

COLONY BANKCORP INC
Form 10-Q
November 07, 2007

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15 (D) OF THE SECURITIES
EXCHANGE ACT OF 1934

FOR QUARTER ENDED SEPTEMBER 30, 2007

COMMISSION FILE NUMBER 0-12436

COLONY BANKCORP, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

GEORGIA
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

58-1492391
(I.R.S. EMPLOYER IDENTIFICATION NUMBER)

115 SOUTH GRANT STREET, FITZGERALD, GEORGIA 31750
ADDRESS OF PRINCIPAL EXECUTIVE OFFICES

229/426-6000
REGISTRANT'S TELEPHONE NUMBER INCLUDING AREA CODE

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED REPORTS REQUIRED TO BE FILED BY SECTIONS 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS.

YES NO

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS A LARGE ACCELERATED FILER, AN ACCELERATED FILER OR A NONACCELERATED FILER. SEE DEFINITION OF ACCELERATED FILER AND LARGE ACCELERATED FILER IN RULE 12b-2 OF THE EXCHANGE ACT. (CHECK ONE)

LARGE ACCELERATED FILER ACCELERATED FILER NON ACCELERATED FILER

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS A SHELL COMPANY (AS DEFINED IN RULE 12B-2 OF THE ACT).

YES NO

INDICATE THE NUMBER OF SHARES OUTSTANDING OF EACH OF THE ISSUER'S CLASSES OF COMMON STOCK, AS OF THE LATEST PRACTICABLE DATE.

<u>CLASS</u>	<u>OUTSTANDING AT NOVEMBER 7, 2007</u>
COMMON STOCK, \$1 PAR VALUE	7,204,775

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Forward Looking Statement Disclosure

Statements in this Quarterly Report regarding future events or performance are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 (the PSLRA) and are made pursuant to the safe harbors of the PSLRA. Actual results of Colony Bankcorp, Inc. (the Company) could be quite different from those expressed or implied by the forward-looking statements. Any statements containing the words “could,” “may,” “will,” “should,” “plan,” “believe,” “anticipates,” “estimates,” “predicts,” “expects,” “projections,” “potential,” “continue,” or words of import, constitute “forward-looking statements”, as do any other statements that expressly or implicitly predict future events, results, or performance. Factors that could cause results to differ from results expressed or implied by our forward-looking statements include, among others, risks discussed in the text of this Quarterly Report as well as the following specific items:

- General economic conditions, whether national or regional, that could affect the demand for loans or lead to increased loan losses;
 - Competitive factors, including increased competition with community, regional, and national financial institutions, that may lead to pricing pressures that reduce yields the Company achieves on loans and increase rates the Company pays on deposits, loss of the Company’s most valued customers, defection of key employees or groups of employees, or other losses;
- Increasing or decreasing interest rate environments, including the shape and level of the yield curve, that could lead to decreases in net interest margin, lower net interest and fee income, including lower gains on sales of loans, and changes in the value of the Company’s investment securities;
- Changing business or regulatory conditions, or new legislation, affecting the financial services industry that could lead to increased costs, changes in the competitive balance among financial institutions, or revisions to our strategic focus;
- Changes or failures in technology or third party vendor relationships in important revenue production or service areas, or increases in required investments in technology that could reduce our revenue, increase our costs or lead to disruptions in our business.
- Readers are cautioned not to place undue reliance on our forward-looking statements, which reflect management’s analysis only as of the date of the statements. The Company does not intend to publicly revise or update forward-looking statements to reflect events or circumstances that arise after the date of this report.

Readers should carefully review all disclosures we file from time to time with the Securities and Exchange Commission (SEC).

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PART 1. FINANCIAL INFORMATION

ITEM 1.

FINANCIAL STATEMENTS

THE FOLLOWING FINANCIAL STATEMENTS ARE PROVIDED FOR COLONY BANKCORP, INC. AND SUBSIDIARIES: COLONY BANK OF FITZGERALD, COLONY BANK ASHBURN, COLONY BANK WILCOX, COLONY BANK OF DODGE COUNTY, COLONY BANK WORTH, COLONY BANK SOUTHEAST, COLONY MANAGEMENT SERVICES, INC., AND COLONY BANK QUITMAN, FSB.

- A. CONSOLIDATED BALANCE SHEETS – SEPTEMBER 30, 2007 AND DECEMBER 31, 2006.
- B. CONSOLIDATED STATEMENTS OF INCOME – FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006 AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006.
- C. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME – FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006 AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006.
- D. CONSOLIDATED STATEMENTS OF CASH FLOWS – FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006.

THE CONSOLIDATED FINANCIAL STATEMENTS FURNISHED HAVE NOT BEEN AUDITED BY INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS, BUT REFLECT, IN THE OPINION OF MANAGEMENT, ALL ADJUSTMENTS (CONSISTING SOLELY OF NORMAL RECURRING ADJUSTMENTS) NECESSARY FOR A FAIR PRESENTATION OF THE RESULTS OF OPERATIONS FOR THE PERIODS PRESENTED.

THE RESULTS OF OPERATIONS FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2007 ARE NOT NECESSARILY INDICATIVE OF THE RESULTS TO BE EXPECTED FOR THE FULL YEAR.

