Thousands, except per share data)	June 30, 2011	March 31, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Interest Income	$ 25,467	$ 25,189	$ 27,934	$ 50,656	$ 56,088
Taxable equivalent Adjustments	265	271	369	536	820
Total Interest Income (FTE)	25,732	25,460	28,303	51,192	56,908
Interest Expense	2,028	2,203	3,565	4,231	7,697
Net Interest Income (FTE)	23,704	23,257	24,738	46,961	49,211
Provision for Loan Losses	3,545	4,133	3,633	7,678	14,373
Taxable Equivalent Adjustments	265	271	369	536	820
Net Interest Income After provision for Loan Losses	19,894	18,853	20,736	38,747	34,018
Noninterest Income	14,448	16,334	14,674	30,782	28,641
Noninterest Expense	31,167	33,331	34,629	64,498	68,013
Income (Loss) Before Income Taxes	3,175	1,856	781	5,031	(5,354)
Income Tax Expense (Benefit)	1,030	546	50	1,576	(2,622)
Net Income (Loss)	$ 2,145	$ 1,310	$ 731	$ 3,455	$ (2,732)
Basic Net Income (Loss) Per Share	$ 0.12	$ 0.08	$ 0.04	$ 0.20	$ (0.16)
Diluted Net Income (Loss) Per Share	$ 0.12	$ 0.08	$ 0.04	$ 0.20	$ (0.16)
Return on Average Equity	3.28%	2.03%	1.11%	2.66%	(2.07)%
Return on Average Assets	0.33%	0.20%	0.11%	0.26%	(0.20)%

Net Interest Income

Net interest income represents our single largest source of earnings and is equal to interest income and fees generated by earning assets, less interest expense paid on interest bearing liabilities. This information is provided on a "taxable equivalent" basis to reflect the tax-exempt status of income earned on certain loans and investments, the majority of which are state and local government debt obligations. We provide an analysis of our net interest income including average yields and rates in Table I on page 37.

Tax equivalent net interest income for the second quarter of 2011 was $23.7 million compared to $23.3 million for the first quarter of 2010 and $24.7 million for the second quarter of 2010. For the six months of 2011, tax equivalent net interest income totaled $47.0 million compared to $49.2 million in 2010.

The increase of $0.4 million in tax equivalent net interest income compared to the first quarter of 2011 was due to lower cost of funds and one additional calendar day. Lower interest expense reflects a reduction in deposit rates primarily in certificates of deposit. Interest income on earning assets was higher as a result of the one additional calendar day. Additionally, net interest income was impacted by favorable interest income adjustments on nonaccrual loans (i.e. quarter over quarter improvement in the level of interest reversals), which offset lower interest income attributable to a reduction in loans outstanding and unfavorable asset re-pricing.

The decrease in tax equivalent net interest income of $1.0 million and $2.2 million, for the three and six month periods ended June 30, 2011, respectively, as compared to the same periods in 2010, resulted from a reduction in loans outstanding, lower earning assets yields reflecting unfavorable asset re-pricing and lower loan fees, partially offset by a reduction in interest expense and favorable interest income adjustments as noted above.

Interest expense for the second quarter of 2011 was $2.0 million compared to $2.2 million for the first quarter of 2011 and $3.6 million for the second quarter in 2010. The lower cost of funds when compared to the first quarter of 2011 was a result of continued rate reductions to certificates of deposits. The lower costs of funds when compared to the second quarter of 2010 resulted from rate reductions on non-maturity deposits, certificates of deposit and subordinated notes. The rate reductions on deposits reflect management’s decision not to compete with higher rate paying institutions and to continue our focus on core banking relationships. The lower rate on subordinated notes was due to one note changing to a variable rate from a fixed rate, which occurred in the second half of 2010.

The net interest margin in the second quarter of 2011 was 4.21%, an increase of 7 basis points over the linked quarter and a decline of 6 basis points from the second quarter of 2010. Year over year, for the six month period, the margin declined 7 basis points to 4.17%. The increase in the margin when compared to the first quarter of 2011 reflects a 3 basis point reduction in the cost of funds, and an improvement in the yield on earning assets of 4 basis points. The higher yield on earning assets was primarily attributable to an increase in the loan yield resulting from the favorable interest income adjustments mentioned above, while the lower cost of funds resulted from a reduction in the rates on certificates of deposit, which were significantly reduced in all markets. The 7 basis point decline in the margin for the six months of 2011 is attributable to the shift in our earning asset mix and unfavorable asset repricing, partially offset by a favorable variance in our average cost of funds.

Provision for Loan Losses

The provision for loan losses for the second quarter of 2011 was $3.5 million compared to $4.1 million in the first quarter of 2011 and $3.6 million for the second quarter of 2010. The reduction in the loan loss provision for both periods primarily reflects a reduction in level of impaired loans and required reserves. For the first six months of 2011, the loan loss provision totaled $7.7 million compared to $14.4 million for the same period in 2010. The reduction is attributable to lower impaired loan reserves as well as a decline in general reserves, primarily due to a

reduction in the level of internally classified loans and lower loss rates.

