

COLONY BANKCORP INC
Form 10-Q
August 08, 2008

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 JUNE 30, 2008

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 T NO F

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

LARGE ACCELERATED FILER F ACCELERATED FILER T
NON ACCELERATED FILER F SMALLER REPORTING COMPANY F

(DO NOT CHECK IF A SMALLER REPORTING COMPANY)

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.

CLASS
COMMON STOCK, \$1 PAR VALUE

OUTSTANDING AT AUGUST 8, 2008
7,215,463

TABLE OF CONTENTS

	Page
PART I – Financial Information	
<u>Forward Looking Statement Disclosure</u>	3
<u>Item 1.</u> <u>Financial Statements</u>	4
<u>Item 2.</u> <u>Management’s Discussion and Analysis of Financial</u> <u>Condition and Results of Operation</u>	29
<u>Item 3.</u> <u>Quantitative and Qualitative Disclosures About Market</u> <u>Risk</u>	50
<u>Item 4.</u> <u>Controls and Procedures</u>	53
PART II – Other Information	
<u>Item 1.</u> <u>Legal Proceedings</u>	54
<u>Item 1A.</u> <u>Risk Factors</u>	54
<u>Item 2.</u> <u>Unregistered Sales of Equity Securities and Use of</u> <u>Proceeds</u>	54
<u>Item 3.</u> <u>Defaults Upon Senior Securities</u>	54
<u>Item 4.</u> <u>Submission of Matters to a Vote of Security Holders</u>	54
<u>Item 5.</u> <u>Other Information</u>	54
<u>Item 6.</u> <u>Exhibits</u>	55
<u>Signatures</u>	56

Table of Contents

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).

Table of Contents

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 – JUNE 30, 2008 AND DECEMBER 31, 2007.

B. CONSOLIDATED STATEMENTS OF INCOME – FOR THE THREE MONTHS ENDED JUNE 30, 2008 AND 2007 AND FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007.

C. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME – FOR THE THREE MONTHS ENDED JUNE 30, 2008 AND 2007 AND FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007.

D. CONSOLIDATED STATEMENTS OF CASH FLOWS – FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007.

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 SIX MONTH PERIOD ENDED JUNE 30, 2008 ARE NOT NECESSARILY INDICATIVE OF THE RESULTS TO BE EXPECTED FOR THE FULL YEAR.

Table of ContentsPart I (Continued)
Item 1 (Continued)COLONY BANKCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2008 AND DECEMBER 31, 2007
(DOLLARS IN THOUSANDS)

	June 30, 2008 (Unaudited)	December 31, 2007
ASSETS		
Cash and Cash Equivalents		
Cash and Due from Banks	\$ 27,478	\$ 28,369
Federal Funds Sold	5,579	21,737
	33,057	50,106
Interest-Bearing Deposits	1,783	1,467
Investment Securities		
Available for Sale, at Fair Value	177,054	167,123
Held to Maturity, at Cost (Fair Value of \$65 and \$72, as of June 30, 2008 and December 31, 2007, Respectively)	63	68
	177,117	167,191
Federal Home Loan Bank Stock, at Cost	6,092	5,533
Loans	954,287	945,279
Allowance for Loan Losses	(17,466)	(15,513)
Unearned Interest and Fees	(213)	(301)
	936,608	929,465
Premises and Equipment	28,606	27,809
Other Real Estate	3,198	1,332
Goodwill	2,412	2,412
Other Intangible Assets	384	402
Other Assets	21,955	23,059
Total Assets	\$ 1,211,212	\$ 1,208,776
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Noninterest-Bearing	\$ 75,946	\$ 86,112
Interest-Bearing	900,376	932,490
	976,322	1,018,602
Borrowed Money		
Federal Funds Purchased	16,465	1,346
Securities Sold Under Agreements to Repurchase	20,000	---
Subordinated Debentures	24,229	24,229
Other Borrowed Money	84,600	73,600
	145,294	99,175
Other Liabilities	5,773	7,256

Commitments and Contingencies

Stockholders' Equity

Common Stock, Par Value \$1 a Share, Authorized 20,000,000 Shares, Issued 7,215,463 and 7,200,913 Shares as of June 30, 2008 and December 31, 2007, Respectively	7,215	7,201
Paid-In Capital	24,589	24,420
Retained Earnings	53,185	52,087
Restricted Stock - Unearned Compensation	(346)	(237)
Accumulated Other Comprehensive Loss, Net of Tax	(820)	272
	83,823	83,743
Total Liabilities and Stockholders' Equity	\$ 1,211,212	\$ 1,208,776

The accompanying notes are an integral part of these statements.

Table of ContentsPart I (Continued)
Item 1 (Continued)

COLONY BANKCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS ENDED JUNE 30, 2008 AND 2007
AND SIX MONTHS ENDED JUNE 30, 2008 AND 2007
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	Three Months Ended		Six Months Ended	
	6/30/2008	6/30/2007	6/30/2008	6/30/2007
Interest Income				
Loans, Including Fees	\$ 16,742	\$ 20,420	35,091	40,188
Federal Funds Sold	84	336	239	967
Deposits with Other Banks	9	34	20	75
Investment Securities				
U.S. Government Agencies	1,586	1,573	3,267	3,117
State, County and Municipal	92	137	230	271
Corporate Obligations and Asset-Backed Securities	85	63	179	126
Dividends on Other Investments	82	73	166	149
	18,680	22,636	39,192	44,893
Interest Expense				
Deposits	8,475	10,673	18,147	21,280
Federal Funds Purchased	24	31	52	37
Borrowed Money	1,138	1,107	2,345	2,300
	9,637	11,811	20,544	23,617
Net Interest Income	9,043	10,825	18,648	21,276
Provision for Loan Losses	4,071	914	5,142	1,828
Net Interest Income After Provision for Loan Losses	4,972	9,911	13,506	19,448
Noninterest Income				
Service Charges on Deposits	1,173	1,214	2,338	2,332
Other Service Charges, Commissions and Fees	241	239	495	485
Mortgage Fee Income	174	286	343	538
Securities Gains	614	2	1,184	186
Other	832	315	1,045	625
	2,034	2,056	5,405	4,166
Noninterest Expenses				
Salaries and Employee Benefits	4,029	4,687	8,432	9,229
Occupancy and Equipment	1,061	1,010	2,068	2,011
Other	2,624	2,268	4,971	4,634
	7,714	7,965	15,479	15,874
Income Before Income Taxes	292	4,002	3,440	7,740
Income Taxes	0	1,300	935	2,564
Net Income	\$ 292	\$ 2,702	\$ 2,505	\$ 5,176
Net Income Per Share of Common Stock				

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

Basic	\$ 0.04	\$ 0.38	\$ 0.35	\$ 0.72
Diluted	\$ 0.04	\$ 0.38	\$ 0.35	\$ 0.72
Cash Dividends Declared Per Share of Common Stock	\$ 0.10	\$ 0.09	\$ 0.20	\$ 0.18
Weighted Average Basic Shares Outstanding	7,197,607	7,187,587	7,194,734	7,184,576
Weighted Average Diluted Shares Outstanding	7,197,607	7,197,645	7,194,734	7,196,193

The accompanying notes are an integral part of these statements.

6

Table of Contents

Part I (Continued)
Item 1 (Continued)

COLONY BANKCORP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
THREE MONTHS ENDED JUNE 30, 2008 AND 2007
AND SIX MONTHS ENDED JUNE 30, 2008 AND 2007
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	Three Months Ended		Six Months Ended	
	06/30/08	06/30/07	06/30/08	06/30/07
Net Income	\$ 292	\$ 2,702	\$ 2,505	\$ 5,176
Other Comprehensive Income (Loss), Net of Tax				
Gains (Losses) on Securities Arising During the Year	(1,426)	(813)	(311)	(407)
Reclassification Adjustment	(405)	(2)	(781)	(123)
Change in Net Unrealized Losses on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effect	(1,831)	(815)	(1,092)	(530)
Comprehensive Income (Loss)	\$ (1,539)	\$ 1,887	\$ 1,413	\$ 4,646

The accompanying notes are an integral part of these statements.

Table of ContentsPart I (Continued)
Item 1 (Continued)

COLONY BANKCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2008 AND 2007
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 2,505	\$ 5,176
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	992	932
Provision for Loan Losses	5,142	1,828
Securities Gains	(1,184)	(186)
Amortization and Accretion	320	285
Loss on Sale of Other Real Estate and Repossessions	42	71
Gain on Sale of Equipment	(10)	(7)
Decrease (Increase) in Cash Surrender Value of Life Insurance	(142)	33
Change in Loans Held for Sale	---	(380)
Other Prepaids, Deferrals and Accruals, Net	208	(902)
	7,873	6,850
CASH FLOWS FROM INVESTING ACTIVITIES		
Federal Home Loan Bank Stock	(560)	(378)
Purchases of Investment Securities Available for Sale	(108,327)	(23,939)
Proceeds from Maturities, Calls, and Paydowns of Investment Securities:		
Available for Sale	34,724	9,524
Held to Maturity	7	8
Proceeds from Sale of Investment Securities		
Available for Sale	63,111	7,673
(Increase) Decrease in Interest-Bearing Deposits in Other Banks	(317)	877
Net Loans to Customers	(16,098)	(14,055)
Purchase of Premises and Equipment	(1,789)	(1,086)
Other Real Estate and Repossessions	1,865	1,087
Proceeds from Sale of Premises and Equipment	10	7
Investment in Statutory Trust	---	(279)
Liquidation of Statutory Trust	---	279
	(27,374)	(20,282)
CASH FLOWS FROM FINANCING ACTIVITIES		
Noninterest-Bearing Customer Deposits	(10,166)	(2,267)
Interest-Bearing Customer Deposits	(32,113)	(18,436)
Increase (Decrease) in Federal Funds Purchased	15,119	(170)
Securities Sold Under Agreements to Repurchase	20,000	---
Dividends Paid	(1,388)	(1,242)
Proceeds from Other Borrowed Money	43,000	36,000
Principal Payments on Other Borrowed Money	(32,000)	(28,000)

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

Proceeds from Issuance of Subordinated Debentures	---	9,279
Principal Payments on Subordinated Debentures	---	(9,279)
	2,452	(14,115)
Net Increase (Decrease) in Cash and Cash Equivalents	(17,049)	(27,547)
Cash and Cash Equivalents at Beginning of Period	50,106	72,380
Cash and Cash Equivalents at End of Period	\$ 33,057	\$ 44,833

The accompanying notes are an integral part of these statements.

Table of Contents

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 2008. 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 primarily to local borrowers. The Company has a high concentration of real estate loans that could pose an adverse credit risk particularly with the current economic downturn in the real estate market. In management's opinion, 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. 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.

At times, the Company may have cash and cash equivalents at financial institutions in excess of insured limits. The Company places its cash and cash equivalents with high credit quality financial institutions whose credit rating is monitored by management to minimize credit risk.

Table of Contents

Part I (Continued)
Item 1 (Continued)

(1) Summary of Significant Accounting Policies (Continued)

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.

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.

Table of ContentsPart I (Continued)
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
	5-20	Straight-Line

Leasehold
Improvements

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.

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.

Table of Contents

Part I (Continued)
Item 1 (Continued)

(1) Summary of Significant Accounting Policies (Continued)

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.

Advertising Costs

The Company expenses the cost of advertising in the periods in which those costs are incurred.

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.

Positions taken in the Company's tax returns may be subject to challenge by the taxing authorities upon examination. Uncertain tax positions are initially recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions are both initially and subsequently measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon settlement with the tax authority, assuming full knowledge of the position and all relevant facts. The Company provides for interest and, in some cases, penalties on tax positions that may be challenged by the taxing authorities. Interest expense is recognized beginning in the first period that such interest would begin accruing. Penalties are recognized in the period that the Company claims the position in the tax return. Interest and penalties on income tax uncertainties are classified within income tax expense in the consolidated statement of 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.

Table of Contents

Part I (Continued)
Item 1 (Continued)

(1) Summary of Significant Accounting Policies (Continued)

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.

Changes in Accounting Principles and Effects of New Accounting Pronouncements

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

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. The adoption of this standard January 1, 2008 did not have a material effect on the financial position, results of operations or disclosures.

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. The adoption of this standard January 1, 2008 did not have an effect on the Company's financial position, results of operations or disclosures.

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

Table of ContentsPart I (Continued)
Item 1 (Continued)

(1) Summary of Significant Accounting Policies (Continued)

Changes in Accounting Principles and Effects of New Accounting Pronouncements (Continued)

Emerging Issues Task Force (EITF) Issue No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements. EITF No. 06-4 requires the recognition of a liability and related compensation expense for endorsement split-dollar life insurance policies that provide a benefit to an employee that extends to postretirement periods. Under EITF No. 06-4, life insurance policies purchased for the purpose of providing such benefits do not effectively settle an entity's obligation to the employee. Accordingly, the entity must recognize a liability and related compensation expense during the employee's active service period based on the future cost of insurance to be incurred during the employee's retirement. If the entity has agreed to provide the employee with a death benefit, then the liability for the future death benefit should be recognized by following the guidance in SFAS No. 106, Employer's Accounting for Postretirement Benefits Other Than Pensions. The adoption of this standard January 1, 2008 did not have an effect on the Company's financial position, results of operations or disclosures.

SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles." SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). The hierarchical guidance provided by SFAS 162 did not have a significant impact on the Corporation's financial statements.

(2) Cash and Balances Due from Banks

Components of cash and balances due from banks are as follows as of June 30, 2008 and December 31, 2007:

	June 30, 2008	December 31, 2007
Cash on Hand and Cash Items	\$ 8,242	\$ 8,527
Noninterest-Bearing Deposits with Other Banks	19,236	19,842
	\$ 27,478	\$ 28,369

As of June 30, 2008, the Banks had required deposit reserves of approximately \$4,492 with the Federal Reserve that was satisfied with cash on hand.