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Item 1 (Continued)

COLONY BANKCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2007 AND DECEMBER 31, 2006
(DOLLARS IN THOUSANDS)

	September 30, 2007 (Unaudited)	December 31, 2006
ASSETS		
Cash and Cash Equivalents		
Cash and Due from Banks	\$ 22,405	\$ 27,231
Federal Funds Sold	17,129	45,149
	39,534	72,380
Interest-Bearing Deposits	3,616	3,076
Investment Securities		
Available for Sale, at Fair Value	155,605	149,236
Held to Maturity, at Cost (Fair Value of \$69 and \$71, as of September 30, 2007 and December 31, 2006, Respectively)	69	71
	155,674	149,307
Federal Home Loan Bank Stock, at Cost	5,533	5,087
Loans		
Allowance for Loan Losses	(13,821)	(11,989)
Unearned Interest and Fees	(405)	(501)
	954,066	929,783
Premises and Equipment	27,541	27,453
Other Real Estate	1,240	970
Goodwill	2,412	2,412
Other Intangible Assets	411	439
Other Assets	23,243	22,597
Total Assets	\$ 1,213,270	\$ 1,213,504
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Noninterest-Bearing	\$ 74,158	\$ 77,336
Interest-Bearing	944,597	965,110
	1,018,755	1,042,446
Borrowed Money		
Federal Funds Purchased	476	1,070
Subordinated Debentures	29,384	24,229
Other Borrowed Money	73,600	61,500
	103,460	86,799
Other Liabilities	8,134	7,648
Commitments and Contingencies		

Stockholders' Equity

Common Stock, Par Value \$1 a Share, Authorized 20,000,000 Shares, Issued 7,204,775 and 7,189,937 Shares as of September 30, 2007 and December 31, 2006, Respectively	7,205	7,190
Paid-In Capital	24,503	24,257
Retained Earnings	52,019	46,417
Restricted Stock - Unearned Compensation	(343)	(278)
Accumulated Other Comprehensive Loss, Net of Tax	(463)	(975)
	82,921	76,611
Total Liabilities and Stockholders' Equity	\$ 1,213,270	\$ 1,213,504

The accompanying notes are an integral part of these statements.

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Item 1 (Continued)

COLONY BANKCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006
AND NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	Three Months Ended		Nine Months Ended	
	9/30/2007	9/30/2006	9/30/2007	9/30/2006
Interest Income				
Loans, Including Fees	\$ 20,735	\$ 19,665	\$ 60,923	\$ 55,070
Federal Funds Sold	237	462	1,204	1,458
Deposits with Other Banks	36	38	111	92
Investment Securities				
U.S. Government Agencies	1,632	1,370	4,749	3,716
State, County and Municipal	136	95	407	274
Corporate Obligations and				
Asset-Backed Securities	79	43	205	116
Dividends on Other Investments	76	75	225	203
	22,931	21,748	67,824	60,929
Interest Expense				
Deposits	10,853	9,762	32,133	25,938
Federal Funds Purchased	13	12	50	28
Borrowed Money	1,272	1,180	3,572	3,556
	12,138	10,954	35,755	29,522
Net Interest Income	10,793	10,794	32,069	31,407
Provision for Loan Losses	850	1,021	2,678	2,990
Net Interest Income After Provision for Loan Losses	9,943	9,773	29,391	28,417
Noninterest Income				
Service Charges on Deposits	1,224	1,193	3,556	3,380
Other Service Charges,				
Commissions and Fees	218	207	703	625
Mortgage Fee Income	225	180	763	516
Securities Gains (Losses)	(2)	----	184	----
Other	181	318	806	1,003
	1,846	1,898	6,012	5,524
Noninterest Expenses				
Salaries and Employee Benefits	4,464	4,350	13,693	12,676
Occupancy and Equipment	1,025	1,047	3,036	3,035
Other	2,267	2,283	6,901	6,655
	7,756	7,680	23,630	22,366

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Income Before Income Taxes	4,033		3,991	11,773		11,575
Income Taxes	1,414		1,369	3,978		4,034
Net Income	\$ 2,619	\$	2,622	\$ 7,795	\$	7,541
Net Income Per Share of Common Stock						
Basic	\$ 0.36	\$	0.36	\$ 1.08	\$	1.05
Diluted	\$ 0.36	\$	0.36	\$ 1.08	\$	1.05
Cash Dividends Declared Per Share of Common Stock						
	\$ 0.09	\$	0.08	\$ 0.27	\$	0.24
Weighted Average Basic Shares Outstanding						
	7,193,603		7,181,894	7,187,586		7,176,186
Weighted Average Diluted Shares Outstanding						
	7,202,424		7,181,894	7,198,270		7,177,042

The accompanying notes are an integral part of these statements.

Table of Contents**Part I (Continued)**

Item 1 (Continued)

COLONY BANKCORP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
THREE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006
AND NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	Three Months Ended		Nine Months Ended	
	09/30/07	09/30/06	09/30/07	09/30/06
Net Income	\$ 2,619	\$ 2,622	\$ 7,795	\$ 7,541
Other Comprehensive Income, Net of Tax				
Gains (Losses) on Securities Arising During the Year	1,040	1,209	633	242
Reclassification Adjustment	2	0	(121)	0
Unrealized Gains (Losses) on Securities	1,042	1,209	512	242
Comprehensive Income	\$ 3,661	\$ 3,831	\$ 8,307	\$ 7,783

The accompanying notes are an integral part of these statements.

