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CAPITAL CITY BANK GROUP INC  
Form DEF 14A  
April 01, 2004

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant [X]  
Filed by a Party other than the Registrant [ ]

Check the appropriate box:  
[ ] Preliminary Proxy Statement  
[ ] CONFIDENTIAL, FOR USE OF THE COMMISSION ONLY  
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[X] Definitive Proxy Statement  
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[ ] Soliciting Material Pursuant to Section 240.14a-11(c) or  
Section 240-14a-12

Capital City Bank Group, Inc.

\_\_\_\_\_  
(Name of Registrant as Specified in Its Charter)

\_\_\_\_\_  
(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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- [X] No fee required.
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  - (2) Form, Schedule or Registration Statement No: \_\_\_\_\_
  - (3) Filing Party: \_\_\_\_\_
  - (4) Date Filed: \_\_\_\_\_

NOTICE OF 2004 ANNUAL MEETING OF SHAREOWNERS  
AND  
PROXY STATEMENT

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[CCBG STAR LOGO]

[CCBG NAME LOGO]

217 North Monroe Street \* Tallahassee, Florida 32301

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- Exhibit A - Audit Committee Charter
- Exhibit B - Nominating Committee Charter
- Exhibit C - 2005 Associate Incentive Plan
- Exhibit D - 2005 Associate Stock Purchase Plan
- Exhibit E - 2005 Director Stock Purchase Plan

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LETTER TO SHAREOWNERS

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CAPITAL CITY BANK GROUP, INC.  
217 North Monroe Street

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Tallahassee, Florida 32301

April 2, 2004

Dear Fellow Shareowners:

You are cordially invited to attend the 2004 Annual Meeting of Shareowners at 10:00 a.m., local time, on Tuesday, April 27, 2004, at the University Center Club, Building B, Floor 3, University Center, Florida State University, Tallahassee, Florida.

At the meeting, I will give an update on Capital City's business and plans for the future. Also, we will elect three Class I directors to the Board of Directors, approve three stock plans to replace plans that are expiring, and ratify our accountants for fiscal 2004.

Your Board of Directors encourages every shareowner to vote. Your vote is very important. Whether or not you plan to attend the meeting, please review the proxy materials and return your proxy instructions by Monday, April 12, 2004.

The meeting will begin at 10:00 a.m. I hope you will come early and join your friends for light refreshments at 9:30 a.m.

Sincerely,

/s/ William G. Smith, Jr.  
William G. Smith, Jr.  
Chairman, President,  
and Chief Executive Officer

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NOTICE OF ANNUAL MEETING OF SHAREOWNERS  
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BUSINESS  
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TIME  
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- (1) Elect three Class I directors to the Board of Directors
- (2) Approve the Company's 2005 Associate Incentive Plan
- (3) Approve the Company's 2005 Associate Stock Purchase Plan
- (4) Approve the Company's 2005 Director Stock Purchase Plan

10:00 a.m., local time,  
April 27, 2004

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PLACE  
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University Center Club  
Building B, Floor 3  
University Center  
Florida State University

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Tallahassee, Florida

(5) Ratify the appointment of KPMG LLP as the auditors for the fiscal year ending December 31, 2004

RECORD DATE

(6) Transact other business properly coming before the meeting or any adjournment of the meeting

Shareowners owning Capital City Bank Group shares at the close of business on February 27, 2004, are entitled to attend and vote at the meeting

DOCUMENTS

VOTING

The Proxy Statement, proxy card, and Capital City Bank Group Annual Report are included in this mailing

Even if you plan to attend the meeting in Tallahassee, please provide us your voting instructions in one of the following ways as soon as possible:

- (1) Internet - use the internet address on the proxy card
(2) Telephone - use the toll-free number on the proxy card
(3) Mail - mark, sign, and date the proxy card and return in the enclosed postage-paid envelope

By Order of the Board of Directors, J. Kimbrough Davis, Corporate Secretary, April 2, 2004

PROXY STATEMENT - GENERAL INFORMATION

Q: Why am I receiving this Proxy Statement and proxy card?
A: The Board of Directors is soliciting your proxy for the 2004 Annual Meeting of Shareowners and any adjournments of this meeting. The meeting will be held at 10:00 a.m., local time, Tuesday, April 27, 2004, at the University Center Club, Building B, Floor 3, University Center, Florida State University, Doak Campbell Stadium, Tallahassee, Florida. This Proxy Statement and the proxy card are being provided to shareowners on or about April 2, 2004.