(3) Investment Securities

Investment securities as of June 30, 2008 are summarized as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities Available for Sale:				
U.S. Government Agencies				
Mortgage-Backed	\$ 158,843	\$ 384	\$ (1,428)	\$ 157,799
Other	3,400	5	---	3,405
State, County & Municipal	10,161	33	(114)	10,080

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

Corporate Obligations	4,891	31	(154)	4,768
Asset-Backed Securities	1,000	---	---	1,000
Marketable Equity Securities	2	---	---	2
	\$ 178,297	\$ 453	\$ (1,696)	\$ 177,054

Securities Held to Maturity:

State, County and Municipal	\$ 63	\$ 2	\$ ---	\$ 65
-----------------------------	-------	------	--------	-------

Table of Contents

Part I (Continued)

Item 1 (Continued)

The amortized cost and fair value of investment securities as of June 30, 2008, 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.

	Securities			
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in One Year or Less	\$ 5,263	\$ 5,270		
Due After One Year Through Five Years	5,752	5,610		
Due After Five Years Through Ten Years	4,582	4,555	\$ 63	\$ 65
Due After Ten Years	3,855	3,818	--	--
	19,452	19,253	63	65
Mortgage Backed Securities	158,843	157,799		
Marketable Equity Securities	2	2	--	--
	\$ 178,297	\$ 177,054	\$ 63	\$ 65

Investment securities as of December 31, 2007 are summarized as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities Available for Sale:				
U.S. Government Agencies				
Mortgage Backed	\$ 109,024	\$ 758	\$ (459)	\$ 109,323
Other	36,818	314	(36)	37,096
State, County & Municipal	14,178	33	(296)	13,915
Corporate Obligations	5,689	105	(7)	5,787
Asset-Backed Securities	1,000	---	---	1,000
Marketable Equity Securities	2	---	---	2
	\$ 166,711	\$ 1,210	\$ (798)	\$ 167,123
Securities Held to Maturity:				
State, County and Municipal	\$ 68	\$ 4	\$ ---	\$ 72

Proceeds from the sale of investments available for sale during first six months of 2008 totaled \$63,111 compared to \$7,673 for the first six months of 2007. The sale of investments available for sale during 2008 resulted in gross realized gains of \$1,187 and gross realized losses of \$3 and the sale of investments available for sale during 2007 resulted in gross realized gain of \$212 and losses of \$26.

Investment securities having a carry value approximating \$91,651 and \$89,145 as of June 30, 2008 and December 31, 2007, respectively, were pledged to secure public deposits and for other purposes.

Table of ContentsPart I (Continued)
Item 1 (Continued)

Information pertaining to securities with gross unrealized losses at June 30, 2008 and December 31, 2007 aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
June 30, 2008						
U.S. Government Agencies						
Mortgage Backed	\$ 100,997	\$ (1,348)	\$ 4,211	\$ (80)	\$ 105,208	\$ (1,428)
Other	---	---	---	---	---	---
State, County and Municipal	4,765	(114)	420	---	5,185	(114)
Corporate Obligations	2,288	(153)	449	(1)	2,737	(154)
Marketable Equity Securities	2	---	---	---	2	---
	\$ 108,052	\$ (1,615)	\$ 5,080	\$ (81)	\$ 113,132	\$ (1,696)
December 31, 2007						
U.S. Government Agencies						
Mortgage Backed	\$ 13,721	\$ (56)	\$ 30,761	\$ (403)	\$ 44,482	\$ (459)
Other	---	---	14,101	(36)	14,101	(36)
State, County and Municipal	6,918	(255)	3,115	(41)	10,033	(296)
Corporate Obligations	---	---	995	(7)	995	(7)
Marketable Equity Securities	2	---	---	---	2	---
	\$ 20,641	\$ (311)	\$ 48,972	\$ (487)	\$ 69,613	\$ (798)

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 June 30, 2008, the debt securities with unrealized losses have depreciated 1.48 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 June 30, 2008 and December 31, 2007 was as follows:

June 30, 2008 December 31, 2007

Commercial, Financial and Agricultural	\$	88,641	\$	52,323
Real Estate – Construction		183,168		211,484
Real Estate – Farmland		53,537		42,439
Real Estate – Other		568,316		544,655
Installment Loans to Individuals		45,230		72,350
All Other Loans		15,395		22,028
	\$	954,287	\$	945,279

Table of Contents

Part I (Continued)

Item 1 (Continued)

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 \$17,953 and \$14,956 as of June 30, 2008 and December 31, 2007, respectively and total recorded investment in loans past due 90 days or more and still accruing interest approximated \$0 and \$60, respectively.

(5) Allowance for Loan Losses

Transactions in the allowance for loan losses are summarized below for six months ended June 30, 2008 and June 30, 2007 as follows:

	June 30, 2008	June 30, 2007
Balance, Beginning	\$ 15,513	\$ 11,989
Provision Charged to Operating Expenses	5,142	1,828
Loans Charged Off	(3,458)	(1,485)
Loan Recoveries	269	315
Balance, Ending	\$ 17,466	\$ 12,647

(6) Premises and Equipment

Premises and equipment are comprised of the following as of June 30, 2008 and December 31, 2007:

	June 30, 2008	December 31, 2007
Land	\$ 7,799	\$ 7,799
Building	20,937	20,901
Furniture, Fixtures and Equipment	13,440	12,641
Leasehold Improvements	994	994
Construction in Progress	1,318	448
	44,488	42,783
Accumulated Depreciation	(15,882)	(14,974)
	\$ 28,606	\$ 27,809

Depreciation charged to operations totaled \$992 and \$932 for June 30, 2008 and June 30, 2007, respectively.

Certain Company facilities and equipment are leased under various operating leases. Rental expense approximated \$188 and \$184 for six months ended June 30, 2008 and June 30, 2007, respectively.

Table of ContentsPart I (Continued)
Item 1 (Continued)

(7) Goodwill and Intangible Assets

The following is an analysis of the goodwill and core deposit intangible asset activity for the six months ended June 30, 2008 and June 30, 2007:

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Goodwill		
Balance, Beginning	\$ 2,412	\$ 2,412
Goodwill Acquired	--	--
Balance, Ending	\$ 2,412	\$ 2,412
Net Core Deposit, Intangible		
Balance, Beginning	\$ 402	\$ 439
Amortization Expense	(18)	(19)
Balance, Ending	\$ 384	\$ 420

The following table reflects the expected amortization for the core deposit intangible at June 30, 2008:

2008	\$ 18
2009	36
2010	36
2011	36
2012 and thereafter	258
	\$ 384

(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) Fair Value Measurements

SFAS No. 157, Fair Value Measurements, defines fair value, establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurement and enhances disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

18

Table of ContentsPart I (Continued)
Item 1 (Continued)

(9) Fair Value Measurements (Continued)

Following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Assets

Securities

Where quoted prices are available in an active market, securities are classified within level 1 of the valuation hierarchy. Level 1 inputs include securities that have quoted prices in active markets for identical assets. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Examples of such instruments, which would generally be classified within level 2 of the valuation hierarchy, included certain collateralized mortgage and debt obligations and certain high-yield debt securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within level 3 of the valuation hierarchy. The company's current portfolio does not have level 3 securities as of June 30, 2008. When measuring fair value, the valuation techniques available under the market approach, income approach and/or cost approach are used. The Company's evaluations are based on market data and the Company employs combinations of these approaches for its valuation methods depending on the asset class.

Impaired loans

SFAS No. 157 applies to loans measured for impairment using the practical expedients permitted by SFAS No. 114, Accounting by Creditors for Impairment of a Loan, including impaired loans measured at an observable market price (if available), or at the fair value of the loan's collateral (if the loan is collateral dependent). Fair value of the loan's collateral, when the loan is dependent on collateral, is determined by appraisals or independent valuation which is then adjusted for the cost related to liquidation of the collateral.

Assets Measured at Fair Value on a Recurring Basis

The table below presents the recorded amount of the Company's assets measured at fair value on a recurring basis as of June 30, 2008 aggregated by the level in the fair value hierarchy within which those measurements fall.

	June 30, 2008	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities Available for Sale				
U.S. Government Agencies				
Mortgage-Backed	\$ 157,799	\$ ---	\$ 157,799	\$ ---

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

Other	3,405	---	3,405	---
State, County & Municipal	10,080	---	10,080	---
Corporate Obligations	4,768	---	4,768	---
Asset-Backed Securities	1,000	---	1,000	---
Marketable Equity Securities	2	---	2	---
	\$ 177,054	\$ ---	\$ 177,054	\$ ---

Liabilities

The Company did not identify any liabilities that are required to be presented at fair value.

Table of ContentsPart I (Continued)
Item 1 (Continued)

(10) Deposits

The aggregate amount of overdrawn deposit accounts reclassified as loan balances totaled \$533 and \$574 as of June 30, 2008 and December 31, 2007.

Components of interest-bearing deposits as of June 30, 2008 and December 31, 2007 are as follows:

	June 30, 2008	December 31, 2007
Interest-Bearing Demand	\$ 196,261	\$ 190,304
Savings	35,293	31,588
Time, \$100,000 and Over	338,772	347,219
Other Time	330,050	363,379
	\$ 900,376	\$ 932,490

At June 30, 2008 and December 31, 2007, the Company had brokered deposits of \$63,316 and \$54,737 respectively. The aggregate amount of short-term jumbo certificates of deposit, each with a minimum denomination of \$100,000 was approximately \$307,084 and \$310,971 as of June 30, 2008 and December 31, 2007, respectively.

As of June 30, 2008 and December 31, 2007, the scheduled maturities of certificates of deposits are as follows:

Maturity	June 30, 2008	December 31, 2007
One Year and Under	\$ 600,129	\$ 632,936
One to Three Years	59,345	42,977
Three Years and Over	9,348	34,685
	\$ 668,822	\$ 710,598

(11) Other Borrowed Money

Other borrowed money at June 30, 2008 and December 31, 2007 is summarized as follows:

	June 30, 2008	December 31, 2007
Federal Home Loan Bank Advances	\$ 84,000	\$ 73,500
Silverton Note Payable	600	100
Barclay's Master Repurchase Agreement	20,000	---
	\$ 104,600	\$ 73,600

Advances from the Federal Home Loan Bank (FHLB) have maturities ranging from 2008 to 2019 and interest rates ranging from 2.41 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 June 30, 2008, the Company had available line of credit commitments totaling \$94,304, of which \$10,304 was available.

Silverton Bank Note Payable originated on March 5, 2008 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 March 5, 2009. The debt is secured by all furniture, fixtures, equipment and software of Colony Management Services. Colony Bankcorp, Inc. Guarantees the debt. As of June 30, 2008, \$400 was available to be drawn on the line of credit.

Barclay's Master Repurchase Agreement originated on June 30, 2008. The Repurchase Agreement matures on June 30, 2011 and has a one-time call option on December 30, 2009. Interest is due quarterly at a fixed rate of 3.34 percent. The Repurchase Agreement is secured by U.S. Government mortgage-backed securities.

Table of Contents

Part I (Continued)

Item 1 (Continued)

The aggregate stated maturities of other borrowed money at June 30, 2008 are as follows:

Year	Amount
2008	\$ 3,000
2009	27,600
2010	1,000
2011	20,000
2012 and Thereafter	53,000
	\$ 104,600

The Company also has available federal funds lines of credit with various financial institutions totaling \$64,300, of which \$16,465 was outstanding at June 30, 2008.

(12) Subordinated Debentures (Trust Preferred Securities)

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 June 30, 2008, the floating rate securities had a 5.49 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 June 30, 2008 the floating-rate securities had a 4.30 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 June 30, 2008, the floating-rate securities had a 4.45 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 June 30, 2008, the floating-rate securities had a 4.31 percent interest rate, which will reset quarterly at the three-month LIBOR rate plus 1.40 percent. Proceeds from this issuance were used to payoff the trust preferred securities with the second subsidiary formed in December 2002 as the Company exercised its option to call.

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 offering were used to fund the cash portion of the Quitman acquisition, payoff holding company debt, and inject capital into bank

subsidiaries.

(13) 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 was 64,701. To date, 77,052 split-adjusted shares have been issued under this plan and since the plan's inception, 12,351 shares have been forfeited; thus, remaining shares which may be subject to restricted stock awards are none at June 30, 2008. 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. To date, 34,406 shares have been issued under this plan and since the plan's inception 6,198 shares have been forfeited, thus remaining shares which may be subject to restricted stock awards are 115,292 at June 30, 2008. 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).

Table of ContentsPart I (Continued)
Item 1 (Continued)

(14) 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 provision for the six months ended June 30, 2008 was \$312 compared to \$429 for the six months ended June 30, 2007. The total provision for contributions to the plan was \$584 for 2007, \$663 for 2006 and \$558 for 2005.

(15) 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 June 30, 2008 and December 31, 2007 the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	June 30, 2008	December 31, 2007
Loan Commitments	\$ 87,385	\$ 93,105
Standby Letters of Credit	2,651	3,814

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.

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 June 30, 2008, the Company had an outstanding commitment of approximately \$1,967 to construct and furnish an office in Savannah. As of June 30, 2008, the Company has paid \$1,269 toward construction in process.

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.

(16) 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.

Table of ContentsPart I (Continued)
Item 1 (Continued)

(16) Deferred Compensation Plan (Continued)

Liabilities accrued under the plans totaled \$1,118 and \$1,159 as of June 30, 2008 and December 31, 2007, respectively. Benefit payments under the contracts were \$115 and \$95 for the six month period ended June 30, 2008 and June 30, 2007, respectively. Provisions charged to operations totaled \$75 and \$172 for the six month period ended June 30, 2008 and June 30, 2007, respectively.

Fee income recognized with deferred compensation plans totaled \$104 and \$91 for six month period ended June 30, 2008 and June 30, 2007, respectively.

(17) 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 June 30, 2008, 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.