Table of Contents**Part I (Continued)**

Item 1 (Continued)

COLONY BANKCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 7,795	\$ 7,541
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	1,391	1,441
Provision for Loan Losses	2,678	2,990
Securities Gains	(184)	---
Amortization and Accretion	428	573
(Gain) Loss on Sale of Other Real Estate and Repossessions	53	(111)
Gain on Sale of Equipment	(6)	---
Decrease (Increase) in Cash Surrender Value of Life Insurance	20	(106)
Other Prepaids, Deferrals and Accruals, Net	(692)	(732)
	11,483	11,596
CASH FLOWS FROM INVESTING ACTIVITIES		
Federal Home Loan Bank Stock	(446)	(188)
Purchases of Investment Securities Available for Sale	(39,256)	(34,121)
Proceeds from Maturities, Calls, and Paydowns of Investment Securities:		
Available for Sale	16,786	18,545
Held to Maturity	8	9
Proceeds from Sale of Investment Securities Available for Sale	16,985	---
Other Investments	---	(200)
Interest-Bearing Deposits in Other Banks	(542)	(1,521)
Net Loans to Customers	(29,526)	(84,190)
Purchase of Premises and Equipment	(1,730)	(3,328)
Other Real Estate and Repossessions	2,209	4,590
Proceeds from Sale of Premises and Equipment	258	5
Investment in Capital Trust	(434)	(155)
Liquidation of Statutory Trust	279	---
	(35,409)	(100,554)
CASH FLOWS FROM FINANCING ACTIVITIES		
Noninterest-Bearing Customer Deposits	(3,178)	(6,745)
Interest-Bearing Customer Deposits	(20,513)	78,714
Federal Funds Purchased	(594)	---
Dividends Paid	(1,890)	(1,671)
Proceeds from Other Borrowed Money	41,100	35,500
Principal Payments on Other Borrowed Money	(29,000)	(42,226)

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Proceeds from Issuance of Subordinated Debentures	14,434	5,155
Principal Payments on Subordinated Debentures	(9,279)	---
	(8,920)	68,727
Net Increase (Decrease) in Cash and Cash Equivalents	(32,846)	(20,231)
Cash and Cash Equivalents at Beginning of Period	72,380	79,062
Cash and Cash Equivalents at End of Period	\$ 39,534	\$ 58,831

The accompanying notes are an integral part of these statements.

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Part I (Continued)

Item 1 (Continued)

**COLONY BANKCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(1) Summary of Significant Accounting Policies

Principles of Consolidation

Colony Bankcorp, Inc. (the Company) is a multi-bank holding company located in Fitzgerald, Georgia. The consolidated financial statements include the accounts of Colony Bankcorp, Inc. and its wholly-owned subsidiaries, Colony Bank of Fitzgerald, Fitzgerald, Georgia; Colony Bank Ashburn (which includes its wholly-owned subsidiary, Georgia First Mortgage Company), Ashburn, Georgia; Colony Bank Worth, Sylvester, Georgia; Colony Bank of Dodge County, Eastman, Georgia; Colony Bank Wilcox, Rochelle, Georgia; Colony Bank Southeast, Broxton, Georgia; Colony Bank Quitman, FSB, Quitman, Georgia (the Banks); and Colony Management Services, Inc., Fitzgerald, Georgia. All significant intercompany accounts have been eliminated in consolidation. The accounting and reporting policies of Colony Bankcorp, Inc. conform to generally accepted accounting principles and practices utilized in the commercial banking industry.

All dollars in notes to consolidated financial statements are rounded to the nearest thousand.

Nature of Operations

The Banks provide a full range of retail and commercial banking services for consumers and small to medium size businesses located primarily in middle and south Georgia. Lending and investing activities are funded primarily by deposits gathered through its retail branch office network.

Use of Estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the balance sheet date and revenues and expenses for the period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans and the valuation of goodwill and other intangible assets.

Reclassifications

In certain instances, amounts reported in prior years' consolidated financial statements have been reclassified to conform to statement presentations selected for 2007. Such reclassifications had no effect on previously reported stockholders' equity or net income.

Concentrations of Credit Risk

Lending is concentrated in commercial and real estate loans to local borrowers. The Company has a high concentration of real estate loans; however, these loans are well collateralized and, in management's opinion, do not

pose an adverse credit risk. In addition, the balance of the loan portfolio is sufficiently diversified to avoid significant concentration of credit risk. Although the Company has a diversified loan portfolio, a substantial portion of borrowers' ability to honor their contracts is dependent upon the viability of the real estate economic sector.

The success of Colony is dependent, to a certain extent, upon the economic conditions in the geographic markets it serves. No assurance can be given that the current economic conditions will continue. Adverse changes in the economic conditions in these geographic markets would likely have a material adverse effect on the Company's results of operations and financial condition. The operating results of Colony depend primarily on its net interest income. Accordingly, operations are subject to risks and uncertainties surrounding the exposure to changes in the interest rate environment.

Accounting Policies

The accounting and reporting policies of Colony Bankcorp, Inc. and its subsidiaries are in accordance with accounting principles generally accepted and conform to general practices within the banking industry. The significant accounting policies followed by Colony and the methods of applying those policies are summarized hereafter.

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Part I (Continued)

Item 1 (Continued)

(1) Summary of Significant Accounting Policies (Continued)

Investment Securities

Investment securities are recorded under Statement of Financial Accounting Standards (SFAS) No. 115, whereby the Company classifies its securities as trading, available for sale or held to maturity. Securities that are held principally for resale in the near term are classified as trading. Trading securities are carried at fair value, with realized and unrealized gains and losses included in noninterest income. Securities acquired with both the intent and ability to be held to maturity are classified as held to maturity and reported at amortized cost. All other securities not classified as trading or held to maturity are considered available for sale.

Securities available for sale are reported at estimated fair value. Unrealized gains and losses on securities available for sale are excluded from earnings and are reported, net of deferred taxes, in accumulated other comprehensive income, a component of stockholders' equity. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses from sales of securities available for sale are computed using the specific identification method. This caption includes securities, which may be sold to meet liquidity needs arising from unanticipated deposit and loan fluctuations, changes in regulatory capital requirements, or unforeseen changes in market conditions.