Q: What is being voted upon?
A: The election of three Class I directors, the approval of the Company's 2005 Associate Incentive Plan, the Approval of the Company's 2005 Associate Stock Purchase Plan, the Approval of the Company's 2005 Director Stock Purchase Plan, and the ratification of the Company's auditors. The proposals to be considered will not create dissenter's rights. We are not aware of any other matters to be presented to the meeting; however, the holders of the proxies will vote in their discretion on any other matters properly presented.

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Q: Who can vote?

A: All shareowners of record on the record date of February 27, 2004. On that date, there were 13,273,494 Capital City Bank Group common shares outstanding and entitled to vote, and these shares were held of record by approximately 1,512 shareowners.

Q: How much does each share count?

A: Each share counts as one vote. For the proposals scheduled to be voted upon at the meeting, withheld votes on directors, abstentions, and shares held by a broker that the broker fails to vote are all counted to determine a quorum, but are not counted for or against the matters being considered.

Q: How do I give voting instructions?

A: You may attend the meeting and give instructions in person or by the Internet, by telephone, or by mail. Instructions are on the proxy card. The appropriate individuals named on the enclosed proxy card will vote all properly executed proxies that are delivered in response to this solicitation and not later revoked in accordance with the instructions given by you.

Q: Can I change my vote?

A: Yes, you may revoke your proxy by submitting a later proxy or by written request received by the Company's corporate secretary before the meeting. You may also revoke your proxy at the meeting and vote in person.

Q: What does it mean if I get more than one proxy card?

A: You will receive a proxy card for each account you have. Please vote proxies for all accounts to ensure that all your shares are voted.

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Q: When are shareowner proposals due for the 2005 Annual Meeting?

A: Shareowner proposals that are to be included in the Proxy Statement for the 2005 meeting must be received by December 3, 2004. Shareowner proposals for the 2005 meeting that are not intended to be included in the proxy statement for that meeting must be received by February 18, 2005 or the Board of Directors can vote the proxies in its discretion on the proposal. Proposals must comply with the proxy rules and be submitted in writing to:

J. Kimbrough Davis  
Corporate Secretary  
Capital City Bank Group, Inc.  
217 North Monroe Street  
Tallahassee, Florida 32301

Q: Who pays for soliciting proxies?

A: The Company pays the cost of soliciting proxies. The officers or other employees of the Company or its subsidiaries may solicit proxies to have a larger representation at the meeting.

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CORPORATE GOVERNANCE

#### COMPANY STRUCTURE

Capital City Bank Group is a financial holding company managed by a core group of officers and governed by a Board of Directors that has been set at 11 members. The Board of Directors is divided into three classes.

#### INDEPENDENT DIRECTOR MEETINGS IN EXECUTIVE SESSIONS

The Company's independent directors, as defined under the Nasdaq rules, have established a policy to meet separately from the other directors in regularly scheduled executive sessions at least twice annually, and at such other times as may be deemed appropriate by the Company's independent directors. Any independent director may call an executive session of independent directors at any time.

#### INDEPENDENT DIRECTORS

The Company's common stock is listed on the Nasdaq National Market. Nasdaq requires that a majority of the Company's directors be "independent," as defined by the Nasdaq's rules. Generally, a director does not qualify as an independent director if the director (or, in some cases, a member of a director's immediate family) has, or in the past three years had, certain relationships or affiliations with the Company, its external or internal auditors, or other companies that do business with the Company. The Board has affirmatively determined that a majority of the Company's directors are independent directors under the Nasdaq rules. Included among the Company's independent directors are the following current directors and nominees for director: Frederick Carroll, III, Cader B. Cox, III, J. Everitt Drew, John K. Humphress, Lina S. Knox, Ruth A. Knox, Henry Lewis, III, and John R. Lewis.