The following table summarizes regulatory capital information as of June 30, 2008 and December 31, 2007 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 June 30, 2008						
Total Capital to Risk-Weighted Assets						
Consolidated	\$ 117,235	12.40%	\$ 75,637	8.00%	NA	NA
Fitzgerald	20,258	13.42	12,077	8.00	\$ 15,097	10.00%
Ashburn	29,353	11.38	20,642	8.00	25,803	10.00

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

Worth	16,315	11.52	11,325	8.00	14,157	10.00
Southeast	24,085	13.25	14,542	8.00	18,177	10.00
Quitman	13,192	12.13	8,699	8.00	10,873	10.00

Tier 1 Capital
to
Risk-Weighted
Assets

Consolidated	\$ 105,347	11.14%	\$ 37,818	4.00%	NA	NA
Fitzgerald	18,357	12.16	6,039	4.00	\$ 9,058	6.00%
Ashburn	26,092	10.11	10,321	4.00	15,482	6.00
Worth	14,538	10.27	5,663	4.00	8,494	6.00
Southeast	21,800	11.99	7,271	4.00	10,906	6.00
Quitman	11,833	10.88	4,349	4.00	6,524	6.00

Tier 1 Capital
to Average
Assets

Consolidated	\$ 105,347	8.90%	\$ 47,326	4.00%	NA	NA
Fitzgerald	18,357	9.59	7,656	4.00	\$ 9,569	5.00%
Ashburn	26,092	8.12	12,847	4.00	16,059	5.00
Worth	14,538	8.16	7,130	4.00	8,912	5.00
Southeast	21,800	10.55	8,268	4.00	10,335	5.00
Quitman	11,833	7.83	6,045	4.00	7,556	5.00

Table of ContentsPart I (Continued)
Item 1 (Continued)

(17) Regulatory Capital Matters (Continued)

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2007						
Total Capital to Risk-Weighted Assets						
Consolidated	\$ 116,222	12.08%	\$ 76,944	8.00%	NA	NA
Fitzgerald	19,771	12.65	12,508	8.00	\$ 15,635	10.00%
Ashburn	29,873	11.38	21,000	8.00	26,251	10.00
Worth	15,808	11.23	11,264	8.00	14,079	10.00
Southeast	22,702	12.19	14,895	8.00	18,619	10.00
Quitman	12,979	11.70	8,872	8.00	11,091	10.00
Tier 1 Capital to Risk-Weighted Assets						
Consolidated	\$ 104,157	10.83%	\$ 38,472	4.00%	NA	NA
Fitzgerald	17,809	11.39	6,254	4.00	\$ 9,381	6.00%
Ashburn	26,571	10.12	10,500	4.00	15,750	6.00
Worth	14,043	9.97	5,632	4.00	8,448	6.00
Southeast	20,364	10.94	7,447	4.00	11,171	6.00
Quitman	11,592	10.45	4,436	4.00	6,654	6.00
Tier 1 Capital to Average Assets						
Consolidated	\$ 104,157	8.60%	\$ 48,467	4.00%	NA	NA
Fitzgerald	17,809	9.13	7,800	4.00	\$ 9,750	5.00%
Ashburn	26,571	7.92	13,426	4.00	16,783	5.00
Worth	14,043	7.87	7,139	4.00	8,924	5.00
Southeast	20,364	9.72	8,377	4.00	10,471	5.00
Quitman	11,592	7.86	5,899	4.00	7,374	5.00

Table of ContentsPart I (Continued)
Item 1 (Continued)

(18) Financial Information of Colony Bankcorp, Inc. (Parent Only)

The parent company's balance sheets as of June 30, 2008 and December 31, 2007 and the related statements of income and comprehensive income and cash flows are as follows:

COLONY BANKCORP, INC. (PARENT ONLY)
BALANCE SHEETS
JUNE 30, 2008 AND DECEMBER 31, 2007

ASSETS	June 30, 2008 (Unaudited)	December 31, 2007 (Audited)
Cash	\$ 269	\$ 973
Premises and Equipment, Net	1,223	1,236
Investment in Subsidiaries, at Equity	106,959	105,323
Other	591	1,491
Totals Assets	\$ 109,042	\$ 109,023
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Dividends Payable	\$ 704	\$ 684
Other	286	367
	990	1,051
Subordinated Debt	24,229	24,229
Stockholders' Equity		
Common Stock, Par Value \$1 a Share; Authorized 20,000,000 Shares, Issued 7,215,463 and 7,200,913 Shares as of June 30, 2008 and December 31, 2007, Respectively	7,215	7,201
Paid-In Capital	24,589	24,420
Retained Earnings	53,185	52,087
Restricted Stock - Unearned Compensation	(346)	(237)
Accumulated Other Comprehensive Loss, Net of Tax	(820)	272
	83,823	83,743
Total Liabilities and Stockholders' Equity	\$ 109,042	\$ 109,023

Table of Contents

Part I (Continued)
Item 1 (Continued)

(18) Financial Information of Colony Bankcorp, Inc. (Parent Only) (Continued)

COLONY BANKCORP, INC. (PARENT ONLY)
STATEMENT OF INCOME AND COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND JUNE 30, 2007
(UNAUDITED)

	JUNE 30, 2008	JUNE 30, 2007
Income		
Dividends from Subsidiaries	\$ 2,521	\$ 3,030
Other	47	76
	2,568	3,106
Expenses		
Interest	666	985
Salaries and Employee Benefits	474	549
Other	728	539
	1,868	2,073
Income Before Taxes and Equity in Undistributed Earnings of Subsidiaries	700	1,033
Income Tax (Benefits)	(577)	(612)
Income Before Taxes and Equity in Undistributed Earnings of Subsidiaries	1,277	1,645
Equity in Undistributed Earnings of Subsidiaries	1,228	3,531
Net Income	2,505	5,176
Other Comprehensive Income, Net of Tax		
Gains (Losses) on Securities Arising During Year	(311)	(407)
Reclassification Adjustment	(781)	(123)
Unrealized Gains (Losses) in Securities	(1,092)	(530)
Comprehensive Income	\$ 1,413	\$ 4,646

Table of Contents

Part I (Continued)
Item 1 (Continued)

(18) Financial Information of Colony Bankcorp, Inc. (Parent Only) (Continued)

COLONY BANKCORP, INC. (PARENT ONLY)
STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND JUNE 30, 2007
(UNAUDITED)

	2008	2007
Cash Flows from Operating Activities		
Net Income	\$ 2,505	\$ 5,176
Adjustments to Reconcile Net Income to Net Cash Provided from Operating Activities		
Depreciation and Amortization	152	163
Equity in Undistributed Earnings of Subsidiary	(1,228)	(3,531)
Other	784	97
	2,213	1,905
Cash Flows from Investing Activities		
Capital Infusion in Subsidiary	(1,500)	---
Purchases of Premises and Equipment	(29)	(16)
Investment in Capital Trust	---	(279)
Liquidation of Statutory Trust	---	279
	(1,529)	(16)
Cash Flows from Financing Activities		
Dividends Paid	(1,388)	(1,242)
Proceeds from Issuance of Subordinated Debentures	---	9,279
Principal Payment on Subordinated Debentures	---	(9,279)
	(1,388)	(1,242)
Net Increase in Cash	(704)	647
Cash, Beginning	973	2,224
Cash, Ending	\$ 269	\$ 2,871

27

Table of ContentsPart I (Continued)
Item 1 (Continued)

(19) Earnings Per Share

SFAS No. 128 establishes standards for computing and presenting basic and diluted earnings per share. Basic earnings per share is calculated and presented based on income available to common stockholders divided by the weighted average number of shares outstanding during the reporting periods. Diluted earnings per share reflects the potential dilution of restricted stock. The following presents earnings per share for the three months and six months ended June 30, 2008 and 2007, respectively, under the requirements of Statement 128:

	Three Months Ended June 30, 2008			Three Months Ended June 30, 2007		
	Income Numerator	Common Shares Denominator	EPS	Income Numerator	Common Shares Denominator	EPS
Basic EPS						
Income Available to Common Stockholders	\$ 292	7,198	\$ 0.04	\$ 2,702	7,188	\$ 0.38
Dilutive Effect of Potential Common Stock						
Restricted Stock		0			10	
Diluted EPS						
Income Available to Common Stockholders After Assumed Conversions of Dilutive Securities	\$ 292	7,198	\$ 0.04	\$ 2,702	7,198	\$ 0.38

	Six Months Ended June 30, 2008			Six Months Ended June 30, 2007		
	Income Numerator	Common Shares Denominator	EPS	Income Numerator	Common Shares Denominator	EPS
Basic EPS						
Income Available to Common Stockholders	\$ 2,505	7,195	\$ 0.35	\$ 5,176	7,185	\$ 0.72
Dilutive Effect of Potential Common Stock						

Restricted Stock		0				11				
Diluted EPS										
Income Available to Common Stockholders After Assumed Conversions of Dilutive Securities	\$	2,505	7,195	\$	0.35	\$	5,176	7,196	\$	0.72

28

Table of Contents

Part I (Continued)

Item 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements and Factors that Could Affect Future Results

Certain statements contained in this Quarterly Report that are not statements of historical fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the Act), notwithstanding that such statements are not specifically identified. In addition, certain statements may be contained in the Company's future filings with the SEC, in press releases, and in oral and written statements made by or with the approval of the Company that are not statements of historical fact and constitute forward-looking statements within the meaning of the Act. Examples of forward-looking statements include, but are not limited to: (i) projections of revenues, income or loss, earnings or loss per share, the payment or nonpayment of dividends, capital structure and other financial items; (ii) statements of plans and objectives of Colony Bankcorp, Inc. or its management or Board of Directors, including those relating to products or services; (iii) statements of future economic performance; and (iv) statements of assumptions underlying such statements. Words such as "believes," "anticipates," "expects," "intends," "targeted" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

Forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from those in such statements. Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to:

- Local and regional economic conditions and the impact they may have on the Company and its customers and the Company's assessment of that impact.
- Changes in estimates of future reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements.
- The effects of and changes in trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve Board.
 - Inflation, interest rate, market and monetary fluctuations.
 - Political instability.
 - Acts of war or terrorism.
- The timely development and acceptance of new products and services and perceived overall value of these products and services by users.
 - Changes in consumer spending, borrowings and savings habits.
 - Technological changes.
 - Acquisitions and integration of acquired businesses.

- The ability to increase market share and control expenses.
- The effect of changes in laws and regulations (including laws and regulations concerning taxes, banking, securities and insurance) with which the Company and its subsidiaries must comply.
- The effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Financial Accounting Standards Board and other accounting standard setters.
 - Changes in the Company's organization, compensation and benefit plans.
 - The costs and effects of litigation and of unexpected or adverse outcomes in such litigation.

Table of Contents

Part I (Continued)
Item 2 (Continued)

- Greater than expected costs or difficulties related to the integration of new lines of business.
- The Company's success at managing the risks involved in the foregoing items.

Forward-looking statements speak only as of the date on which such statements are made. The Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events.

The Company

Colony Bankcorp, Inc. (Colony) is a bank holding company headquartered in Fitzgerald, Georgia that provides, through its wholly owned subsidiaries (collectively referred to as the Company), a broad array of products and services throughout 18 Georgia markets. The Company offers commercial, consumer and mortgage banking services.

Application of Critical Accounting Policies and Accounting Estimates

The accounting and reporting policies of the Company are in accordance with accounting principles generally accepted in the United States of America and conform to general practices within the banking industry. The Company's financial position and results of operations are affected by management's application of accounting policies, including judgments made to arrive at the carrying value of assets and liabilities and amounts reported for revenues, expenses and related disclosures. Different assumptions in the application of these policies could result in material changes in the Company's financial position and/or results of operations. Critical accounting policies are those policies that management believes are the most important to the portrayal of the Company's financial condition and results of operations, and they require management to make estimates that are difficult, subjective or complete.

Allowance for Loan Losses – The allowance for loan losses provides coverage for probable losses inherent in the Company's loan portfolio. Management evaluates the adequacy of the allowance for loan losses quarterly based on changes, if any, in underwriting activities, the loan portfolio composition (including product mix and geographic, industry or customer-specific concentrations), trends in loan performance, regulatory guidance and economic factors. This evaluation is inherently subjective, as it requires the use of significant management estimates. Many factors can affect management's estimates of specific and expected losses, including volatility of default probabilities, collateral values, rating migrations, loss severity and economic and political conditions. The allowance is increased through provisions charged to operating earnings and reduced by net charge-offs.

The Company determines the amount of the allowance based on relative risk characteristics of the loan portfolio. The allowance recorded for loans is based on reviews of individual credit relationships and historical loss experience. The allowance for losses relating to impaired loans is based on the loan's observable market price, the discounted cash flows using the loan's effective interest rate, or the value of collateral for collateral dependent loans.

Regardless of the extent of the Company's analysis of customer performance, portfolio trends or risk management processes, certain inherent but undetected losses are probable within the loan portfolio. This is due to several factors, including inherent delays in obtaining information regarding a customer's financial condition or changes in their unique business conditions, the judgmental nature of individual loan evaluations, collateral assessments and the interpretation of economic trends. Volatility of economic or customer-specific conditions affecting the identification and estimation of losses for larger nonhomogeneous credits and the sensitivity of assumptions utilized to establish allowances for homogeneous groups of loans are among other factors. The Company estimates a range of inherent

losses related to the existence of these exposures. The estimates are based upon the Company's evaluation of risk associated with the commercial and consumer levels and the estimated impact of the current economic environment.

Goodwill and Other Intangibles – The Company records all assets and liabilities acquired in purchase acquisitions, including goodwill and other intangibles, at fair value as required by SFAS 141. Goodwill is subject, at a minimum, to annual tests for impairment. Other intangible assets are amortized over their estimated useful lives using straight-line and accelerated methods, and are subject to impairment if events or circumstances indicate a possible inability to realize the carrying amount. The initial goodwill and other intangibles recorded and subsequent impairment analysis require management to make subjective judgments concerning estimates of how the acquired asset will perform in the future. Events and factors that may significantly affect the estimates include, among others, customer attrition, changes in revenue growth trends, specific industry conditions and changes in competition.