Federal Home Loan Bank Stock

Investment in stock of a Federal Home Loan Bank (FHLB) is required for every federally insured institution that utilizes its services. FHLB stock is considered restricted, as defined in SFAS No. 115; accordingly, the provisions of SFAS No. 115 are not applicable to this investment. The FHLB stock is reported in the consolidated financial statements at cost. Dividend income is recognized when earned.

Loans

Loans that the Company has the ability and intent to hold for the foreseeable future or until maturity are recorded at their principal amount outstanding, net of unearned interest and fees. Loan origination fees, net of certain direct origination costs, are deferred and amortized over the estimated terms of the loans using the straight-line method. Interest income on loans is recognized using the effective interest method.

A loan is considered to be delinquent when payments have not been made according to contractual terms, typically evidenced by nonpayment of a monthly installment by the due date.

When management believes there is sufficient doubt as to the collectibility of principal or interest on any loan or generally when loans are 90 days or more past due, the accrual of applicable interest is discontinued and the loan is designated as nonaccrual, unless the loan is well secured and in the process of collection. Interest payments received on nonaccrual loans are either applied against principal or reported as income, according to management's judgment as to the collectibility of principal. Loans are returned to an accrual status when factors indicating doubtful collectibility on a timely basis no longer exist.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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Item 1 (Continued)

(1) Summary of Significant Accounting Policies (Continued)**Allowance for Loan Losses (Continued)**

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revisions as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as either doubtful or substandard. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that

loan. The general component covers nonclassified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Premises and Equipment

Premises and equipment are recorded at acquisition cost net of accumulated depreciation.

Depreciation is charged to operations over the estimated useful lives of the assets. The estimated useful lives and methods of depreciation are as follows:

Description	Life in Years	Method
Banking Premises	15-40	Straight-Line and Accelerated
Furniture and Equipment	5-10	Straight-Line and Accelerated
Leasehold Improvements	5-20	Straight-Line and Accelerated

Expenditures for major renewals and betterments are capitalized. Maintenance and repairs are charged to operations as incurred. When property and equipment are retired or sold, the cost and accumulated depreciation are removed from the respective accounts and any gain or loss is reflected in other income or expense.

Goodwill and Intangible Assets

Goodwill represents the excess of the cost over the fair value of the net assets purchased in a business combination. Impairment testing of goodwill is performed annually or more frequently if events or circumstances indicate possible impairment. No impairment has been identified as a result of the testing performed.

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Part I (Continued)

Item 1 (Continued)

(1) Summary of Significant Accounting Policies (Continued)

Goodwill and Intangible Assets (Continued)

Intangible assets consist of core deposit intangibles acquired in connection with a business combination. The core deposit intangible is initially recognized based on a valuation performed as of the consummation date. The core deposit intangible is amortized by the straight-line method over the average remaining life of the acquired customer deposits. Amortization periods are reviewed annually in connection with the annual impairment testing of goodwill.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Statement of Cash Flows

For reporting cash flows, cash and cash equivalents include cash on hand, noninterest-bearing amounts due from banks and federal funds sold. Cash flows from demand deposits, NOW accounts, savings accounts, loans and certificates of deposit are reported net.

Income Taxes

The provision for income taxes is based upon income for financial statement purposes, adjusted for nontaxable income and nondeductible expenses. Deferred income taxes have been provided when different accounting methods have been used in determining income for income tax purposes and for financial reporting purposes. Deferred tax assets and liabilities are recognized based on future tax consequences attributable to differences arising from the financial statement carrying values of assets and liabilities and their tax bases. The differences relate primarily to depreciable assets (use of different depreciation methods for financial statement and income tax purposes) and allowance for loan losses (use of the allowance method for financial statement purposes and the direct write-off method for tax purposes). In the event of changes in the tax laws, deferred tax assets and liabilities are adjusted in the period of the enactment of those changes, with effects included in the income tax provision. The Company and its subsidiaries file a consolidated federal income tax return. Each subsidiary pays its proportional share of federal income taxes to the Company based on its taxable income.

Other Real Estate

Other real estate generally represents real estate acquired through foreclosure and is initially recorded at the lower of cost or estimated market value at the date of acquisition. Losses from the acquisition of property in full or partial satisfaction of debt are recorded as loan losses. Subsequent declines in value, routine holding costs and gains or losses upon disposition are included in other losses.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on securities available for sale, represent equity changes from economic events of the period other than transactions with owners and are not reported in the consolidated statements of income but as a separate component of the equity section of the consolidated balance sheets. Such items are considered components of other comprehensive income. SFAS No. 130, *Reporting Comprehensive Income*, requires the presentation in the financial statements of net income and all items of other comprehensive income as total comprehensive income.

Off-Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, the Company has entered into commitments to extend credit, commercial letters of credit and standby letters of credit. Such financial instruments are recorded when they are funded.

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Part I (Continued)

Item 1 (Continued)

(1) Summary of Significant Accounting Policies (Continued)

Changes in Accounting Principles and Effects of New Accounting Pronouncements

In February 2006, the Financial Accounting Standard Board (FASB) issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments – an amendment of FASB Statements No. 133 and 140*. This statement provides entities with relief from having to separately determine the fair value of an embedded derivative that would otherwise be required to be bifurcated from its host contract in accordance with the requirements of SFAS 133. Entities can make an irrevocable election to measure such hybrid financial instruments at fair value in its entirety, with subsequent changes in fair value recognized in earnings. This election can be made on an instrument-by-instrument basis. The effective date of this standard is for all financial instruments acquired, issued or subject to a remeasurement event occurring after the beginning of an entity's first fiscal year that begins after September 15, 2006. The adoption of this statement did not have an impact on our financial position, results of operations or disclosures.