#### DIRECTOR NOMINATING PROCESS

The Company adopted new nominating procedures in the first quarter of 2004 in accordance with the new Nasdaq rules. In 2003, the Board Governance, Nominating, and Compensation Committee recommended to the Board for nomination the three Class I directors up for election this year.

Under the new nominating procedures, the Nominating Committee will annually review and make recommendations to the full Board regarding the composition and size of the Board so that the Board consists of members with the proper expertise, skills, attributes and personal and professional backgrounds needed by the Company, consistent with applicable Nasdaq and regulatory requirements.

The Nominating Committee believes that all directors, including nominees, should possess the highest personal and professional ethics, integrity, and values, and be committed to representing the long-term interest of the Company's shareowners. The Nominating Committee will consider criteria including the nominee's current or recent experience as a senior executive officer, whether the nominee is independent, as that term is defined in Rule 4200(a)(15) of the National Association of Securities Dealers listing standards, the business experience currently desired on the Board, geography, the nominee's banking industry experience, and the nominee's general ability to enhance the overall composition of the Board.

The Company's Nominating Committee will identify nominees for directors primarily based upon suggestions from shareowners, current directors, and executives. The Chair of the Nominating Committee and at least one other member of the Nominating Committee will interview director candidates. The full Board will formally nominate candidates for director

to be included in the slate of directors presented for shareowner vote based upon the recommendations of the Nominating Committee following this process.

Any Company shareowner entitled to vote generally in the election of directors may recommend a candidate for nomination as a director. A shareowner may recommend a director nominee by submitting the name and qualifications of the candidate the shareowner wishes to recommend, pursuant to Article VII of the Company's Articles of Incorporation, to the Company's Nominating Committee, c/o Capital City Bank Group, 217 North Monroe Street, Tallahassee, Florida 32301. To be considered, recommendations with respect to an election of directors to be held at an annual meeting must be received not less than 120 days prior to the anniversary of the Company's last annual meeting of shareowners (or, if the date of the annual meeting is changed by more than 20 days from such anniversary date, within 10 days after the date that the Company mails or otherwise gives notice of the date of the annual meeting to shareowners). Recommendations with respect to an election of directors to be held at a special meeting called for that purpose must be received by the 10th day following the date on which notice of the special meeting was first mailed to shareowners. Recommendations meeting these requirements will be brought to the attention of the Company's Nominating Committee. Candidates for director recommended by shareowners are afforded the same consideration as candidates for director identified by Company directors, executive officers or search firms, if any, employed by the Company.

#### SHAREOWNER COMMUNICATIONS

The Company's Corporate Governance Guidelines provide for a process by which shareowners may communicate with the Board, a Board committee, the non-management directors as a group, or individual directors. Shareowners who wish to communicate with the Board, a Board committee or any other directors or individual director may do so by sending written communications addressed to the Board of Directors of Capital City Bank Group, a Board committee or such group of directors or individual director, Capital City Bank Group, c/o Corporate Secretary, 217 North Monroe Street, Tallahassee, Florida 32301. All communications will be compiled by the Company's Corporate Secretary and submitted to the Board, a committee of the Board or the appropriate group of directors or individual director, as appropriate, at the next regular meeting of the Board.

#### CORPORATE GOVERNANCE GUIDELINES

The Board has adopted Corporate Governance Guidelines that give effect to the Nasdaq corporate governance listing standards and various other corporate governance matters.

#### CODES OF CONDUCT AND ETHICS

The Board of Directors has adopted Codes of Conduct applicable to all directors, officers, and associates and a Code of Ethics applicable to the Company's Chief Executive and its financial and accounting officers, all of which are available, without charge, upon written request to Capital City Bank Group, c/o Corporate Secretary, 217 North Monroe Street, Tallahassee, Florida 32301. These codes comply with Nasdaq and SEC requirements.

#### BOARD MEETINGS

The Board of Directors met 12 times in 2003. All of the directors attended

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at least 75 percent of the total aggregate number of meetings of the Board and of the Board committees on which they served.

### ANNUAL MEETINGS

The Company expects all directors to attend the Company's annual meeting. All directors, who were directors at the time of the Company's annual meeting in 2003, attended the annual meeting.