Table of ContentsPart I (Continued)
Item 2 (Continued)

Overview

The following discussion and analysis presents the more significant factors affecting the Company's financial condition as of June 30, 2008 and 2007, and results of operations for each of the six months in the periods ended June 30, 2008 and 2007. This discussion and analysis should be read in conjunction with the Company's consolidated financial statements, notes thereto and other financial information appearing elsewhere in this report.

Taxable-equivalent adjustments are the result of increasing income from tax-free loans and investments by an amount equal to the taxes that would be paid if the income were fully taxable based on a 34 percent federal tax rate, thus making tax-exempt yields comparable to taxable asset yields.

Dollar amounts in tables are stated in thousands, except for per share amounts.

Results of Operations

The Company's results of operations are determined by its ability to effectively manage interest income and expense, to minimize loan and investment losses, to generate noninterest income and to control noninterest expense. Since market forces and economic conditions beyond the control of the Company determine interest rates, the ability to generate net interest income is dependent upon the Company's ability to obtain an adequate spread between the rate earned on earning assets and the rate paid on interest-bearing liabilities. Thus, the key performance for net interest income is the interest margin or net yield, which is taxable-equivalent net interest income divided by average earning assets. Net income totaled \$0.29 million, or \$0.04 diluted per common share, in three months ended June 30, 2008 compared to \$2.70 million, or \$0.38 diluted per common share, in three months ended June 30, 2007. Net income totaled \$2.51 million, or \$0.35 diluted per common share, in six months ended June 30, 2008 compared to \$5.18 million, or \$0.72 diluted per common share, in six months ended June 30, 2007.

Selected income statement data, returns on average assets and average equity and dividends per share for the comparable periods were as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Taxable-equivalent net interest income	\$ 9,119	\$ 10,916	\$ 18,818	\$ 21,446
Taxable-equivalent adjustment	76	91	170	170
Net interest income	9,043	10,825	18,648	21,276
Provision for possible loan losses	4,071	914	5,142	1,828
Noninterest income	3,034	2,056	5,405	4,166
Noninterest expense	7,714	7,965	15,471	15,874
Income before income taxes	292	4,002	3,440	7,740
Income Taxes	---	1,300	935	2,564

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

Net income	\$	292	\$	2,702	\$	2,505	\$	5,176
Net Income per common share:								
Basic	\$	0.04	\$	0.38	\$	0.35	\$	0.72
Diluted	\$	0.04	\$	0.38	\$	0.35	\$	0.72
Return on average assets		0.10%		0.90%		0.42%		0.86%
Return on average equity		1.36%		13.58%		5.86%		13.17%

31

Table of Contents

Part I (Continued)

Item 2 (Continued)

Income from operations for three months ended June 30, 2008 decreased \$2.41 million, or 89.19 percent, compared to the same period in 2007. The decrease was primarily the result of a \$1.78 million decrease in net interest income, an increase of \$0.98 million in noninterest income, an increase of \$3.16 million in provision for possible loan losses, a decrease of \$1.30 million in income taxes and a decrease of \$0.25 million in noninterest expense.

Net income for six months ended June 30, 2008 decreased \$2.67 million, or 51.6 percent compared to the same period in 2007. The decrease was primarily the result of a decrease of \$2.63 million in net interest income and an increase of \$3.31 million in provision for possible loan loss. This was offset by an increase of \$1.24 million in non-interest income, a decrease of \$0.40 in non-interest expense and a decrease of \$1.63 in income taxes.

Details of the changes in the various components of net income are further discussed below.

Net Interest Income

Net interest income is the difference between interest income on earning assets, such as loans and securities, and interest expense on liabilities, such as deposits and borrowings, which are used to fund those assets. Net interest income is the Company's largest source of revenue, representing 77.53 percent of total revenue for six months ended June 30, 2008 and 83.63 percent for the same period a year ago.

Net interest margin is the taxable-equivalent net interest income as a percentage of average earning assets for the period. The level of interest rates and the volume and mix of earning assets and interest-bearing liabilities impact net interest income and net interest margin.

The Federal Reserve Board influences the general market rates of interest, including the deposit and loan rates offered by many financial institutions. The Company's loan portfolio is significantly affected by changes in the prime interest rate. The prime interest rate, which is the rate offered on loans to borrowers with strong credit has ranged from 4.00 percent to 8.25 percent during 2001 to 2007. At year end 2007, the prime rate was 7.25 percent and with the 225 basis point reduction during the first half of 2008 the prime rate ended the quarter at 5.00 percent. The federal funds rate moved similar to prime rate with interest rates ranging from 1.00 percent to 5.25 percent during 2001 to 2007. At year end 2007, the federal funds rate was 4.25 percent and with the 225 basis point reduction during the first half of 2008 the federal funds rate ended the quarter at 2.00 percent. We anticipate the Federal Reserve holding interest rates at the current level the last half of 2008 with a bias toward tightening policy in 2009.

The following table presents the changes in taxable-equivalent net interest income and identifies the changes due to differences in the average volume of earning assets and interest-bearing liabilities and the changes due to changes in the average interest rate on those assets and liabilities. The changes in net interest income due to changes in both average volume and average interest rate have been allocated to the average volume change or the average interest rate change in proportion to the absolute amounts of the change in each. The Company's consolidated average balance sheets along with an analysis of taxable-equivalent net interest earnings are presented in the Quantitative and Qualitative Disclosures About Market Risk included elsewhere in this report.

Table of ContentsPart I (Continued)
Item 2 (Continued)

Rate/Volume Analysis

The rate/volume analysis presented hereafter illustrates the change from June 30, 2007 to June 30, 2008 for each component of the taxable equivalent net interest income separated into the amount generated through volume changes and the amount generated by changes in the yields/rates.

(\$ in thousands)	Changes from June 30, 2007 to June 30, 2008 (1)		
	Volume	Rate	Total
Interest Income			
Loans, Net-taxable	\$ 544	\$ (5,637)	\$ (5,093)
Investment Securities			
Taxable	---	170	170
Tax-exempt	(23)	11	(12)
Total Investment Securities	(23)	181	158
Interest-Bearing Deposits in other Banks	(33)	(22)	(55)
Federal Funds Sold	(539)	(189)	(728)
Other Interest - Earning Assets	21	(4)	17
Total Interest Income	(30)	(5,671)	(5,701)
Interest Expense			
Interest-Bearing Demand and Savings Deposits	96	(537)	(441)
Time Deposits	(1,214)	(1,478)	(2,692)
Federal Funds Purchased and Repurchase Agreements	48	(33)	15
Subordinated Debentures	(28)	(291)	(319)
Other Borrowed Money	446	(82)	364
Total Interest Expense	(652)	(2,421)	(3,073)
Net Interest Income	\$ 622	\$ (3,250)	\$ (2,628)

(1) Changes in net interest income for the periods, based on either changes in average balances or changes in average rates for interest-earning assets and interest-bearing liabilities, are shown on this table. During each year, there are numerous and simultaneous balance and rate changes; therefore, it is not possible to precisely allocate the changes between balances and rates. For the purpose of this table, changes that are not exclusively due to balance changes or rate changes have been attributed to rates.

Our financial performance is impacted by, among other factors, interest rate risk and credit risk. We do not utilize derivatives to mitigate our interest rate or credit risk, relying instead on an extensive loan review process and our allowance for loan losses.

Interest rate risk is the change in value due to changes in interest rates. The Company is exposed only to U.S. dollar interest rate changes and accordingly, the Company manages exposure by considering the possible changes in the net interest margin. The Company does not have any trading instruments nor does it classify any portion of its investment portfolio as held for trading. The Company does not engage in any hedging activity or utilize any derivatives. The Company has no exposure to foreign currency exchange rate risk, commodity price risk and other market risks. This risk is addressed by our Asset & Liability Management Committee (“ALCO”) which includes senior management representatives. The ALCO monitors interest rate risk by analyzing the potential impact of alternative strategies or changes in balance sheet structure.

Table of Contents

Part I (Continued)

Item 2 (Continued)

Interest rates play a major part in the net interest income of financial institutions. The repricing of interest earning assets and interest-bearing liabilities can influence the changes in net interest income. The timing of repriced assets and liabilities is Gap management and our Company has established its policy to maintain a Gap ratio in the one-year time horizon of 0.80 to 1.20.

Our exposure to interest rate risk is reviewed on at least a semiannual basis by our Board of Directors and the ALCO. Interest rate risk exposure is measured using interest rate sensitivity analysis to determine our change in net portfolio value in the event of assumed changes in interest rates, in order to reduce the exposure to interest rate fluctuations, we have implemented strategies to more closely match our balance sheet composition. We are generally focusing our investment activities on securities with terms or average lives in the 2-7 year range.

The Company maintains approximately 38.5 percent of its loan portfolio in adjustable rate loans that reprice with prime rate changes, while the bulk of its other loans mature within 3 years. The liabilities to fund assets are primarily in short term certificate of deposits that mature within one year. This balance sheet composition has allowed the Company to be relatively constant with its net interest margin the past several years, though the unprecedented 475 basis point decrease by U.S. Federal Reserve in 2001, 50 basis point decrease in 2002 and 25 basis point decrease in 2003 resulted in significant net interest margin pressure. During 2004 and 2005, interest rates increased 125 basis points and 200 basis points respectively, while another 100 basis point increase occurred during 2006, resulting in stable net interest margins. The 100 basis point decrease by the Federal Reserve in 2007 followed by 225 basis point decrease in first half 2008 resulted in significant pressure on net interest margins again. Net interest margin decreased to 3.34 percent for six months ended June 30, 2008 compared to 3.78 percent for the same period a year ago. We anticipate improved net interest margin the balance of 2008 given the Federal Reserve's present interest rate forecast of neutral to tightening for the balance of 2008.

Taxable-equivalent net interest income for six months ended June 30, 2008 decreased \$2.63 million, or 12.25 percent compared to the same period a year ago. The fluctuation between the comparable periods resulted from the negative impact of the significant decrease in interest rates. The average volume of earning assets during six months ended June 30, 2008 decreased almost \$9.49 million compared to the same period a year ago while over the same period the net interest margin decreased by 44 basis points from 3.78 percent to 3.34 percent. Growth in average earning assets during 2008 and 2007 was primarily in loans. The decrease in the net interest margin in 2008 was primarily the result of the general decrease in market interest rates and sluggish loan activity.

The average volume of loans increased \$12.7 million in six months ended June 30, 2008 compared to the same period a year ago. The average yield on loans decreased 119 basis points in six months ended June 30, 2008 compared to the same period a year ago. Funding for this growth was primarily provided by other borrowed money and reduction in Federal funds sold. The average volume of deposits decreased \$36.4 million in six months ended June 30, 2008 compared to the same period a year ago, with interest-bearing deposits decreasing \$38 million in six months ended June 30, 2008. Accordingly, the ratio of average interest-bearing deposits to total average deposits was 92.2 percent in six months ended June 30, 2008 compared to 92.6 percent in the same period a year ago. This deposit mix, combined with a general decrease in market rates, had the effect of (i) decreasing the average cost of total deposits by 48 basis points in six months ended June 30, 2008 compared to the same period a year ago and, (ii) mitigating a portion of the impact of decreasing yields on earning assets.

The Company's net interest spread, which represents the difference between the average rate earned on earning assets and the average rate paid on interest-bearing liabilities, was 2.96 percent in six months ended June 30, 2008 compared to 3.38 percent in the same period a year ago. The net interest spread, as well as the net interest margin, will be

impacted by future changes in short-term and long-term interest rate levels, as well as the impact from the competitive environment. A discussion of the effects of changing interest rates on net interest income is set forth in Quantitative and Qualitative Disclosures About Market Risk included elsewhere in this report.

Provision for Loan Losses

The provision for loan losses is determined by management as the amount to be added to the allowance for loan losses after net charge-offs have been deducted to bring the allowance to a level which, in management's best estimate, is necessary to absorb probable losses within the existing loan portfolio. The provision for loan losses totaled \$5.14 million in six months ended June 30, 2008 compared to \$1.83 million in the same period a year ago. See the section captioned "Allowance for Loan Losses" elsewhere in this discussion for further analysis of the provision for loan losses.

Table of ContentsPart I (Continued)
Item 2 (Continued)

Noninterest Income

The components of noninterest income were as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Service Charges on Deposit Accounts	\$ 1,173	\$ 1,214	\$ 2,338	\$ 2,332
Other Charges, Commissions and Fees	241	239	495	485
Other	832	315	1,045	625
Mortgage Fee Income	174	286	343	538
Securities Gains	614	2	1,184	186
Total	\$ 3,034	\$ 2,056	\$ 5,405	\$ 4,166

Total noninterest income for three months ended June 30, 2008 increased \$978 thousand, or 47.57 percent compared to the same period a year ago. Total noninterest income for six months ended June 30, 2008 increased \$1.24 million, or 29.74 percent, compared to the same year ago period. Growth in noninterest income was primarily in other income and securities gains. Changes in these items and the other components of noninterest income are discussed in more detail below.

Service Charges on Deposit Accounts. Service charges on deposit accounts for three months ended June 30, 2008 decreased \$41 thousand, or 3.38 percent, compared to the same period a year ago. Service charges on deposit accounts for the six months ended June 30, 2008 increased \$6 thousand, or 0.26 percent, compared to the same year ago period.

Mortgage Fee Income. Mortgage fee income for three months ended June 30, 2008 decreased \$112 thousand, or 39.16 percent, compared to the same period year ago. Mortgage fee income for six months ended June 30, 2008 decreased \$195 thousand, or 36.25 percent, compared to the same year ago period. The company anticipates fee income to continue to show a decrease over the previous year due to the current mortgage market and slowing economy.

