

COLONY BANKCORP INC  
Form 10-Q  
May 09, 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 MARCH 31, 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  NO

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  ACCELERATED FILER   
NON ACCELERATED FILER  (DO NOT CHECK IF A SMALLER SMALLER REPORTING

REPORTING COMPANY)

COMPANY "

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

YES " NO x

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

CLASS	OUTSTANDING AT MAY 8, 2008
COMMON STOCK, \$1 PAR VALUE	7,216,113

---

---

---

## TABLE OF CONTENTS

	Page
PART I – Financial Information	
<u>Forward Looking Statement Disclosure</u>	3
Item 1. <u>Financial Statements</u>	4
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operation</u>	29
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	48
Item 4. <u>Controls and Procedures</u>	51
PART II – Other Information	
Item 1. <u>Legal Proceedings</u>	52
Item 1A. <u>Risk Factors</u>	52
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	52
Item 3. <u>Defaults Upon Senior Securities</u>	52
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	52
Item 5. <u>Other Information</u>	52
Item 6. <u>Exhibits</u>	52
<u>Signatures</u>	54

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 “wo 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 – MARCH 31, 2008 AND DECEMBER 31, 2007.

B. CONSOLIDATED STATEMENTS OF INCOME – FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007.

C. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME – FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007.

D. CONSOLIDATED STATEMENTS OF CASH FLOWS – FOR THE THREE MONTHS ENDED MARCH 31, 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 THREE MONTH PERIOD ENDED MARCH 31, 2008 ARE NOT NECESSARILY INDICATIVE OF THE RESULTS TO BE EXPECTED FOR THE FULL YEAR.

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

	March 31, 2008 (Unaudited)	December 31, 2007
<b>ASSETS</b>		
Cash and Cash Equivalents		
Cash and Due from Banks	\$ 24,457	28,369
Federal Funds Sold	12,697	21,737
	37,154	50,106
Interest-Bearing Deposits	1,279	1,467
Investment Securities		
	156,004	167,123
Available for Sale, at Fair Value Held to Maturity, at Cost (Fair Value of \$73 and \$72, as of March 31, 2008 and December 31, 2007, Respectively)	68	68
	156,072	167,191
Federal Home Loan Bank Stock, at Cost	5,395	5,533
Loans	943,412	945,279
Allowance for Loan Losses	(15,220)	(15,513)
Unearned Interest and Fees	(234)	(301)
	927,958	929,465
Premises and Equipment	28,527	27,809
Other Real Estate	3,758	1,332
Goodwill	2,412	2,412
Other Intangible Assets	393	402
Other Assets	22,278	23,059
Total Assets	\$ 1,185,226	\$ 1,208,776
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Deposits</b>		
Noninterest-Bearing	\$ 76,600	\$ 86,112
Interest-Bearing	916,956	932,490
	993,556	1,018,602
<b>Borrowed Money</b>		
Federal Funds Purchased	2,917	1,346
Subordinated Debentures	24,229	24,229
Other Borrowed Money	70,900	73,600
	98,046	99,175
Other Liabilities	7,610	7,256
Commitments and Contingencies		
Stockholders' Equity		

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

Common Stock, Par Value \$1 a Share, Authorized 20,000,000 Shares, Issued 7,216,113 and 7,200,913 Shares as of March 31, 2008 and December 31, 2007, Respectively	7,216	7,201
Paid-In Capital	24,601	24,420
Retained Earnings	53,596	52,087
Restricted Stock - Unearned Compensation	(410)	(237)
Accumulated Other Comprehensive Income, Net of Tax	1,011	272
	86,014	83,743
Total Liabilities and Stockholders' Equity	\$ 1,185,226	\$ 1,208,776

The accompanying notes are an integral part of these statements.