Net charge-offs for the second quarter of 2011 totaled $6.3 million, or 1.49%, of average loans compared to $5.7 million, or 1.33% for the first quarter of 2011 and $6.4 million, or 1.39%, in the second quarter of 2010. For the first six months of 2011, net charge-offs totaled $12.0 million, or 1.41%, of average loans compared to $19.9 million, or 2.16%, for the same period of 2010. At quarter-end, the allowance for loan losses of $31.1 million was 1.84% of outstanding loans (net of overdrafts) and provided coverage of 37% of nonperforming loans compared to 1.98% and 35%, respectively, at March 31, 2011, and 2.01% and 41%, respectively, at December 31, 2010.

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

(Dollars in Thousands, except per share data)	Three Months Ended			Six Months Ended	
	June 30, 2011	March 31, 2011	June 30, 2010	June 30, 2011	June 30, 2010
CHARGE-OFFS					
Commercial, Financial and Agricultural	$ 301	$ 721	$ 405	$ 1,022	$ 1,247
Real Estate - Construction	14	-	1,220	14	4.942
Real Estate - Commercial Mortgage	2,808	430	920	3,238	5,551
Real Estate - Residential	3,315	4,445	4,725	7,760	8,452
Consumer	606	620	360	1,226	1,867
Total Charge-offs	7,044	6,216	7,630	13,260	22,059
RECOVERIES					
Commercial, Financial and Agricultural	43	63	181	106	258
Real Estate - Construction	5	9	8	14	8
Real Estate - Commercial Mortgage	115	12	43	127	200
Real Estate - Residential	170	96	638	266	752
Consumer	373	340	370	713	911
Total Recoveries	706	520	1,240	1,226	2,129
Net Charge-offs	$ 6,338	$ 5,696	$ 6,390	$ 12,034	$ 19,930
Net Charge - Offs (Annualized) as a percent of Average Loans Outstanding, Net of Unearned Interest	1.49%	1.33%	1.39%	1.41%	2.16%

Noninterest Income

Noninterest income for the second quarter of 2011 totaled $14.4 million, a decrease of $1.9 million, or 11.5%, from the first quarter of 2011 and $0.2 million, or 1.5% from the second quarter of 2010. The unfavorable variance compared to the first quarter of 2011 quarter reflects a gain from the sale of our Visa stock during the first quarter of 2011, which resulted in a $3.2 million pre-tax gain, as well as a $0.2 million reduction in data processing fees. Favorable variances for deposit fees, retail brokerage fees, and miscellaneous income partially offset the aforementioned unfavorable variances. An increase in other income due to higher gains from the sale of OREO properties, which was partially offset by lower deposit service charge fees, drove the variance versus the second quarter of 2010. For the first six months of 2011, noninterest income totaled $30.8 million, an increase of $2.1 million over the same period of 2010. The increase was driven by the gain on the sale of our Visa stock and was partially offset by lower deposit service charge fees and merchant fees.

Noninterest income represented 38.1% of operating revenues for the second quarter of 2011 compared to 41.5% for the first quarter of 2011 and 37.6% for the second quarter of 2010. For the first six months of 2011, noninterest income represented 39.9% of operating revenues compared to 37.2% for the same period of 2010. The higher ratio for the first quarter of 2011 and first half of 2011 reflects the gain from the sale of our Visa stock.

The table below reflects the major components of noninterest income.

	Three Months Ended			Six Months Ended	
(Dollars in Thousands)	June 30, 2011	March 31, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Noninterest Income:					
Service Charges on Deposit Accounts	$ 6,309	$ 5,983	$ 7,039	$ 12,292	$ 13,667
Data Processing Fees	764	974	919	1,738	1,819
Asset Management Fees	1,080	1,080	1,080	2,160	2,100
Retail Brokerage Fees	939	729	846	1,668	1,411
Investment Security Gains	-	-	-	-	5
Mortgage Banking Fees	568	617	641	1,185	1,149
Interchange Fees (1)	1,443	1,360	1,289	2,803	2,501
ATM/Debit Card Fees (1)	1,115	1,136	1,073	2,251	2,036
Gain on Sale of Visa Stock	-	3,172	-	3,172	-
Other	2,230	1,283	1,787	3,513	3,953
Total Noninterest Income	$ 14,448	$ 16,334	$ 14,674	$ 30,782	$ 28,641

(1) Together referred to as “Bank Card Fees”

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

Service Charges on Deposit Accounts. Deposit service charge fees increased $326,000, or 5.4%, over the first quarter of 2011 and decreased $729,000, or 10.4%, from the second quarter of 2010. For the first six months of 2011, deposit service charge fees declined by $1.4 million from the comparable period in 2010. The increase over the first quarter of 2011 is primarily due to a one-day calendar variance and a higher level of overdraft fees. Compared to the three and six month periods of 2010, a lower level of overdraft fees drove the decline, but was partially offset by a lower level of overdraft charge-offs. The decline in overdraft fees was due to reduced activity as well as the implementation of new rules under Regulation E.