All Other Noninterest Income. Other charges, commissions and fees and other income for three months ended June 30, 2008 was \$1.07 million compared to \$554 thousand in the same year ago period, or an increase of 93.7 percent. Other charges, commissions and fees, and other income for six months ended June 30, 2008 was \$1.54 million compared to \$1.11 million in the same year ago period, or an increase of 38.74 percent. The significant increase impacting both periods was gains realized of \$670 thousand resulting from the Company's unwinding of its position in \$19 million FHLB advances during second quarter 2008.

Securities Gains. The Company realized gains from the sale of securities of \$614 thousand in three months ended June 30, 2008 compared to \$2 thousand in the same year ago period and realized gains from the sale of securities of \$1.18 million in six months ended June 30, 2008 compared to \$186 thousand in the same year ago period.

Noninterest Expense

The components of noninterest expense were as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Salaries and Employee Benefits	\$ 4,029	\$ 4,687	\$ 8,432	\$ 9,229
Occupancy and Equipment	1,061	1,010	2,068	2,011
Other	2,624	2,268	4,971	4,634
Total	\$ 7,714	\$ 7,965	\$ 15,471	\$ 15,874

Table of Contents

Part I (Continued)

Item 2 (Continued)

Total noninterest expense for three months ended June 30, 2008 decreased \$251 thousand, or 3.15 percent, compared to the same period a year ago. Total noninterest expense for six months ended June 30, 2007 decreased \$403 thousand, or 2.54 percent, compared to the same period a year ago. These items and the changes in the various components of noninterest expense are discussed in more detail below.

Salaries and Employee Benefits. Salaries and employee benefits expense for three months ended June 30, 2008 decreased \$658 thousand, or 14.04 percent, compared to the same period a year ago. Salaries and employee benefits expense for the six months ended June 30, 2008 decreased \$797 thousand, or 8.64 percent, compared to the same year ago period. The slowing economy and lack of growth resulted in decreases in headcount as a result of normal attrition in both periods. In addition the bonus accrual for first half of 2008 was adjusted as projected payouts based on company performance the first half of 2008 are significantly below incentive plan targeted goals. These two areas are the primary factors for the decreased salary and employee benefits for the comparable periods.

Occupancy and Equipment. Occupancy and equipment expense has remained relatively flat in both periods with an increase of \$51 thousand for three months ended June 30, 2008 compared to the same year ago period and an increase of \$57 thousand for six months ended June 30, 2008 compared to the same year ago period.

All Other Non-Interest Expense. All other noninterest expense for three months ended June 30, 2008 increased \$356 thousand, or 15.70 percent compared to the same year ago period. All other noninterest expense for six months ended June 30, 2008 increased \$337 thousand, or 7.27 percent compared to the same year ago period. Significant increases impacting the comparable periods include the FDIC insurance assessment and consultation expenses. For the six months ended June 30, 2008, FDIC insurance assessments increased to \$263 thousand from \$82 thousand in the same year ago period, or an increase of 220.73 percent and consultation expense increased to \$484 thousand from \$164 thousand, or an increase of 195.12 percent. FDIC insurance premiums for the entire banking industry have been adjusted up by FDIC to reflect the insurance assessment increase, while the Company has engaged a consulting company to assist in a total bank performance assessment to account for the increase in consultation expenses. This assessment should result in enhanced revenue and operational cost reduction as the Company moves toward a centralized operational process.

Sources and Uses of Funds

The following table illustrates, during the years presented, the mix of the Company's funding sources and the assets in which those funds are invested as a percentage of the Company's average total assets for the period indicated. Average assets totaled \$1.188 billion in six months ended June 30, 2008 compared to \$1.199 billion in six months ended June 30, 2007.

Sources of Funds:	Six Months Ended June 30,			
	2008		2007	
Deposits:				
Noninterest-Bearing	\$ 77,602	6.53%	\$ 76,053	6.35%
Interest-Bearing	912,188	76.78	950,182	79.26
Federal Funds Purchased and Repo Agreements	3,233	0.27	1,413	0.12
Long-term Debt and Other Borrowings	103,345	8.70	84,030	7.01

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

Other Noninterest-Bearing Liabilities	6,150	0.52	8,534	0.71
Equity Capital	85,483	7.20	78,580	6.55
Total	\$ 1,188,001	100.00%	\$ 1,198,792	100.00%

Uses of Funds:

Loans	\$ 932,828	78.52%	\$ 923,301	77.02%
Securities	153,847	12.95	154,674	12.90
Federal Funds Sold	16,492	1.39	37,266	3.11
Interest-Bearing Deposits in Other Banks	1,604	0.13	2,867	0.24
Other Interest-Earning Assets	5,784	0.49	5,068	0.42
Other Noninterest-Earning Assets	77,446	6.52	75,616	6.31
Total	\$ 1,188,001	100.00%	\$ 1,198,792	100.00%

Table of Contents

Part I (Continued)

Item 2 (Continued)

Deposits continue to be the Company's primary source of funding. Over the comparable periods, the relative mix of deposits continues to be high in interest-bearing deposits. Interest-bearing deposits totaled 92.16 percent of total average deposits in six months ended June 30, 2008 compared to 92.59 percent in the same period a year ago.

The Company primarily invests funds in loans and securities. Loans continue to be the largest component of the Company's mix of invested assets. Total loans were \$954 million at June 30, 2008, up 0.95 percent, compared to loans of \$945 million at December 31, 2007. See additional discussion regarding the Company's loan portfolio in the section captioned "Loans" included elsewhere in this discussion. The majority of funds provided by deposit growth have been invested in loans.

Loans

The following table presents the composition of the Company's loan portfolio as of June 30, 2008 and December 31, 2007:

	June 30, 2008	December 31, 2007
Commercial, Financial and Agricultural	\$ 88,641	\$ 52,323
Real Estate		
Construction	183,168	211,484
Mortgage, Farmland	53,537	42,439
Mortgage, Other	568,316	544,655
Consumer	45,230	72,350
Other	15,395	22,028
	954,287	945,279
Unearned Interest and Fees	(213)	(301)
Allowance for Loan Losses	(17,466)	(15,513)
Loans	\$ 936,608	\$ 929,465

The following table presents total loans as of June 30, 2008 according to maturity distribution and/or repricing opportunity on adjustable rate loans:

Maturity and
Repricing
Opportunity (\$ in Thousands)

One Year or Less	\$ 617,243
After One Year through Three Years	271,753
After Three Years through Five Years	52,575
Over Five Years	12,716
	\$ 954,287

Overview. Loans totaled \$954.1 million at June 30, 2008, up 0.93 percent from December 31, 2007 loans of \$945.3 million. The majority of the Company's loan portfolio is comprised of the real estate loans-other, real estate construction and commercial, financial and agricultural. Real estate-other, which is primarily 1-4 family residential properties and nonfarm nonresidential properties, made up 59.55 percent and 57.62 percent of total loans, real estate construction made up 19.19 percent and 22.37 percent, while commercial, financial and agricultural made up 9.29 percent and 5.54 percent of total loans at June 30, 2008 and December 31, 2007, respectively.

Loan Origination/Risk Management. In accordance with the Company's decentralized banking model, loan decisions are made at the local bank level. The Company utilizes a Senior Credit Committee to assist lenders with the decision making and underwriting process of larger loan requests. Due to the diverse economic markets served by the Company, evaluation and underwriting criterion may vary slightly by bank. Overall, loans are extended after a review of the borrower's repayment ability, collateral adequacy, and overall credit worthiness.

Commercial purpose, commercial real estate, and industrial loans are underwritten similar to other loans throughout the company. The properties securing the Company's commercial real estate portfolio are diverse in terms of type and geographic location. This diversity helps reduce the Company's exposure to adverse economic events that affect any single market or industry. Management monitors and evaluates commercial real estate loans based on collateral, geography, and risk grade criteria. The Company also utilizes information provided by third-party agencies to provide additional insight and guidance about economic conditions and trends affecting the markets it serves.

Table of Contents

Part I (Continued)

Item 2 (Continued)

The Company extends loans to builders and developers that are secured by non-owner occupied properties. In such cases, the Company reviews the overall economic conditions and trends for each market to determine the desirability of loans to be extended for residential construction and development. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property or an interim mini-perm loan commitment from the Company until permanent financing is obtained. In some cases, loans are extended for residential loan construction for speculative purposes and are based on the perceived present and future demand for housing in a particular market served by the Company. These loans are monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, general economic conditions and trends, the demand for the properties, and the availability of long-term financing.

The Company originates consumer loans at the bank level. Due to the diverse economic markets served by the Company, underwriting criterion may vary slightly by bank. The Company is committed to serving the borrowing needs of all markets served and, in some cases, adjusts certain evaluation methods to meet the overall credit demographics of each market. Consumer loans represent relatively small loan amounts that are spread across many individual borrowers that helps minimize risk. Additionally, consumer trends and outlook reports are reviewed by management on a regular basis.

The Company maintains an independent loan review department that reviews and validates the credit risk program on a periodic basis. Results of these reviews are presented to management. The loan review process complements and reinforces the risk identification and assessment decisions made by lenders and credit personnel, as well as the Company's policies and procedures.

Commercial, Financial and Agricultural. Commercial, financial and agricultural loans at June 30, 2008 increased 69.4 percent from December 31, 2007 to \$88.6 million. The Company's commercial and industrial loans are a diverse group of loans to small, medium and large businesses. The purpose of these loans varies from supporting seasonal working capital needs to term financing of equipment. While some short-term loans may be made on an unsecured basis, most are secured by the assets being financed with collateral margins that are consistent with the Company's loan policy guidelines.

Collateral Concentrations. Lending is concentrated in commercial and real estate loans primarily 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 borrower's ability to honor their contracts is dependent upon the viability of the real estate economic sector.

Large Credit Relationships. Colony is currently in eighteen counties in middle and south Georgia which include metropolitan markets in Dougherty, Lowndes, Houston, Chatham and Muscogee counties. As a result, the Company originates and maintains large credit relationships with several commercial customers in the ordinary course of business. The Company considers large credit relationships to be those with commitments equal to or in excess of \$5.0 million prior to any portion being sold. Large relationships also include loan participations purchased if the credit relationship with the agent is equal to or in excess of \$5.0 million. In addition to the Company's normal policies and procedures related to the origination of large credits, the Company's Senior Credit Committee must approve all new and renewed credit facilities which are part of large credit relationships. The following table provides additional information on the Company's large credit relationships outstanding at period end.

	June 30, 2008			December 31, 2007		
	Number of Relationships	Period End Balances Committed	Period End Balances Outstanding	Number of Relationships	Period End Balances Committed	Period End Balances Outstanding
Large Credit Relationships:						
\$10 million and greater	2	\$ 30,032	\$ 19,512	3	\$ 38,957	\$ 23,441
\$5 million to \$9.9 million	11	\$ 68,845	\$ 66,301	15	\$ 92,595	\$ 89,677

Maturities and Sensitivities of Loans to Changes in Interest Rates. The following table presents the maturity distribution of the Company's loans at June 30, 2008. The table also presents the portion of loans that have fixed interest rates or variable interest rates that fluctuate over the life of the loans in accordance with changes in an interest rate index such as the prime rate.

Table of ContentsPart I (Continued)
Item 2 (Continued)

	Due in One Year or Less	After One, but Within Three Years	After Three, but Within Five Years	After Five Years	Total
Loans with fixed interest rates	\$ 253,442	\$ 269,403	\$ 52,508	\$ 12,378	\$ 587,731
Loans with floating interest rates	363,801	2,350	67	338	366,556
Total	\$ 617,243	\$ 271,753	\$ 52,575	\$ 12,716	\$ 954,287

The Company may renew loans at maturity when requested by a customer whose financial strength appears to support such renewal or when such renewal appears to be in the Company's best interest. In such instances, the Company generally requires payment of accrued interest and may adjust the rate of interest, require a principal reduction or modify other terms of the loan at the time of renewal.

Non-Performing Assets and Potential Problem Loans

Non-performing assets and accruing past due loans as of June 30, 2008 and December 31, 2007 were as follows:

	June 30, 2008	December 31, 2007
Loans accounted for on nonaccrual	\$ 17,953	\$ 14,956
Loans past due 90 days or more	---	60
Other real estate foreclosed	3,198	1,332
Total non-performing assets	\$ 21,151	\$ 16,348
Non-performing assets as a percentage of:		
Total loans and foreclosed assets	2.21%	1.73%
Total assets	1.75%	1.35%
Accruing past due loans:		
30-89 days past due	\$ 12,154	\$ 15,681
90 or more days past due	---	60
Total accruing past due loans	\$ 12,154	\$ 15,741

Non-performing assets include non-accrual loans, loans past due 90 days or more, restructured loans and foreclosed real estate. Non-performing assets at June 30, 2008 increased 29.38 percent from December 31, 2007.

Generally, loans are placed on non-accrual status if principal or interest payments become 90 days past due and/or management deems the collectibility of the principal and/or interest to be in question, as well as when required by regulatory requirements. Loans to a customer whose financial condition has deteriorated are considered for non-accrual status whether or not the loan is 90 days or more past due. For consumer loans, collectibility and loss are generally determined before the loan reaches 90 days past due. Accordingly, losses on consumer loans are recorded at the time they are determined. Consumer loans that are 90 days or more past due are generally either in liquidation/payment status or bankruptcy awaiting confirmation of a plan. Once interest accruals are discontinued, accrued but uncollected interest is charged to current year operations. Subsequent receipts on non-accrual loans are recorded as a reduction of principal, and interest income is recorded only after principal recovery is reasonably

assured. Classification of a loan as non-accrual does not preclude the ultimate collection of loan principal or interest.

Restructured loans are loans on which, due to deterioration in the borrower's financial condition, the original terms have been modified in favor of the borrower or either principal or interest has been forgiven.

Foreclosed assets represent property acquired as the result of borrower defaults on loans. Foreclosed assets are recorded at the lower of cost or estimated fair value, less estimated selling costs, at the time of foreclosure. Write-downs occurring at foreclosure are charged against the allowance for possible loan losses. On an ongoing basis, properties are appraised as required by market indications and applicable regulations. Write-downs are provided for subsequent declines in value and are included in other non-interest expense along with other expenses related to maintaining the properties.