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

COLONY BANKCORP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
THREE MONTHS ENDED MARCH 31, 2008 AND 2007  
(UNAUDITED)  
(DOLLARS IN THOUSANDS)

	Three Months Ended	
	3/31/2008	3/31/2007
Interest Income		
Loans, Including Fees	\$ 18,349	\$ 19,768
Federal Funds Sold	155	631
Deposits with Other Banks	11	41
Investment Securities		
U.S. Government Agencies	1,681	1,544
State, County and Municipal	138	134
Corporate Obligations and Asset-Backed Securities	94	63
Dividends on Other Investments	84	76
	20,512	22,257
Interest Expense		
Deposits	9,672	10,607
Federal Funds Purchased	28	6
Borrowed Money	1,207	1,193
	10,907	11,806
Net Interest Income	9,605	10,451
Provision for Loan Losses	1,071	914
Net Interest Income After Provision for Loan Losses	8,534	9,537
Noninterest Income		
Service Charges on Deposits	1,165	1,118
Other Service Charges, Commissions and Fees	254	246
Mortgage Fee Income	169	252
Securities Gains	570	184
Other	213	310
	2,371	2,110
Noninterest Expenses		
Salaries and Employee Benefits	4,403	4,542
Occupancy and Equipment	1,007	1,001
Other	2,347	2,366
	7,757	7,909
Income Before Income Taxes	3,148	3,738
Income Taxes	935	1,264
Net Income	\$ 2,213	\$ 2,474
Net Income Per Share of Common Stock		
Basic	\$ 0.31	\$ 0.34



Edgar Filing: COLONY BANKCORP INC - Form 10-Q

Diluted	\$	0.31	\$	0.34
Cash Dividends Declared Per Share of Common Stock	\$	0.0975	\$	0.0875
Weighted Average Basic Shares Outstanding		7,191,861		7,181,568
Weighted Average Diluted Shares Outstanding		7,191,861		7,194,741

The accompanying notes are an integral part of these statements.

6

---

Table of Contents

Part 1 (Continued)  
Item 1 (Continued)

COLONY BANKCORP INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
THREE MONTHS ENDED MARCH 31, 2008 AND 2007  
(UNAUDITED)  
(DOLLARS IN THOUSANDS)

	Three Months Ended 03/31/08	Three Months Ended 03/31/07
Net Income	\$ 2,213	\$ 2,474
Other Comprehensive Income, Net of Tax		
Gains on Securities Arising During the Year	1,115	406
Reclassification Adjustment	(376)	(121)
Change in Net Unrealized Gains on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effect	739	285
Comprehensive Income	\$ 2,952	\$ 2,759

The accompanying notes are an integral part of these statements.

Table of Contents

Part 1 (Continued)  
Item 1 (Continued)

COLONY BANKCORP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
THREE MONTHS ENDED MARCH 31, 2008 AND 2007  
(UNAUDITED)  
(DOLLARS IN THOUSANDS)

	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income	\$ 2,213	\$ 2,474
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	481	469
Provision for Loan Losses	1,071	914
Securities Gains	(570)	(184)
Amortization and Accretion	90	138
(Gain) Loss on Sale of Other Real Estate and Repossessions	(1)	80
Gain on Sale of Equipment	(10)	---
Increase in Cash Surrender Value of Life Insurance	(99)	(49)
Change in Loans Held for Sale	---	(335)
Other Prepaids, Deferrals and Accruals, Net	784	1,712
	3,959	5,219
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Federal Home Loan Bank Stock	138	184
Purchases of Investment Securities Available for Sale	(43,906)	(10,514)
Proceeds from Maturities, Calls, and Paydowns of Investment Securities:		
Available for Sale	25,010	3,962
Held to Maturity	---	---
Proceeds from Sale of Investment Securities Available for Sale	31,733	346
Other Investments	---	---
Interest-Bearing Deposits in Other Banks	187	265
Net Loans to Customers	(2,763)	9,945
Purchase of Premises and Equipment	(1,199)	(284)
Other Real Estate and Repossessions	738	599
Proceeds from Sale of Premises and Equipment	10	---
Investment in Statutory Trust	---	(279)
Liquidation of Statutory Trust	---	279
	9,948	4,503
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Noninterest-Bearing Customer Deposits	(9,512)	(634)
Interest-Bearing Customer Deposits	(15,534)	(17,180)
Federal Funds Purchased	1,571	(590)
Dividends Paid	(684)	(611)
Proceeds from Other Borrowed Money	700	13,500

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

Principal Payments on Other Borrowed Money	(3,400)	(20,000)
Proceeds from Issuance of Subordinated Debentures	---	9,279
Principal Payments on Subordinated Debentures	---	(9,279)
	(26,859)	(25,515)
Net Increase (Decrease) in Cash and Cash Equivalents	(12,952)	(15,793)
Cash and Cash Equivalents at Beginning of Period	50,106	72,380
Cash and Cash Equivalents at End of Period	\$ 37,154	\$ 56,587

The accompanying notes are an integral part of these statements.