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets*. This statement, which is an amendment to SFAS No. 140, will simplify the accounting for servicing assets and liabilities, such as those common with mortgage securitization activities. Specifically, SFAS No. 156 addresses the recognition and measurement of separately recognized servicing assets and liabilities and provides an approach to simplify efforts to obtain hedge-like (offset) accounting. SFAS No. 156 also clarifies when an obligation to service financial assets should be separately recognized as a servicing initially measured at fair value, if practicable, and permits an entity with a separately recognized servicing asset or servicing liability to choose either the amortization or fair value methods for subsequent measurement. The provisions of SFAS No. 156 are effective as of the beginning of the first fiscal year that begins after September 15, 2006. The adoption of this statement did not have an impact on our financial position, results of operations or disclosures.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes: An Interpretation of FASB Statement No. 109* (FIN 48), which clarifies the accounting for uncertainty in tax positions. This Interpretation requires that the Company recognize in the financial statements, the impact of a tax position, if that position is more likely than not to be sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective as of the beginning of the 2007 fiscal year, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The cumulative change in accounting recorded directly to retained earnings and the effect on 2007 income from operations was not material.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 enhances existing guidance for measuring assets and liabilities using fair value. Before the issuance of SFAS No. 157, guidance for applying fair value was incorporated in several accounting pronouncements. SFAS No. 157 provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosure about the use of fair value to measure assets and liabilities. SFAS No. 157 also emphasizes that fair value is market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under SFAS No. 157, fair value measurements are disclosed by level within that hierarchy. While SFAS No. 157 does not add any new fair value measurements, it does change current practice. Changes to practice include: (1) a requirement for an entity to include its own credit standing in the measurement of its liabilities; (2) a modification of the transaction price presumption; (3) a prohibition on the use of block discounts when valuing large blocks of securities for broker-dealers and investment companies; and (4) a requirement to adjust the value of restricted stock for the effect of the restriction even if the restriction lapses within

one year. SFAS No. 157 is effective for financial statement issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company does not expect the adoption of this standard to have a material effect on the financial position, results of operations or disclosures.

In September 2006, the FASB issued No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an Amendment of FASB Statements No. 87, 88, 106 and 123(R) (FASB 158)*. This statement requires companies to recognize a net liability or asset to report the funded status of their defined benefit pension and other post retirement plans on the balance sheet. SFAS 158 requires additional new disclosures to be made in companies' financial statements. SFAS 158 is effective for publicly-held companies for fiscal years ending after December 15, 2006, except for the measurement date provisions, which are effective for fiscal years ending after December 15, 2008. The adoption of this standard did not have an effect on the Company's results of operations or financial position.

In September 2006, the Emerging Issues Task Force issued EITF Issue No. 06-04, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements* ("EITF 06-04"). EITF 06-04 establishes that for certain split-dollar life insurance arrangements, an employer should recognize a liability for future benefits in accordance with currently existing accounting pronouncements based on the substantive agreement with the employee. EITF 06-04 will be effective

Table of Contents**Part I (Continued)**

Item 1 (Continued)

(1) Summary of Significant Accounting Policies (Continued)**Changes in Accounting Principles and Effects of New Accounting Pronouncements (Continued)**

for fiscal years beginning after December 15, 2007. Colony is currently evaluating the impact of the adoption of EITF 06-04 and has not yet determined the impact EITF 06-04 will have on the Colony's consolidated financial statements upon adoption.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment to FASB Statement No. 115*. This statement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This statement requires a business entity to report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. An entity may decide whether to elect the fair value option for each eligible item on its election date, subject to certain requirements described in the statement. This statement shall be effective as of the beginning of each reporting entity's first fiscal year that begins after November 15, 2007. The Company is currently assessing the impact of SFAS No. 159 on its financial position, results of operations and disclosures.

(2) Cash and Due from Banks

Components of cash and balances due from banks are as follows as of September 30, 2007 and December 31, 2006:

	September 30, 2007	December 31, 2006
Cash on Hand and Cash Items	\$ 8,746	\$ 8,308
Noninterest-Bearing Deposits with Other Banks	13,659	18,923
	\$ 22,405	\$ 27,231

As of September 30, 2007, the Banks had required deposits of approximately \$3,517 with the Federal Reserve that was satisfied with cash on hand.

(3) Investment Securities

Investment securities as of September 30, 2007 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale:				
U.S. Government Agencies				
Mortgage Backed	\$ 95,783	\$ 186	\$ (715)	\$ 95,254
Other	41,306	147	(177)	41,276

State, County & Municipal	14,438	17	(136)	14,319
Corporate Obligations	3,777	--	(23)	3,754
Asset-Backed Securities	1,000	--	--	1,000
Marketable Equity Securities	2	--	--	2
	\$ 156,306	\$ 350	\$ (1,051)	\$ 155,605
Securities Held to Maturity:				
State, County and Municipal	\$ 69	\$ --	\$ --	\$ 69

The amortized cost and fair value of investment securities as of September 30, 2007, by contractual maturity, are shown hereafter. Expected maturities will differ from contractual maturities because issuers have the right to call or prepay obligations with or without call or prepayment penalties.