Table of Contents

Part I (Continued)
Item 2 (Continued)

Allowance for Loan Losses

The allowance for loan losses is a reserve established through a provision for loan losses charged to expense, which represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio.

The allowance for loan losses includes allowance allocations calculated in accordance with SFAS No. 114, Accounting by Creditors for Impairment of a Loan, as amended by SFAS 118, and allowance allocations determined in accordance with SFAS No. 5, Accounting for Contingencies. The level of the allowance reflects management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management's judgment, should be charged off. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Company's control, including the performance of the Company's loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications. The company's allowance for loan losses consists of specific valuation allowances established for probable losses on specific loans and historical valuation allowances for other loans with similar risk characteristics.

The allowances established for probable losses on specific loans are based on a regular analysis and evaluation of classified loans. Loans are classified based on an internal credit risk grading process that evaluates, among other things: (i) the obligor's ability to repay; (ii) the underlying collateral, if any; and (iii) the economic environment and industry in which the borrower operates. This analysis is performed at the subsidiary bank level and is reviewed at the parent company level. Once a loan is classified, it is reviewed to determine whether the loan is impaired and, if impaired, a portion of the allowance for possible loan losses is specifically allocated to the loan. Specific valuation allowances are determined after considering the borrower's financial condition, collateral deficiencies, and economic conditions affecting the borrower's industry, among other things.

Historical valuation allowances are calculated from loss factors applied to loans with similar risk characteristics. The loss factors are based on loss ratios for groups of loans with similar risk characteristics. The loss ratios are derived from the proportional relationship between actual loan losses and the total population of loans in the risk category. The historical loss ratios are periodically updated based on actual charge-off experience. The Company's groups of similar loans include similarly risk-graded groups of loans not reviewed for individual impairment.

Management evaluates the adequacy of the allowance for each of these components on a quarterly basis. Peer comparisons, industry comparisons, and regulatory guidelines are also used in the determination of the general valuation allowance.

Loans identified as losses by management, internal loan review, and/or bank examiners are charged-off.

An allocation for loan losses has been made according to the respective amounts deemed necessary to provide for the possibility of incurred losses within the various loan categories. The allocation is based primarily on previous charge-off experience adjusted for changes in experience among each category. Additional amounts are allocated by evaluating the loss potential of individual loans that management has considered impaired. The reserve for loan loss allocation is subjective since it is based on judgment and estimates, and therefore is not necessarily indicative of the

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

specific amounts or loan categories in which the charge-offs may ultimately occur. The following table shows a comparison of the allocation of the reserve for loan losses for the periods indicated.

	June 30, 2008		December 31, 2007	
	Reserve	%*	Reserve	%*
Commercial, Financial and Agricultural	\$ 4,978	9%	\$ 3,645	6%
Real Estate – Construction	2,882	19%	2,560	22%
Real Estate – Farmland	699	6%	621	4%
Real Estate – Other	6,113	59%	5,430	58%
Loans to Individuals	1,834	5%	2,404	8%
All other Loans	960	2%	853	2%
Total	\$ 17,466	100%	\$ 15,513	100%

* Loan balance in each category expressed as a percentage of total end of period loans.

Table of ContentsPart I (Continued)
Item 2 (Continued)

Activity in the allowance for loan losses is presented in the following table. There were no charge-offs or recoveries related to foreign loans during any of the periods presented.

The following table presents an analysis of the Company's loan loss experience for the periods indicated.

(\$ in thousands)	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007
Allowance for Loan Losses at Beginning of Quarter	\$ 15,220	\$ 12,170
Charge-Off		
Commercial, Financial and Agricultural	411	81
Real Estate	1,479	208
Consumer	88	155
All Other	49	59
	2,027	503
Recoveries		
Commercial, Financial and Agricultural	44	3
Real Estate	112	4
Consumer	39	49
All Other	7	10
	202	66
Net Charge-Offs	1,825	437
Provision for Loan Losses	4,071	914
Allowance for Loan Losses at End of Quarter	\$ 17,466	\$ 12,647
Ratio of Net Charge-Offs to Average Loans	0.19%	0.05%

The allowance for loan losses is maintained at a level considered appropriate by management, based on estimated probable losses within the existing loan portfolio. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The provision for loan losses reflects loan quality trends, including the level of net charge-offs or recoveries, among other factors. The provision for loan losses increased \$3.16 million from \$914 thousand in three months ended June 30, 2007. Provisions were higher in 2008 compared to 2007 primarily due to the elevated risk of residential real estate and land development loans given the downturn in the real estate market that began in 2007. Nonperforming assets as a percentage of total loans and foreclosed assets increased to 2.21 percent at June 30, 2008 compared to 0.72 percent at June 30, 2007 and 1.73 percent at December 31, 2007.

Net charge-offs in three months ended June 30, 2008 increased \$1.39 million compared to the same period a year ago. Net charge-offs of 0.19 percent for second quarter 2008 annualizes to 0.76 percent for the year. Net charge-offs the past three years have averaged 0.30 percent; however, we anticipate an increase in 2008 as many problem credits are now being brought to resolution in this challenging credit environment.

Management believes the level of the allowance for loan losses was adequate as of June 30, 2008. Should any of the factors considered by management in evaluating the adequacy of the allowance for loan losses change, the Company's estimate of probable loan losses could also change, which could affect the level of future provisions for loan losses.

41

Table of ContentsPart I (Continued)
Item 2 (Continued)

The following table presents an analysis of the Company's loan loss experience for the periods indicated.

(\$ in thousands)	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Allowance for Loan Losses at Beginning of Quarter	\$ 15,513	\$ 11,989
Charge-Off		
Commercial, Financial and Agricultural	662	525
Real Estate	2,514	658
Consumer	230	196
All Other	52	106
	3,458	1,485
Recoveries		
Commercial, Financial and Agricultural	59	22
Real Estate	123	205
Consumer	68	71
All Other	19	17
	269	315
Net Charge-Offs	3,189	1,170
Provision for Loan Losses	5,142	1,828
Allowance for Loan Losses at End of Quarter	\$ 17,466	\$ 12,647
Ratio of Net Charge-Offs to Average Loans	0.34%	0.13%

The allowance for loan losses is maintained at a level considered appropriate by management, based on estimated probable losses within the existing loan portfolio. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The provision for loan losses reflects loan quality trends, including the level of net charge-offs or recoveries, among other factors. The provision for loan losses increased \$3.31 million from \$1,828 thousand in six months ended June 30, 2007 to \$5,142 thousand in six months ended June 30, 2008. Provisions increased during first half of 2008 primarily due to the elevated risk of residential real estate and land development loans given the downturn in the real estate market that began in 2007.

Net charge-offs in six months ended June 30, 2008 increased \$2,019 thousand compared to the same period a year ago. Net charge-offs of 0.34 percent for first half of 2008 that annualizes to 0.68 percent is above our net charge-off ratio for the past several years. We anticipate annual net charge-offs to be in the 0.70 to 0.80 percent range for 2008.

Management believes the level of the allowance for loan losses was adequate as of June 30, 2008. Should any of the factors considered by management in evaluating the adequacy of the allowance for loan losses change, the Company's estimate of probable loan losses could also change, which could affect the level of future provisions for loan losses.

Table of ContentsPart I (Continued)
Item 2 (Continued)

Investment Portfolio

The following table presents carrying values of investment securities held by the Company as of June 30, 2008 and December 31, 2007.

(\$ in thousands)	June 30, 2008	December 31, 2007
U.S. Government Agencies	\$ 3,405	\$ 37,096
State, County and Municipal	10,143	13,983
Corporate Obligations	4,768	5,787
Asset-Backed Securities	1,000	1,000
	19,316	57,866
Marketable Equity Securities	2	2
Mortgage Backed Securities	157,799	109,323
Total Investment Securities and Mortgage Backed Securities	\$ 177,117	\$ 167,191

The following table represents maturities and weighted-average yields of investment securities held by the Company as of June 30, 2008. (Mortgage backed securities are based on the average life at the projected speed, while Agencies, State and Political subdivisions and Corporates reflect anticipated calls being exercised.)

	Within 1 Year		After 1 Year But Within 5 Years		After 5 Years But Within 10 Years		After 10 Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U. S. Government Agencies	\$ 3,405	3.89%	\$ ---	---%	\$ ---	---%	\$ ---	---%
Mortgage Backed Securities	8,114	4.45	91,546	4.72	53,712	5.12	4,427	4.92
State, County and Municipal	1,416	4.12	3,322	5.49	3,587	5.80	1,818	5.10
Corporate Obligations	449	3.99	3,288	6.20	1,031	5.67	---	---
Marketable Securities	---	---	---	---	---	---	2	---
Asset-Backed Securities	---	---	1,000	6.33	---	---	---	---
Total Investment Portfolio	\$ 13,384	4.26%	\$ 99,156	4.81%	\$ 58,330	5.17%	\$ 6,247	4.97%

Securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income. The Company has 99.9 percent of its portfolio classified as available for sale.

At June 30, 2008, there were no holdings of any one issuer, other than the U.S. government and its agencies, in an amount greater than 10 percent of the Company's shareholders' equity.

The average yield of the securities portfolio was 4.92 percent in six months ended June 30, 2008 compared to 4.69 percent in the same period a year ago. The increase in the average yield over the comparable periods primarily resulted from reinvestment of proceeds from maturities and paydowns on mortgage-backed securities into higher yielding securities.

Table of ContentsPart I (Continued)
Item 2 (Continued)

Deposits

The following table presents the average amount outstanding and the average rate paid on deposits by the Company for the three month periods ended June 30, 2008 and June 30, 2007.

(\$ in thousands)	June 30, 2008		June 30, 2007	
	Average Amount	Average Rate	Average Amount	Average Rate
Noninterest-Bearing Demand Deposits	\$ 77,602		\$ 76,053	
Interest-Bearing Demand and Savings Deposits	222,169	1.65%	213,112	2.13%
Time Deposits	690,019	4.73%	737,070	5.16%
Total Deposits	\$ 989,790	3.67%	\$ 1,026,235	4.15%

The following table presents the maturities of the Company's time deposits as of June 30, 2008.

(\$ in thousands)	Time Deposits		Total
	\$100,000 or Greater	Time Deposits Less Than \$100,000	
Months to Maturity			
3 or Less	\$ 110,179	\$ 89,190	\$ 199,369
Over 3 through 12 Months	196,905	203,855	400,760
Over 12 Months through 36 Months	28,395	30,950	59,345
Over 36 Months	3,293	6,055	9,348
	\$ 338,772	\$ 330,050	\$ 668,822

Average deposits decreased \$36.4 million to \$990 million at June 30, 2008 from \$1,026 million at June 30, 2007. The decrease included an increase of \$1.55 million, or 2.04 percent, related to noninterest-bearing deposits. Accordingly the ratio of average noninterest-bearing deposits to total average deposits was 7.84 percent for six months ended June 30, 2008 compared to 7.41 percent for six months ended June 30, 2007. The general decrease in market rates, had the effect of (i) decreasing the average cost of total deposits by 48 basis points in six months ended June 30, 2008 compared to the same period a year ago; and (ii) mitigating a portion of the impact of decreasing yields on earning assets.

Total average interest-bearing deposits decreased \$38 million, or 4.00 percent in six months ended June 30, 2008 compared to the same period a year ago. The decline in average deposits at June 30, 2008 compared to June 30, 2007 was primarily in time accounts. With the current interest rate environment, it appears that many customers are looking for an alternative to invest their funds and are not choosing to maintain such funds in time accounts.

Off-Balance-Sheet Arrangements, Commitments, Guarantees, and Contractual Obligations

The following table summarizes the Company's contractual obligations and other commitments to make future payments as of June 30, 2008. Payments for borrowings do not include interest. Payments related to leases are based on actual payments specified in the underlying contracts. Loan commitments and standby letters of credit are presented at contractual amounts; however, since many of these commitments are expected to expire unused or only partially used, the total amounts of these commitments do not necessarily reflect future cash requirements.

44

Table of ContentsPart I (Continued)
Item 2 (Continued)

	Payments Due by Period					Total
	1 Year or Less	More than 1 Year but Less Than 3 Years	3 Years or More but Less Than 5 Years	5 Years or More		
Contractual obligations:						
Subordinated debentures	\$ ----	\$ ----	\$ ----	\$ 24,229	\$ 24,229	
Federal Funds purchased and repurchase agreements	16,465	20,000	----	----	36,465	
Other Borrowed money	600	----	----	----	600	
Federal Home Loan Bank advances	30,000	1,000	41,000	12,000	84,000	
Operating leases	126	179	158	31	494	
Deposits with stated maturity dates	600,129	59,345	9,228	120	668,822	
	647,320	80,524	50,386	36,380	814,610	
Other commitments:						
Loan commitments	87,385	----	----	----	87,385	
Standby letters of credit	2,651	----	----	----	2,651	
Construction contracts	698	----	----	----	698	
	90,734	----	----	----	90,734	
Total contractual obligations and Other commitments	\$ 738,054	\$ 80,524	\$ 50,386	\$ 36,380	\$ 905,344	

In the ordinary course of business, the Company enters into off-balance sheet financial instruments which are not reflected in the consolidated financial statements. These instruments include commitments to extend credit, standby letters of credit, performance letters of credit, guarantees and liability for assets held in trust. Such financial instruments are recorded in the financial statements when funds are disbursed or the instruments become payable. The Company uses the same credit policies for these off-balance sheet financial instruments as they do for instruments that are recorded in the consolidated financial statements.

Loan Commitments. The Company enters into contractual commitments to extend credit, normally with fixed expiration dates or termination clauses, at specified rates and for specific purposes. Substantially all of the Company's commitments to extend credit are contingent upon customers maintaining specific credit standards at the time of loan funding. The Company minimizes its exposure to loss under these commitments by subjecting them to credit approval and monitoring procedures. Management assesses the credit risk associated with certain commitments to extend credit in determining the level of the allowance for possible loan losses. Loan commitments outstanding at June 30, 2008 are included in the table above.