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### COMMITTEES OF THE BOARD

In addition to an Executive Committee, which has the delegated authority to exercise the power and authority of the Board of Directors between meetings (except for any matters requiring the full Board or the shareowners as set forth in the Florida Business Corporation Act), the Company has the following standing committees:

#### Audit Committee:

- \* Current members are Frederick Carroll, III (Chairman and financial expert), Cader B. Cox, III, J. Everitt Drew and Ruth A. Knox
- \* Members in 2003 were John K. Humphress (Chairman and financial expert), Lina S. Knox, and John R. Lewis
- \* Consists only of members that are "independent" as that term is defined in Rule 4200(a)(15) of the National Association of Securities Dealers listing standards
- \* Met 11 times in 2003
- \* Oversees the Company's auditing, accounting, financial reporting, and internal control functions
- \* Monitors and reviews the Company's compliance with Section 112 of the Federal Deposit Insurance Corporation Improvement Act of 1991 and reviews regulatory reports
- \* Reviews independent accountants' report on the Company's financial statements, significant changes in accounting principles and practices, significant proposed adjustments, and any unresolved disagreements with management concerning accounting or disclosure matters
- \* Recommends independent accountants and reviews their services, fees, and the scope and timing of audits
- \* Operates according to a written charter adopted by the Board of Directors, which is attached as Exhibit A

In December 2003, the Company formed three separate committees, the Compensation, Nominating, and Corporate Governance Committees. Before the formation of these committees, these committees were part of one combined committee, the Board Governance, Nominating, and Compensation Committee, which met four times in 2003. Upon the separation of the committees, the Company changed the director composition of the committees to further strengthen the Company's corporate governance.



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### Compensation Committee:

- \* Current members are Cader B. Cox, III (Chairman), J. Everitt Drew, Henry Lewis, III, and John R. Lewis
- \* Members in 2003 were Cader B. Cox, III (Chairman), John K. Humphress, Lina S. Knox, and John R. Lewis
- \* Consists only of members that are "independent" as that term is defined in Rule 4200(a)(15) of the National Association of Securities Dealers listing standards
- \* Evaluates performance of the President and Chief Executive Officer and recommends compensation

### Nominating Committee:

- \* Members are John R. Lewis (Chairman), Cader B. Cox, III, Ruth A. Knox, and Henry Lewis, III
- \* Consists only of members that are "independent" as that term is defined in Rule 4200(a)(15) of the National Association of Securities Dealers listing standards

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- \* Develops and reviews background information for candidates for the Board of Directors, including candidates recommended by shareowners, and makes recommendations to the Board of Directors about these candidates
- \* Shareowners desiring to propose a nominee should submit a recommendation in writing to the Company's Corporate Secretary. Recommendations must be received by December 3, 2004 and must comply with the procedures set forth in the Company's Articles of Incorporation in order to be considered at the 2005 Annual Meeting. A copy of the Company's Articles of Incorporation is available, without charge, upon written request to Capital City Bank Group, c/o Corporate Secretary, 217 North Monroe Street, Tallahassee, Florida 32301.
- \* Operates according to a written charter adopted by the Board of Directors, which is attached as Exhibit B

### Corporate Governance Committee:

- \* Members are John K. Humphress (Chairman), Frederick Carroll, III, Lina S. Knox, and Ruth A. Knox
- \* Develops, implements and monitors policies and practices relating to corporate governance

### DIRECTORS' FEES

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

#### Annual Retainers:

- \* \$10,000 for each non-employee member of the Board of Directors

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- \* \$1,000 additional annual retainer if serving as chairman of a board committee

Meeting Fees:

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

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

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NOMINEES FOR ELECTION AS DIRECTORS  
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ITEM NO. 1  
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ELECTION OF DIRECTORS  
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The Board of Directors is divided into three classes, designated Class I, Class II, and Class III. The directors in each class are elected for terms of three years or until their successors are duly elected and qualified.

At the meeting, the shareowners will elect three Class I directors. The individuals named on the enclosed proxy card will vote, unless instructed otherwise, each properly delivered proxy for the election of the following nominees as directors. If a nominee is unable to serve, the shares represented by all valid proxies that have not been revoked will be voted for the election of a substitute as the Board of Directors may recommend, or the Board of Directors may by resolution reduce the size of the Board of Directors to eliminate the resulting vacancy. At this time, the Board of Directors knows of no reason why any nominee might be unable to serve.