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Item 1 (Continued)

	Securities			
	Available for Sale Amortized Cost	Fair Value	Held to Maturity	
			Amortized Cost	Fair Value
Due in One Year or Less	\$ 15,909	\$ 15,821		
Due After One Year Through Five Years	31,957	31,884		
Due After Five Years Through Ten Years	8,628	8,623	\$ 69	\$ 69
Due After Ten Years	4,027	4,021	--	--
	60,521	60,349	69	69
Mortgage Backed Securities	95,783	95,254	--	--
Marketable Equity Securities	2	2	--	--
	\$ 156,306	\$ 155,605	\$ 69	\$ 69

Investment securities as of December 31, 2006 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale:				
U.S. Government Agencies				
Mortgage Backed	\$ 80,053	\$ 107	\$ (1,124)	\$ 79,036
Other	54,870	65	(569)	54,366
State, County & Municipal	11,840	36	(136)	11,740
Corporate Obligations	3,787	--	(42)	3,745
Marketable Equity Securities	163	193	(7)	349
	\$ 150,713	\$ 401	\$ (1,878)	\$ 149,236
Securities Held to Maturity:				
State, County and Municipal	\$ 71	\$ --	\$ --	\$ 71

Proceeds from the sale of investments available for sale during first nine months of 2007 totaled \$16,985 compared to \$0 for nine months of 2006. The sale of investments available for sale during 2007 resulted in gross realized gains of \$214 and gross realized losses of \$30.

Investment securities having a carry value approximating \$80,534 and \$86,141 as of September 30, 2007 and December 31, 2006, respectively, were pledged to secure public deposits and for other purposes.

Information pertaining to securities with gross unrealized losses at September 30, 2007 and December 31, 2006 aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

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Item 1 (Continued)

	Less Than 12 Months		12 Months or Greater		Total	
	Gross		Gross		Gross	
	Unrealized		Unrealized		Unrealized	
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
September 30, 2007						
U.S. Government Agencies						
Mortgage Backed	\$ 21,210	\$ (75)	\$ 45,367	\$ (640)	\$ 66,577	\$ (715)
Other	--	--	24,941	(177)	24,941	(177)
State, County and Municipal	6,301	(83)	4,737	(53)	11,038	(136)
Corporate Obligations	984	(16)	997	(7)	1,981	(23)
	\$ 28,495	\$ (174)	\$ 76,042	\$ (877)	\$ 104,537	\$ (1,051)
December 31, 2006						
U.S. Government Agencies						
Mortgage Backed	\$ 11,989	\$ (55)	\$ 52,140	\$ (1,070)	\$ 64,129	\$ (1,125)
Other	5,462	(25)	31,033	(544)	36,495	(569)
State, County and Municipal	2,709	(69)	5,397	(67)	8,106	(136)
Corporate Obligations	1,750	(24)	995	(17)	2,745	(41)
Marketable Equity Securities	--	--	53	(7)	53	(7)
	\$ 21,910	\$ (173)	\$ 89,618	\$ (1,705)	\$ 111,528	\$ (1,878)

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At September 30, 2007, the debt securities with unrealized losses have depreciated 1.00 percent from the Company's amortized cost basis. These securities are guaranteed by either U.S. Government or other governments. These unrealized losses relate principally to current interest rates for similar type of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other-than-temporary.

(4) Loans

The composition of loans as of September 30, 2007 and December 31, 2006 was as follows:

	September 30, 2007	December 31, 2006
Commercial, Financial and Agricultural	\$ 60,742	\$ 61,887

Real Estate – Construction	220,069	193,952
Real Estate – Farmland	44,869	40,936
Real Estate – Other	546,212	549,601
Installment Loans to Individuals	74,358	76,930
All Other Loans	22,042	18,967
	\$ 968,292	\$ 942,273

Nonaccrual loans are loans for which principal and interest are doubtful of collection in accordance with original loan terms and for which accruals of interest have been discontinued due to payment delinquency. Nonaccrual loans totaled \$6,087 and \$8,069 as of

September 30, 2007 and December 31, 2006, respectively and total recorded investment in loans past due 90 days or more and still

accruing interest approximated \$32 and \$9, respectively.

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Item 1 (Continued)

(5) Allowance for Loan Losses

Transactions in the allowance for loan losses are summarized below for nine months ended September 30, 2007 and September 30, 2006 as follows:

	September 30, 2007	September 30, 2006
Balance, Beginning	\$ 11,989	\$ 10,762
Provision Charged to Operating Expenses	2,678	2,990
Loans Charged Off	(1,971)	(2,021)
Loan Recoveries	1,125	577
Balance, Ending	\$ 13,821	\$ 12,308

(6) Premises and Equipment

Premises and equipment are comprised of the following as of September 30, 2007 and December 31, 2006:

	September 30, 2007	December 31, 2006
Land	\$ 7,799	\$ 7,414
Building	20,987	20,886
Furniture, Fixtures and Equipment	12,613	12,060
Leasehold Improvements	994	994
Construction in Progress	108	114
	42,501	41,468
Accumulated Depreciation	(14,960)	(14,015)
	\$ 27,541	\$ 27,453

Depreciation charged to operations totaled \$1,391 and \$1,441 for September 30, 2007 and September 30, 2006, respectively.

Certain Company facilities and equipment are leased under various operating leases. Rental expense approximated \$273 and \$243 for nine months ended September 30, 2007 and September 30, 2006, respectively.