Standby Letters of Credit. Letters of credit are written conditional commitments issued by the Company to guarantee the performance of a customer to a third party. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Company would be required to fund the commitment. The maximum potential amount of future payments the Company could be required to make is represented by the contractual amount of the commitment. If the commitment is funded, the Company would be entitled to seek recovery from the customer. The Company's policies generally require that standby letters of credit arrangements contain security and debt

covenants similar to those contained in loan agreements. Standby letters of credit outstanding at June 30, 2008 are included in the table above.

Capital and Liquidity

At June 30, 2008, stockholders' equity totaled \$83.82 million compared to \$83.74 million at December 31, 2007. In addition to net income of \$2.51 million, other significant changes in stockholders' equity during six months ended June 30, 2008 included \$1.41 million of dividends declared and an increase of \$0.11 million resulting from the amortization of the stock grant plan. The accumulated other comprehensive income (loss) component of stockholders' equity totaled \$(820) thousand at June 30, 2008 compared to \$272 thousand at December 31, 2007. This fluctuation was mostly related to the after-tax effect of changes in the fair value of securities available for sale. Under regulatory requirements, the unrealized gain or loss on securities available for sale does not increase or reduce regulatory capital and is not included in the calculation of risk-based capital and leverage ratios. Regulatory agencies for banks and bank holding companies utilize capital guidelines designed to measure Tier 1 and total capital and take into consideration the risk inherent in both on-balance sheet and off-balance sheet items. Tier 1 capital consists of common stock and qualifying preferred stockholders' equity less goodwill. Tier 2 capital consists of certain convertible, subordinated and other qualifying debt and the allowance for loan losses up to 1.25 percent of risk-weighted assets. The Company has no Tier 2 capital other than the allowance for loan losses and gain on marketable equity securities.

Table of Contents

Part I (Continued)

Item 2 (Continued)

Using the capital requirements presently in effect, the Tier 1 ratio as of June 30, 2008 was 11.14 percent and total Tier 1 and 2 risk-based capital was 12.40 percent. Both of these measures compare favorably with the regulatory minimum of 4 percent for Tier 1 and 8 percent for total risk-based capital. The Company's Tier 1 leverage ratio as of June 30, 2008 was 8.90 percent, which exceeds the required ratio standard of 4 percent.

For six months ended June 30, 2008, average capital was \$85.5 million, representing 7.20 percent of average assets for the year. This compares to 6.55 percent for six months ended June 30, 2007 and 6.69 percent for calendar year 2007.

The Company declared cash dividends of \$0.195 per common share during the first half of 2008, and a cash dividend of \$0.1775 per common share during the first half of 2007, respectively. This equates to a dividend payout ratio of 55.71 percent for first half 2008 compared to 24.65 percent for the same period a year ago.

The Company, primarily through the actions of its subsidiary banks, engages in liquidity management to ensure adequate cash flow for deposit withdrawals, credit commitments and repayments of borrowed funds. Needs are met through loan repayments, net interest and fee income and the sale or maturity of existing assets. In addition, liquidity is continuously provided through the acquisition of new deposits, the renewal of maturing deposits and external borrowings.

Management monitors deposit flow and evaluates alternate pricing structures to retain and grow deposits. To the extent needed to fund loan demand, traditional local deposit funding sources are supplemented by the use of FHLB borrowings, brokered deposits and other wholesale deposit sources outside the immediate market area. Internal policies have been updated to monitor the use of various core and non-core funding sources, and to balance ready access with risk and cost. Through various asset/liability management strategies, a balance is maintained among goals of liquidity, safety and earnings potential. Internal policies that are consistent with regulatory liquidity guidelines are monitored and enforced by the banks.

The investment portfolio provides a ready means to raise cash if liquidity needs arise. As of June 30 2008, the Company held \$177 million in bonds (excluding FHLB stock), at current market value in the available for sale portfolio. At December 31, 2007, the available for sale bond portfolio totaled \$167 million. Only marketable investment grade bonds are purchased. Although most of the banks' bond portfolios are encumbered as pledges to secure various public funds deposits, repurchase agreements, and for other purposes, management can restructure and free up investment securities for a sale if required to meet liquidity needs.

Management continually monitors the relationship of loans to deposits as it primarily determines the Company's liquidity posture. Colony had ratios of loans to deposits of 97.7 percent as of June 30, 2008 and 92.8 percent at December 31, 2007. Management employs alternative funding sources when deposit balances will not meet loan demands. The ratios of loans to all funding sources (excluding Subordinated Debentures) at June 30, 2008 and December 31, 2007 were 86.9 percent and 86.4 percent, respectively. Management continues to emphasize programs to generate local core deposits as our Company's primary funding sources. The stability of the banks' core deposit base is an important factor in Colony's liquidity position. A heavy percentage of the deposit base is comprised of accounts of individuals and small business with comprehensive banking relationships and limited volatility. At June 30, 2008 and December 31, 2007, the banks had \$338.8 million and \$347.2 million in certificates of deposit of \$100,000 or more. These larger deposits represented 34.70 percent and 34.09 percent of respective total deposits. Management seeks to monitor and control the use of these larger certificates, which tend to be more volatile in nature, to ensure an adequate supply of funds as needed. Relative interest costs to attract local core relationships are compared to market rates of interest on various external deposit sources to help minimize the Company's overall cost of funds.

Local market deposit sources proved insufficient to fund the strong loan growth trends at Colony over the past several years. The Company supplemented deposit sources with brokered deposits. As of June 30, 2008, the Company had \$63.3 million, or 6.49 percent of total deposits, in brokered certificates of deposit attracted by external third parties. Additionally, the banks use external wholesale or Internet services to obtain out-of-market certificates of deposit at competitive interest rates when funding is needed.

To plan for contingent sources of funding not satisfied by both local and out-of-market deposit balances, Colony and its subsidiaries have established multiple borrowing sources to augment their funds management. The Company has borrowing capacity through membership of the Federal Home Loan Bank program. The banks have also established overnight borrowing for Federal Funds Purchased through various correspondent banks. Management believes the various funding sources discussed above are adequate to meet the Company's liquidity needs in the future without any material adverse impact on operating results.

Table of Contents

Part I (Continued)

Item 2 (Continued)

Liquidity measures the ability to meet current and future cash flow needs as they become due. The liquidity of a financial institution reflects its ability to meet loan requests, to accommodate possible outflows in deposits and to take advantage of interest rate market opportunities. The ability of a financial institution to meet its current financial obligations is a function of balance sheet structure, the ability to liquidate assets, and the availability of alternative sources of funds. The Company seeks to ensure its funding needs are met by maintaining a level of liquid funds through asset/liability management.

Asset liquidity is provided by liquid assets which are readily marketable or pledgeable or which will mature in the near future. Liquid assets include cash, interest-bearing deposits in banks, securities available for sale, maturities and cash flow from securities held to maturity, and federal funds sold and securities purchased under resale agreements.

Liability liquidity is provided by access to funding sources which include core deposits. Should the need arise; the Company also maintains relationships with the Federal Home Loan Bank and several correspondent banks that can provide funds on short notice. Since Colony is a holding company and does not conduct operations, its primary sources of liquidity are dividends up streamed from subsidiary banks and borrowings from outside sources.

The liquidity position of the Company is continuously monitored and adjustments are made to the balance between sources and uses of funds as deemed appropriate. Management is not aware of any events that are reasonably likely to have a material adverse effect on the Company's liquidity, capital resources or operations. In addition, management is not aware of any regulatory recommendations regarding liquidity, which if implemented, would have a material adverse effect on the Company.

Impact of Inflation and Changing Prices

The Company's financial statements included herein have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). GAAP presently requires the Company to measure financial position and operating results primarily in terms of historic dollars. Changes in the relative value of money due to inflation or recession are generally not considered. The primary effect of inflation on the operations of the Company is reflected in increased operating costs. In management's opinion, changes in interest rates affect the financial condition of a financial institution to a far greater degree than changes in the inflation rate. While interest rates are greatly influenced by changes in the inflation rate, they do not necessarily change at the same rate or in the same magnitude as the inflation rate. Interest rates are highly sensitive to many factors that are beyond the control of the Company, including changes in the expected rate of inflation, the influence of general and local economic conditions and the monetary and fiscal policies of the United States government, its agencies and various other governmental regulatory authorities, among other things, as further discussed in the next section.

Regulatory and Economic Policies

The Company's business and earnings are affected by general and local economic conditions and by the monetary and fiscal policies of the United States government, its agencies and various other governmental regulatory authorities, among other things. The Federal Reserve Board regulates the supply of money in order to influence general economic conditions. Among the instruments of monetary policy available to the Federal Reserve Board are (i) conducting open market operations in United States government obligations, (ii) changing the discount rate on financial institution borrowings, (iii) imposing or changing reserve requirements against financial institution deposits, and (iv) restricting certain borrowings and imposing or changing reserve requirements against certain borrowing by financial institutions and their affiliates. These methods are used in varying degrees and combinations to affect directly the availability of

bank loans and deposits, as well as the interest rates charged on loans and paid on deposits. For that reason alone, the policies of the Federal Reserve Board have a material effect on the earnings of the Company.

Governmental policies have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future; however, the Company cannot accurately predict the nature, timing or extent of any effect such policies may have on its future business and earnings.

Recently Issued Accounting Pronouncements

See Note 1 – Summary of Significant Accounting Policies, under the section headed Changes in Accounting Principles and Effects of New Accounting Pronouncements included in the Notes to Consolidated Financial Statements.

Table of ContentsPart I (Continued)
Item 2 (Continued)

Return on Assets and Stockholders' Equity

The following table presents selected financial ratios for each of the periods indicated.

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2008	2007	2008	2007
Return on Assets	0.10%	0.91%	0.42%	0.86%
Return on Equity	1.36%	13.58%	5.86%	13.17%
Dividend Payout	243.75%	23.68%	55.71%	24.65%
Avg. Equity to Avg. Assets	7.23%	6.67%	7.20%	6.55%
Dividends Declared	\$ 0.0975	\$ 0.09	\$ 0.195	\$ 0.1775

Future Outlook

Colony is an emerging company in an industry filled with nonregulated competitors and a rapid pace of consolidation. The year brings with it new opportunities for growth in our existing markets, as well as opportunities to expand into new markets through acquisitions and denovo branching. Entry into the MSA markets – Savannah, Albany, Columbus, Warner Robins, and Valdosta – will require multi-branch offices and the Company is presently looking for available real estate to purchase in those markets. Presently Colony is constructing its second office in Savannah with October 1, 2008 targeted for opening the office. Likewise, Colony has secured real estate in the Albany market for another office though no established date for construction has been set. Colony is currently operating with seven separate bank charters and to gain efficiencies in operations has approved a merger of the seven charters into a single charter with a target date of August 1, 2008. The single bank charter will allow for standardization and consistency in the products we offer and the services that we deliver. We believe it will enhance our ability to manage risk within the company. The surviving charter will be Colony Bank and with initiatives to enhance revenues and reduce operational overhead, this should positively impact our bottom-line.

BUSINESS

General

The Company was organized in 1983 as a bank holding company through the merger of Colony Bank of Fitzgerald with a subsidiary of the Company. Since that time, Colony Bank of Fitzgerald, which was formed by principals of Colony Bankcorp, Inc. in 1976, has operated as a wholly-owned subsidiary of the Company. In April 1984, Colony

Bankcorp, Inc. acquired Colony Bank Wilcox, and in November 1984, Colony Bank Ashburn became a wholly-owned subsidiary of Colony Bankcorp, Inc. Colony Bankcorp, Inc. continued its growth with the acquisition of Colony Bank of Dodge County in September 1985. In August 1991, Colony Bankcorp, Inc. acquired Colony Bank Worth. In November 1996, Colony Bankcorp, Inc. acquired Colony Bank Southeast and in November 1996 formed a non-bank subsidiary Colony Management Services, Inc. In March 2002, Colony Bankcorp, Inc. acquired Colony Bank Quitman, FSB and also formed Colony Bankcorp Statutory Trust I. In December 2002, Colony formed its second trust, Colony Bankcorp Statutory Trust II. In September 2004, Colony formed its third Trust, Colony Bankcorp Statutory Trust III. In April 2006, Colony formed its fourth Trust, Colony Bankcorp Capital Trust I. In March 2007, Colony formed its fifth Trust, Colony Bankcorp Capital Trust II, while it liquidated its first Trust, Colony Bankcorp Statutory Trust I by exercising its call option. In September 2007, Colony formed its sixth Trust, Colony Bankcorp Capital Trust III and liquidated its second Trust, Colony Bankcorp Statutory Trust II by exercising its call option in December 2007.

Through its seven subsidiary banks, Colony Bankcorp, Inc. operates a full-service banking business and offers a broad range of retail and commercial banking services including checking, savings, NOW accounts, money market and time deposits of various types; loans for business, agriculture, real estate, personal uses, home improvement and automobiles; credit card; letters of credit; investment and discount brokerage services; IRA's; safe deposit box rentals, bank money orders; electronic funds transfer services, including wire transfers and automated teller machines and internet accounts. Each of the Banks is a member of Federal Deposit Insurance Corporation whose customer deposits are insured up to applicable limits by the Federal Deposit Insurance Corporation.

Table of Contents

Part I (Continued)
Item 2 (Continued)

On April 2, 1998, the Company was listed on Nasdaq National Market. The Company's common stock trades on the Nasdaq Stock Market under the symbol "CBAN". The Company presently has approximately 2,008 shareholders as of June 30, 2008. "The Nasdaq Stock Market" or "Nasdaq" is a highly-regulated electronic securities market comprised of competing Market Makers whose trading is supported by a communications network linking them to quotation dissemination, trade reporting and order execution systems. This market also provides specialized automation services for screen-based negotiations of transactions, on-line comparison of transactions, and a range of informational services tailored to the needs of the securities industry, investors and issuers. The Nasdaq Stock Market is operated by The Nasdaq Stock Market, Inc., a wholly-owned subsidiary of the National Association of Securities Dealers, Inc.