CLASS I DIRECTOR NOMINEES:  
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CADER B. COX, III

Mr. Cox, 54, has been a director since 1994. Since 1976, he has served as President of Riverview Plantation, Inc., a resort and agricultural company.

RUTH A. KNOX

Ms. Knox, 50, has been a director since July 1, 2003. Since 2003, she has served as President of Wesleyan College, Macon, Georgia. Prior to this appointment, she practiced law in Atlanta and Macon, Georgia for 25 years.

WILLIAM G. SMITH, JR.

Mr. Smith, 50, is the Chairman of the Board of the Company and has been a director since 1982. In 1995, he was appointed President and Chief Executive Officer of the Company and Chairman of Capital City Bank. In 2003, Mr. Smith was elected Chairman of the Board of Directors. Mr. Smith is the first cousin of Lina S. Knox.

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Except as provided above, if elected, Messrs. Cox and Smith and Ms. Knox will serve as Class I directors until the 2007 Annual Meeting. Messrs. Cox and Smith have served as directors for at least the past five years. Ms. Knox became a director on July 1, 2003.

The affirmative vote of a plurality of shares present and entitled to vote is required for the election of directors.

The Board of Directors unanimously recommends a vote "FOR" the nominees.

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### CONTINUING DIRECTORS AND EXECUTIVE OFFICERS

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#### CONTINUING CLASS II DIRECTORS:

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(Term expiring in 2005)

##### THOMAS A. BARRON

Mr. Barron, 51, has been a director since 1982. He is Treasurer of the Company and was appointed President of Capital City Bank in 1995.

##### J. EVERITT DREW

Mr. Drew, 48, has been a director since July 1, 2003. Since 2000, he has been the President of St. Joe Land Company where his duties include overseeing the sale and development efforts of several hundred thousand acres of St. Joe property in northwest Florida and southwest Georgia.

##### LINA S. KNOX

Ms. Knox, 59, has been a director since 1998. She is a dedicated community volunteer. Ms. Knox is the first cousin of William G. Smith, Jr.

##### JOHN R. LEWIS

Mr. Lewis, 61, has been a director since 1999. He is President and Chief Executive Officer of Super-Lube, Inc., Tallahassee, Florida, which he founded in 1979.

#### CONTINUING CLASS III DIRECTORS:

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(Term expiring in 2006)

##### DUBOSE AUSLEY

Mr. Ausley, 66, has been a director since 1982. He is employed by the law firm of Ausley & McMullen and was Chairman of this firm and its predecessor for more than 20 years. Since 1992, he has served as a director of TECO Energy, Inc. Since 1993, Mr. Ausley has served as a director of Sprint Corporation.

##### FREDERICK CARROLL, III

Mr. Carroll, 53, has been a director since July 1, 2003. Since 1990, he has been the Managing Partner of Carroll and Company, an accounting firm specializing in tax and audit based in Tallahassee, Florida.

##### JOHN K. HUMPHRESS

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Mr. Humphress, 55, has been a director since 1994. Since 1973, he has been a shareholder of Krause Humphress Pace & Wadsworth, Chartered CPA's.

HENRY LEWIS, III

Dr. Lewis, 54, has been a director since July 1, 2003. Since 1994, he has served as Dean of the College of Pharmacy and Pharmaceutical Studies at Florida A&M University.

NON-DIRECTOR EXECUTIVE OFFICER:  
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J. KIMBROUGH DAVIS

Mr. Davis, 50, was appointed Executive Vice President and Chief Financial Officer of the Company in 1997. He served as Senior Vice President and Chief Financial Officer from 1991 to 1997. In 1998, he was appointed Executive Vice President and Chief Financial Officer of Capital City Bank.