(7) Goodwill and Intangible Assets

The following is an analysis of the goodwill and core deposit intangible asset activity for the nine months ended September 30, 2007 and September 30, 2006:

Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
---	---

Goodwill

Balance, Beginning	\$ 2,412	\$ 2,412
Goodwill Acquired	--	--
Balance, Ending	\$ 2,412	\$ 2,412

Net Core Deposit, Intangible

Balance, Beginning	\$ 439	\$ 520
Amortization Expense	(28)	(72)
Balance, Ending	\$ 411	\$ 448

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Item 1 (Continued)

(7) Goodwill and Intangible Assets (Continued)

The following table reflects the expected amortization for the core deposit intangible at September 30, 2007:

2007	\$	9
2008		36
2009		36
2010		36
2011 and thereafter		294
	\$	411

(8) Income Taxes

The Company records income taxes under SFAS No. 109, Accounting for Income Taxes, which requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

(9) Deposits

The aggregate amount of overdrawn deposit accounts reclassified as loan balances totaled \$1,370 and \$839 as of September 30, 2007 and December 31, 2006.

Components of interest-bearing deposits as of September 30, 2007 and December 31, 2006 are as follows:

	September 30, 2007	December 31, 2006
Interest-Bearing Demand	\$ 177,688	\$ 185,769
Savings	33,335	33,305
Time, \$100,000 and Over	360,549	366,041
Other Time	373,025	379,995
	\$ 944,597	\$ 965,110

At September 30, 2007 and December 31, 2006, the Company had brokered deposits of \$66,171 and \$72,682 respectively. The aggregate amount of short-term jumbo certificates of deposit, each with a minimum denomination of \$100,000 was approximately \$328,031 and \$328,788 as of September 30, 2007 and December 31, 2006, respectively.

As of September 30, 2007 and December 31, 2006, the scheduled maturities of certificates of deposits are as follows:

Maturity

	September 30, 2007	December 31, 2006
One Year and Under	\$ 664,101	\$ 663,217
One to Three Years	49,096	54,524
Three Years and Over	20,377	28,295
	\$ 733,574	\$ 746,036

(10) Other Borrowed Money

Other borrowed money at September 30, 2007 and December 31, 2006 is summarized as follows:

	September 30, 2007	December 31, 2006
Federal Home Loan Bank Advances	\$ 73,500	\$ 61,500
The Banker's Bank Note Payable	100	--
	\$ 73,600	\$ 61,500

Table of Contents**Part I (Continued)**

Item 1 (Continued)

(10) Other Borrowed Money (Continued)

Advances from the Federal Home Loan Bank (FHLB) have maturities ranging from 2008 to 2019 and interest rates ranging from 2.74 percent to 5.93 percent. Under the Blanket Agreement for Advances and Security Agreement with the FHLB, residential first mortgage loans and cash balances held by the FHLB are pledged as collateral for the FHLB advances outstanding. At September 30, 2007, the Company had available line of credit commitments totaling \$88,231, of which \$14,731 was available.

The Banker's Bank Note Payable originated on February 15, 2007 as a line of credit with funds available of \$1,000 at a rate of The Wall Street Prime minus 0.75 percent. Interest payments are due monthly with the entire balance due February 14, 2008. The debt is secured by all furniture, fixtures, equipment and software of Colony Management Services. Colony Bankcorp, Inc. guarantees the debt. As of September 30, 2007, \$900 was available on the line of credit.

The aggregate stated maturities of other borrowed money at September 30, 2007 are as follows:

<u>Year</u>	<u>Amount</u>
2007	\$ 0
2008	9,600
2009	0
2010	1,000
2011 and Thereafter	63,000
	\$ 73,600

The Company also has available federal funds lines of credit with various financial institutions totaling \$47,300, of which \$476 was outstanding at September 30, 2007.

(11) Subordinated Debentures (Trust Preferred Securities)

During the fourth quarter of 2002, the Company formed a second subsidiary whose sole purpose was to issue \$5,000 in Trust Preferred Securities through a pool sponsored by FTN Financial Capital Markets. The Trust Preferred Securities have a maturity of 30 years and are redeemable after five years with certain exceptions. At September 30, 2007 the floating-rate securities had a 8.45 percent interest rate, which will reset quarterly at the three-month LIBOR rate plus 3.25 percent.

During the second quarter of 2004, the Company formed a third subsidiary whose sole purpose was to issue \$4,500 in Trust Preferred Securities through a pool sponsored by FTN Financial Capital Markets. The Trust Preferred Securities have a maturity of 30 years and are redeemable after five years with certain exceptions. At September 30, 2007, the floating rate securities had a 8.37 percent interest rate, which will reset quarterly at the three-month LIBOR rate plus 2.68 percent.

During the second quarter of 2006, the Company formed a fourth subsidiary whose sole purpose was to issue \$5,000 in Trust Preferred Securities through a pool sponsored by SunTrust Capital Markets. The Trust Preferred Securities have a maturity of 30 years and are redeemable after five years with certain exceptions. At September 30, 2007 the

floating-rate securities had a 6.73 percent interest rate, which will reset quarterly at the three-month LIBOR rate plus 1.50 percent.

During the first quarter of 2007, the Company formed a fifth subsidiary whose sole purpose was to issue \$9,000 in Trust Preferred

Securities through a pool sponsored by Trapeza Capital Management, LLC. The Trust Preferred Securities have a maturity of 30

years and are redeemable after five years with certain exceptions. At September 30, 2007, the floating-rate securities had a 6.88 percent interest rate, which will reset quarterly at the three-month LIBOR rate plus 1.65 percent. Proceeds from this issuance were used to payoff the trust preferred securities with the first subsidiary formed in March 2002 as the Company exercised its option to call.