Table of Contents

Part I (Continued)

Item 3

Item 3 - Quantitative and Qualitative Disclosures About Market Risk

AVERAGE BALANCE

SHEETS

(\$ in thousands)	Six Months Ended June 30, 2008			Six Months Ended June 30, 2007		
	Average Balances	Income/ Expense	Yields/ Rates	Average Balances	Income/ Expense	Yields/ Rates
Assets						
Interest-Earning Assets						
Loans, Net of Unearned Interest and fees						
Taxable (1)	\$ 948,432	\$ 35,153	7.41%	\$ 935,774	\$ 40,246	8.60%
Investment Securities						
Taxable	142,657	3,466	4.86%	142,650	3,296	4.62%
Tax-Exempt (2)	11,190	318	5.68%	12,024	330	5.49%
Total Investment Securities	153,847	3,784	4.92%	154,674	3,626	4.69%
Interest-Bearing Deposits	1,604	20	2.49%	2,867	75	5.23%
Federal Funds Sold	16,492	239	2.90%	37,266	967	5.19%
Interest-Bearing Other Assets	5,784	166	5.74%	5,068	149	5.88%
Total Interest-Earning Assets	1,126,159	\$ 39,362	6.99%	1,135,649	\$ 45,063	7.94%
Non-interest-Earning Assets						
Cash and Cash Equivalents	21,512			21,594		
Allowance for Loan Losses	(15,604)			(12,473)		
Other Assets	55,934			54,022		
Total Noninterest-Earning Assets	61,842			63,143		
Total Assets	\$ 1,188,001			\$ 1,198,792		
Liabilities and Stockholders' Equity						
Interest-Bearing Liabilities						
Interest-Bearing Deposits						
Interest-Bearing Demand and Savings						
	\$ 222,169	\$ 1,828	1.65%	\$ 213,112	\$ 2,269	2.13%
Other Time	690,019	16,319	4.73%	737,070	19,011	5.16%
Total Interest-Bearing Deposits	912,188	18,147	3.98%	950,182	21,280	4.48%
Other Interest-Bearing Liabilities						
Other Borrowed Money	79,116	1,679	4.24%	59,083	1,315	4.45%
Subordinated Debentures	24,229	666	5.50%	24,947	985	7.90%
Federal Funds Purchased and Repurchase Agreements	3,233	52	3.22%	1,413	37	5.24%
Total Other Interest-Bearing Liabilities	106,578	2,397	4.50%	85,443	2,337	5.47%
Total Interest-Bearing Liabilities	1,018,766	\$ 20,544	4.03%	1,035,625	\$ 23,617	4.56%

Noninterest-Bearing Liabilities
and

Stockholders' Equity			
Demand Deposits	77,602		76,053
Other Liabilities	6,150		8,534
Stockholders' Equity	85,483		78,580
Total Noninterest-Bearing Liabilities and Stockholders' Equity	169,235		163,167
Total Liabilities and Stockholders' Equity	\$ 1,188,001		\$ 1,198,792
Interest Rate Spread		2.96%	3.38%
Net Interest Income	\$ 18,818		\$ 21,446
Net Interest Margin		3.34%	3.78%

- (1) The average balance of loans includes the average balance of nonaccrual loans. Income on such loans is recognized and recorded on the cash basis. Taxable equivalent adjustments totaling \$62 and \$58 for six month periods ended June 30, 2008 and 2007, respectively, are included in tax-exempt interest on loans.
- (2) Taxable-equivalent adjustments totaling \$108 and \$112 for six month periods ended June 30, 2008 and 2007, respectively, are included in tax-exempt interest on investment securities. The adjustments are based on a federal tax rate of 34 percent with appropriate reductions for the effect of disallowed interest expense incurred in carrying tax-exempt obligations.

Table of ContentsPart I (Continued)
Item 3 (Continued)Colony Bankcorp, Inc. and Subsidiary
Interest Rate Sensitivity

The following table is an analysis of the Company's interest rate-sensitivity position at June 30, 2008. The interest-bearing rate-sensitivity gap, which is the difference between interest-earning assets and interest-bearing liabilities by repricing period, is based upon maturity or first repricing opportunity, along with a cumulative interest rate-sensitivity gap. It is important to note that the table indicates a position at a specific point in time and may not be reflective of positions at other times during the year or in subsequent periods. Major changes in the gap position can be, and are, made promptly as market outlooks change.

	Assets and Liabilities Repricing Within					
	3 Months or Less	4 to 12 Months	1 to 5 1 Year	Over 5 Years	Years	Total
(\$ in Thousands)						
EARNING ASSETS:						
Interest-Bearing Deposits	\$ 1,783	\$ ---	\$ 1,783	---	\$ 1,783	
Federal Funds Sold	5,579	---	5,579	---	5,579	
Investment Securities	8,546	8,493	17,039	107,644	52,434	177,117
Loans, Net of Unearned Income	451,066	166,070	617,136	324,222	12,716	954,074
Other Interest-Bearing Assets	6,092	---	6,092	---	6,092	
Total Interest-Earning Assets	473,066	174,563	647,629	431,866	65,150	1,144,645
INTEREST-BEARING LIABILITIES:						
Interest-Bearing Demand						
Deposits (1)	196,261	---	196,261	---	196,261	
Savings (1)	35,293	---	35,293	---	35,293	
Time Deposits	199,369	400,760	600,129	68,573	120	668,822
Other Borrowings (2)	6,600	27,000	33,600	42,000	9,000	84,600
Subordinated Debentures	24,229	---	24,229	---	24,229	
Federal Funds Purchased	16,465	---	16,465	---	16,465	
Repurchase Agreements	---	---	---	---	20,000	
Total Interest-Bearing Liabilities	478,217	427,760	905,977	130,573	9,120	1,045,670
Interest Rate-Sensitivity Gap	(5,151)	(253,197)	(258,348)	301,293	56,030	98,975
Cumulative						
Interest-Sensitivity Gap	(5,151)	(258,348)	(258,348)	42,945	98,975	

Interest Rate-Sensivity Gap

as a Percentage of Interest-Earning Assets	(0.45%)	(22.12%)	(22.57%)	26.32%	4.89%
---	---------	----------	----------	--------	-------

Cumulative Interest
Rate-Sensitivity as as a
Percentage of

Interest-Earning Assets	(0.45%)	(22.57%)	(22.57%)	3.75%	8.65%
-------------------------	---------	----------	----------	-------	-------

(1) Interest-bearing Demand and Savings Accounts for repricing purposes are considered to reprice within 3 months or less.

(2) Short-term borrowings for repricing purposes are considered to reprice within 3 months or less.

Table of Contents

Part I (Continued)

Item 3 (Continued)

The foregoing table indicates that we had a one year negative gap of (\$258) million, or (22.57) percent of total assets at June 30, 2008. In theory, this would indicate that at June 30, 2008, \$258 million more in liabilities than assets would reprice if there were a change in interest rates over the next 365 days. Thus, if interest rates were to increase, the gap would indicate a resulting decrease in net interest margin. However, changes in the mix of earning assets or supporting liabilities can either increase or decrease the net interest margin without affecting interest rate sensitivity. In addition, the interest rate spread between an asset and our supporting liability can vary significantly while the timing of repricing of both the assets and our supporting liability can remain the same, thus impacting net interest income. This characteristic is referred to as a basis risk and, generally, relates to the repricing characteristics of short-term funding sources such as certificates of deposits.

Gap analysis has certain limitations. Measuring the volume of repricing or maturing assets and liabilities does not always measure the full impact on the portfolio value of equity or net interest income. Gap analysis does not account for rate caps on products; dynamic changes such as increasing prepay speeds as interest rates decrease, basis risk, or the benefit of non-rate funding sources. The majority of our loan portfolio reprices quickly and completely following changes in market rates, while non-term deposit rates in general move slowly and usually incorporate only a fraction of the change in rates. Products categorized as non-rate sensitive, such as our noninterest-bearing demand deposits, in the gap analysis behave like long term fixed rate funding sources. Both of these factors tend to make our actual behavior more asset sensitive than is indicated in the gap analysis. In fact, we experience higher net interest income when rates rise, opposite what is indicated by the gap analysis. In fact, during the recent period of declines in interest rates, our net interest margin has declined. Therefore, management uses gap analysis, net interest margin analysis and market value of portfolio equity as our primary interest rate risk management tools.

The Company utilizes SunTrust Asset/Liability Management Analysis for a more dynamic analysis of balance sheet structure. The Company has established earnings at risk for net-interest income in a +/- 200 basis point rate shock to be no more than a fifteen percent decline. The most recent analysis as of March 31, 2008 indicates that net interest income would deteriorate 10.71 percent with a 200 basis point decrease and would improve 6.41 percent with a 200 basis point increase. The Company has established equity at risk in a +/- 200 basis points rate shock to be no more than a twenty percent decline. The most recent analysis as of March 31, 2008 indicates that net economic value of equity percentage change would decrease 3.33 percent with a 200 basis point increase and would decrease 15.05 percent with a 200 basis point decrease. The Company has established its one year gap to be 0.80 percent to 1.20 percent. The most recent analysis as of March 31, 2008 indicates a one year gap of 0.97 percent. The analysis suggests net interest margin compression in a declining interest rate environment. Given that interest rates are at or near its bottom, the Company is focusing on areas to minimize margin compression in the future. These include extending on the liability side of the balance with FHLB advances and longer-term time deposits. With the anticipation of rates going up in late 2008 or early 2009, we will look at security investments in the shorter term (2-4 years) and look to book loans with an adjustable rate.

Table of Contents

Part I (Continued)

Item 4

CONTROLS AND PROCEDURES

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and the Principal Financial and Accounting Officer of the design and operation of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Principal Financial and Accounting Officer concluded that the disclosure controls and procedures are effective.

53

Table of Contents

PART II – OTHER INFORMATION

ITEM 1 – LEGAL PROCEEDINGS

None

ITEM 1A – RISK FACTORS

During the period covered by this report, there have been no material changes from risk factors as previously disclosed in the registrant's Form 10-K filed on March 14, 2008 in response to Item 1A to Part I of Form 10-K.

ITEM 2 – UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3 – DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4 – SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS (ANNUAL MEETING)

The annual meeting of the shareholders of the Company was held on April 24, 2008. At the Annual Meeting of the Shareholders, proxies were solicited under Regulation 14 of the Securities and Exchange Act of 1934. Total shares eligible to vote amounted to 7,216,113. A total of 5,216,544.58 shares (72.29%) were represented by shareholders in attendance or by proxy. The following directors were elected to serve one year until the next annual meeting:

	For	Against
Morris Downing	5,105,653.32	110,891.26
Dan Minix	5,110,654.32	105,890.26
Jonathan Ross	5,098,054.32	118,490.26
Jerry Harrell	5,012,327.32	204,217.26
Terry Hester	5,105,653.32	110,891.26
Terry Coleman	5,110,526.32	106,018.26
Gene Waldron	5,105,654.32	110,890.26
Bill Roberts	5,106,054.32	110,490.26
Al Ross	5,105,654.32	110,890.26
Charles Myler	5,110,654.32	105,890.26
Mark Massee	5,105,654.32	110,890.26

ITEM 5 – OTHER INFORMATION

None

54

Table of Contents

Part II (Continued)

Item 6

ITEM 6 – EXHIBITS

3.1 Articles of Incorporation

-filed as Exhibit 3(a) to the Registrant's Registration Statement on Form 10 (File No. 0-18486), filed with the Commission on April 25, 1990 and incorporated herein by reference

3.2 Bylaws, as Amended

-filed as Exhibit 3(b) to the Registrant's Registration Statement on Form 10 (File No. 0-18486), filed with the Commission on April 25, 1990 and incorporated herein by reference

4.1 Instruments Defining the Rights of Security Holders

-incorporated herein by reference to page 1 of the Company's Definitive Proxy Statement for Annual Meeting of Stockholders to be held on April 27, 2004, filed with the Securities and Exchange Commission on March 3, 2004 (File No. 000-12436)

10.1 Deferred Compensation Plan and Sample Director Agreement

-filed as Exhibit 10(a) to the Registrant's Registration Statement on Form 10 (File No. 0-18486), filed with the Commission on April 25, 1990 and incorporated herein by reference

10.2 Profit-Sharing Plan Dated January 1, 1979

-filed as Exhibit 10(b) to the Registrant's Registration Statement on Form 10 (File No. 0-18486), filed with the Commission on April 25, 1990 and incorporated herein by reference

10.3 1999 Restricted Stock Grant Plan and Restricted Stock Grant Agreement

-filed as Exhibit 10(c) the Registrant's Annual Report on Form 10-K (File No. 000-12436), filed with the Commission on March 30, 2001 and incorporated herein by reference

10.4 2004 Restricted Stock Grant Plan and Restricted Stock Grant Agreement

-filed as Exhibit C to the Registrant's Definitive Proxy Statement for Annual Meeting of Shareholders held on April 27, 2004, filed with the Securities and Exchange Commission on March 3, 2004 (File No. 000-12436) and incorporated herein by reference

10.5 Lease Agreement – Mobile Home Tracts, LLC c/o Stafford Properties, Inc. and Colony Bank Worth

-filed as Exhibit 10.5 to the Registrant's Quarterly Report on Form 10Q (File No. 000-12436), filed with Securities and Exchange Commission on November 5, 2004 and incorporated herein by reference

11.1 Statement of Computation of Earnings Per Share

31.1 Certificate of Chief Executive Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002

31.2 Certificate of Chief Financial Officer Pursuant to Section 302 of Sarbanes – Oxley Act of 2002

32.1 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

55

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 8, 2008
/s/ Al D. Ross
Al D. Ross,
President and Chief Executive Officer

Date: August 8, 2008
/s/ Terry L. Hester
Terry L. Hester, Executive Vice President and
Chief Financial Officer