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AUDIT COMMITTEE REPORT  
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The Audit Committee monitors the Company's financial reporting process on behalf of the Board of Directors. The Audit Committee operates under a written charter adopted by the Board of Directors and subsequently revised in 2004 to reflect changes required by the Sarbanes-Oxley Act and the National Association of Securities Dealers, Inc. ("NASD"). The Audit Committee's charter was first published in its entirety as Exhibit A to the Company's 2001 Proxy Statement. The revised charter, which was approved by the Board of Directors, is included as Exhibit A to this Proxy Statement. This report reviews the actions taken by the Audit Committee with regard to the Company's financial reporting process during 2003 and particularly with regard to the Company's audited consolidated financial statements as of December 31, 2003 and 2002 and for the three years in the period ended December 31, 2003.

The Audit Committee currently is composed of four persons, all of who are "independent," as defined by the NASD. None of the committee members is or has been an officer or employee of the Company or any of its subsidiaries, has engaged in any nonexempt business transaction or has any nonexempt business or family relationship with the Company or any of its subsidiaries or affiliates. In addition, the Board of Directors has determined that Frederick Carroll, III, Chairman of the Committee, is both "independent" under NASD rules and an "audit committee financial expert" as defined by the SEC.

The Company's management has the primary responsibility for the Company's financial statements and reporting process, including the systems of internal controls and reporting. The Company's independent auditors are responsible for performing an independent audit of the Company's consolidated financial statements in accordance with generally accepted auditing standards and issuing a report thereon. The Audit Committee monitors the integrity of the Company's financial reporting process, system of internal controls and the independence and performance of the Company's independent and internal auditors.

The Audit Committee believes that it has taken the actions necessary or

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appropriate to fulfill its oversight responsibilities under the Audit Committee's charter. To carry out its responsibilities, the Audit Committee met 11 times during 2003.

In fulfilling its oversight responsibilities, the Audit Committee reviewed with management the audited financial statements to be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2003, including a discussion of the quality (rather than just the acceptability) of the accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the financial statements.

The Audit Committee also reviewed with the Company's independent auditors, KPMG LLP, their judgments as to the quality (rather than just the acceptability) of the Company's accounting principles and such other matters as are required to be discussed with the Audit Committee under Statement on Auditing Standards No. 61, Communication with Audit Committees. In addition, the Audit Committee discussed with KPMG LLP, its independence from management and the Company, including the written disclosures, letter and other matters required of KPMG LLP by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees. The Audit Committee also considered whether the provision of services during 2003 by KPMG LLP that were unrelated to its audit of the financial statements referred to above and to their reviews of the Company's interim financial statements during 2003 is compatible with maintaining KPMG LLP's independence, and determined that the provision of non-audit services by KPMG LLP is compatible with being independent.

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Additionally, the Audit Committee discussed with the Company's internal and independent auditors the overall scope and plan for their respective audits. The Audit Committee met with the internal and independent auditors, with and without management present, to discuss the results of their examinations, their evaluations of the Company's internal controls and the overall quality of the Company's financial reporting.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2003 for filing with the Securities and Exchange Commission. The Audit Committee also recommended to the Board that the Company retain KPMG LLP as the Company's independent auditors for 2004. The Board has approved and ratified such recommendation. In addition, the Committee has approved the scope of non-audit services anticipated to be performed by KPMG LLP in 2004 and the estimated budget for those services.

Members of the Committee for 2003:

John K. Humphress, Chairman  
Lina S. Knox  
John R. Lewis

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COMPENSATION COMMITTEE REPORT

What is the Executive Compensation Philosophy?

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

What Comprises Total Executive Compensation?

- \* Base pay
- \* Short-term incentives
- \* Long-term incentives

Total Executive Compensation

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

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

Base Salary

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

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

Annual Performance Bonuses

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

Performance Goals

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

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

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

Annual Bonus Payments

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

Incentive Plan

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

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

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

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

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

Summary

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

Members of the Committee:

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

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## SHARE OWNERSHIP

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### SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

The Company's directors and executive officers, and parties owning beneficially more than 10% of the common stock, must file reports with the Securities and Exchange Commission to reflect their interests in the Company's common stock. Copies of these reports must be furnished to the Company. Based solely upon a review of these reports received by the Company for fiscal 2003 and written representations from some of its officers and directors, the Company believes that each required Section 16(a) report for 2003 was filed on time.

### SHARE OWNERSHIP TABLE

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

Shares Beneficially  
Owned

Percentage of  
Outstanding