During the third quarter of 2007, the Company formed a sixth subsidiary whose sole purpose was to issue \$5,000 in Trust Preferred Securities through a pool sponsored by Trapeza Capital Management, LLC. The Trust Preferred Securities have a maturity of 30 years and are redeemable after five years with certain exceptions. At September 30, 2007, the floating-rate securities had a 7.10 percent interest rate, which will reset quarterly at the three-month LIBOR rate plus 1.40 percent. Proceeds from this issuance will be used to payoff the trust preferred securities with the second subsidiary formed in December 2002 as the Company exercises its option to call in December 2007.

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Part I (Continued)

Item 1 (Continued)

(11) Subordinated Debentures (Trust Preferred Securities) (Continued)

The Trust Preferred Securities are recorded as subordinated debentures on the consolidated balance sheets, but subject to certain limitations, qualify as Tier 1 Capital for regulatory capital purposes. The proceeds from the offerings were used to fund the cash portion of the Quitman acquisition, payoff holding company debt, and inject capital into bank subsidiaries.

(12) Restricted Stock – Unearned Compensation

In 1999, the board of directors of Colony Bankcorp, Inc. adopted a restricted stock grant plan which awards certain executive officers common shares of the Company. The maximum number of shares (split-adjusted) which may be subject to restricted stock awards is 64,701. During 2000 – 2007, 75,803 split-adjusted shares were issued under this plan and since the plan's inception, 11,539 shares have been forfeited; thus, remaining shares which may be subject to restricted stock awards are 437 at September 30, 2007. The shares are recorded at fair market value (on the date granted) as a separate component of stockholders' equity. The cost of these shares is being amortized against earnings using the straight-line method over three years (the restriction period.)

In April 2004, the stockholders of Colony Bankcorp, Inc. adopted a restricted stock grant plan which awards certain executive officers common shares of the Company. The maximum number of shares which may be subject to restricted stock awards (split-adjusted) is 143,500. During 2006 - 2007, 20,155 shares were issued under this plan and since the plan's inception 2,198 shares have been forfeited, thus remaining shares which may be subject to restricted stock awards are 125,543 at September 30, 2007. The shares are recorded at fair market value (on the date granted) as a separate component of stockholders' equity. The cost of these shares is being amortized against earnings using the straight-line method over three years (the restriction period).

(13) Profit Sharing Plan

The Company has a profit sharing plan that covers substantially all employees who meet certain age and service requirements. It is the Company's policy to make contributions to the plan as approved annually by the board of directors. The total provision for contributions to the plan was \$663 for 2006, \$558 for 2005 and \$479 for 2004.

(14) Commitments and Contingencies

Credit-Related Financial Instruments. The Company is a party to credit related financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance sheet instruments.

At September 30, 2007 and December 31, 2006 the following financial instruments were outstanding whose contract amounts represent credit risk:

Contract Amount

	September 30, 2007	December 31, 2006
--	-------------------------------	----------------------

Loan Commitments	\$ 102,185	\$ 105,165
Standby Letters of Credit	3,679	3,279

Commitments to extend credit are agreements to lend to a customer as 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. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

Unfunded commitments under commercial lines of credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Company is committed.

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Part I (Continued)

Item 1 (Continued)

(14) Commitments and Contingencies (Continued)

Standby and performance letters of credit are conditional lending commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

Purchase Commitments. As of September 30, 2007, the Company had an outstanding commitment of approximately \$1,967 to construct and furnish an office in Savannah. No draws have been advanced as of September 30, 2007.

Legal Contingencies. In the ordinary course of business, there are various legal proceedings pending against Colony and its subsidiaries. The aggregate liabilities, if any, arising from such proceedings would not, in the opinion of management, have a material adverse effect on Colony's consolidated financial position.

(15) Deferred Compensation Plan

Two of the Bank subsidiaries have deferred compensation plans covering directors choosing to participate through individual deferred compensation contracts. In accordance with terms of the contracts, the Banks are committed to pay the directors deferred compensation over a specified number of years, beginning at age 65. In the event of a director's death before age 65, payments are made to the director's named beneficiary over a specified number of years, beginning on the first day of the month following the death of the director.

Liabilities accrued under the plans totaled \$1,172 and \$1,108 as of September 30, 2007 and December 31, 2006, respectively. Benefit payments under the contracts were \$140 and \$127 for the nine month period ended September 30, 2007 and September 30, 2006, respectively. Provisions charged to operations totaled \$205 and \$109 for the nine month period ended September 30, 2007 and September 30, 2006, respectively.

Fee income recognized with deferred compensation plans totaled \$104 and \$106 for nine month period ended September 30, 2007 and September 30, 2006, respectively.

(16) Regulatory Capital Matters

The Company is subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and, possibly, additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. The amounts and ratios as defined in regulations are presented hereafter. Management believes, as of September 30, 2007, the Company meets all capital adequacy requirements to which it is subject under the regulatory framework for prompt corrective action. In the opinion of management, there are no conditions or events since prior notification of capital adequacy from the regulators that have changed the institution's category.

Table of Contents**Part I (Continued)**

Item 1 (Continued)

(16) Regulatory Capital Matters (Continued)

The following table summarizes regulatory capital information as of September 30, 2007 and December 31, 2006 on a consolidated basis and for each significant subsidiary, as defined.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2007						
Total Capital to Risk-Weighted Assets						
Consolidated	\$ 121,355	12.36%	\$ 78,584	8.00%	\$ 98,230	10.00%
Fitzgerald	19,675	12.60	12,491	8.00	15,614	10.00
Ashburn	29,859	11.05	21,612	8.00	27,014	10.00
Worth	15,463	10.82	11,434	8.00	14,299	10.00
Southeast	21,530	11.12	15,555	8.00	19,444	10.00
Quitman	12,750	11.90	8,572	8.00	10,715	10.00