Data Processing Fees. Fees from data processing services declined by $210,000, or 21.6%, from the first quarter of 2011 and $155,000, or 16.9%, from the second quarter of 2010. For the first six months of 2011, fees decreased by $81,000, or 4.5%. The decline for all periods primarily reflects a reduction in the number of banks we process for. Early in the second quarter of 2011, two of our bank clients were acquired and migrated to a new processor. The annualized impact on our data processing fees will be approximately $1.2 million.

Asset Management Fees. Fees from asset management activities totaled $1.1 million for the second quarter of 2011, comparable to both the first quarter of 2011 and second quarter of 2010. For the first six months of 2011, fees totaled $2.2 million, a $100,000 increase over the comparable period of 2010. At June 30, 2011, assets under management totaled $677.1 million compared to $732.3 million at March 31, 2011 and $678.9 million at June 30, 2010. The distribution of a large estate account during the second quarter of 2011 was the primary reason for the decline in assets under management compared to both the first quarter of 2011 and second quarter of 2010.

Retail Brokerage Fees. Fees from the sale of retail investment and insurance products increased $210,000, or 28.8%, over the first quarter of 2011 and $93,000, or 11.1%, over the second quarter of 2010. For the first six months of 2011, fees increased by $257,000, or 18.3%, over the same period in 2010. The increase for all periods reflects both increased trading activity by existing clients and new business. A large annuity account opened in the second quarter

of 2011 also contributed to the favorable variance.

Mortgage Banking Fees. Mortgage banking fees decreased $49,000, or 7.9%, from the first quarter of 2011 and decreased $73,000, or 11.4%, from the second quarter of 2010. For the first six months of 2011, fees were $36,000, or 3.1% higher than the comparable period of 2010. New loan production has been impacted by a slowdown in new home purchase activity in our Tallahassee market, attributable in part to consumer uncertainty regarding state government job cuts.

Bank Card Fees. Bank card fees (including interchange fees and ATM/debit card fees) increased $60,000, or 2.5%, over the first quarter of 2011 and $196,000, or 8.3%, over the second quarter of 2010. For the first six months of 2011, fees increased $1.4 million, or 38.5%, over the comparable period of 2010. The increase for all periods reflects higher card utilization. An ATM fee increase and a debit card promotion also contributed to the favorable variance versus the periods in 2010.

Other. Other income decreased by $2.2 million, or 49.98%, from the first quarter of 2011 and increased by $443,000, or 24.8%, over the second quarter of 2010. For the first six months of 2011, other income increased by $2.7 million, or 69.1%, from the comparable period of 2010. The unfavorable variance compared to the first quarter of 2011 reflects a gain from the sale of our Visa stock during the first quarter of 2011. An increase in gains from the sale of OREO properties partially offset the impact of the Visa gain and also was the primary reason for the favorable variance compared to the second quarter of 2010. For the first six months of 2011, the favorable variance was driven partially by the impact of the Visa gain, but was offset by a lower level of merchant fees. The decline in our merchant fees is substantially offset by a reduction in processing costs, which are reflected as interchange fees in noninterest expense.

Noninterest Expense

Noninterest expense for the second quarter of 2011 totaled $31.2 million, a decrease of $2.2 million, or 6.5%, from the first quarter of 2011 and $3.5 million, or 10.0%, from the second quarter of 2010. The decline over the first quarter of 2011 reflects lower expense for compensation of $0.6 million, FDIC insurance of $0.3 million, intangible amortization of $0.2 million, OREO costs of $0.6 million, and miscellaneous expense of $0.3 million. Recognition of a $0.6 million swap liability associated with the sale of our Visa stock during the first quarter of 2011 also impacted the variance in miscellaneous expense. Compared to the second quarter of 2010, lower expense for occupancy of $0.2 million, advertising of $0.2 million, FDIC insurance of $0.9 million, intangible amortization of $0.6 million, OREO costs of $1.0 million, and interchange fees of $0.3 million drove the favorable variance.

For the six months of 2011, noninterest expense totaled $64.5 million, a $3.5 million or 5.2% decline from the same period of 2010 attributable to lower professional fees of $0.3 million, advertising expense of $0.3 million, FDIC insurance of $0.7 million, intangible amortization expense of $1.0 million, and interchange fees of $0.9 million.

The table below reflects the major components of noninterest expense.

	Three Months Ended			Six Months Ended	
(Dollars in Thousands)	June 30, 2011	March 31, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Noninterest Expense:					
Salaries	$ 12,509	$ 12,936	$ 12,533	$ 25,445	$ 25,582
Associate Benefits	3,491	3,641	3,051	7,132	6,781
Total Compensation	16,000	16,577	15,584	32,577	32,363
Premises					