Table of Contents

Part 1 (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 loans 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 1 (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 Contents

Part 1 (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
Leasehold Improvements	5-20	Straight-Line

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 1 (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 1 (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 Contents

Part 1 (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.

## (2) Cash and Balances Due from Banks

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

	March 31, 2008	December 31, 2007
Cash on Hand and Cash Items	\$ 8,416	\$ 8,527
Noninterest-Bearing Deposits with Other Banks	16,041	19,842
	\$ 24,457	\$ 28,369

As of March 31, 2008, the Banks had required deposit reserves of approximately \$4,542 with the Federal Reserve that was satisfied with cash on hand.

## (3) Investment Securities

Investment securities as of March 31, 2008 are summarized as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities Available for Sale:				
U.S. Government Agencies				
Mortgage Backed	\$ 130,690	\$ 1,671	\$ (297)	\$ 132,064
Other	5,133	44	---	5,177
State, County & Municipal	12,208	105	(53)	12,260
Corporate Obligations	5,439	80	(18)	5,501
Asset-Backed Securities	1,000	---	---	1,000
Marketable Equity Securities	2	---	---	2
	\$ 154,472	\$ 1,900	\$ (368)	\$ 156,004
Securities Held to Maturity:				
State, County and Municipal	\$ 68	\$ 5	\$ ---	\$ 73





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

The amortized cost and fair value of investment securities as of March 31, 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	\$ 6,563	\$ 6,589		
Due After One Year Through Five Years	4,371	4,405		
Due After Five Years Through Ten Years	9,346	9,443	\$ 68	\$ 73
Due After Ten Years	3,500	3,501	--	--
	23,780	23,938	68	73
Mortgage Backed Securities	130,690	132,064	--	--
Marketable Equity Securities	2	2	--	--
	\$ 154,472	\$ 156,004	\$ 68	\$ 73

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

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
<b>Securities Available for Sale:</b>				
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
<b>Securities Held to Maturity:</b>				
State, County and Municipal	\$ 68	\$ 4	\$ --	\$ 72

Proceeds from the sale of investments available for sale during the first three months of 2008 totaled \$31,733 compared to \$346 for the first three months of 2007. The sale of investments available for sale during 2008 resulted in gross realized gains of \$573 and gross realized losses of \$3 and the sale of investments available for sale during 2007 resulted in gross realized gain of \$184 and losses of \$0.

Investment securities having a carry value approximating \$71,074 and \$89,145 as of March 31, 2008 and December 31, 2007, respectively, were pledged to secure public deposits and for other purposes.



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

Information pertaining to securities with gross unrealized losses at March 31, 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
March 31, 2008						
U.S. Government Agencies						
Mortgage Backed	\$ 29,798	\$ (224)	\$ 7,003	\$ (73)	\$ 36,801	\$ (297)
Other	---	---	---	---	---	---
State, County and Municipal	4,316	(52)	419	(1)	4,735	(53)
Corporate Obligations	2,427	(12)	443	(6)	2,870	(18)
Marketable Equity Securities	2	---	---	---	2	---
	\$ 36,543	\$ (288)	\$ 7,865	\$ (80)	\$ 44,408	\$ (368)
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 March 31, 2008, the debt securities with unrealized losses have depreciated 0.82 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 March 31, 2008 and December 31, 2007 was as follows:

March 31,      December  
2008          31, 2007

Commercial, Financial and Agricultural	\$ 55,726	\$ 52,323
Real Estate – Construction	194,199	211,484
Real Estate – Farmland	45,667	42,439
Real Estate – Other	556,904	544,655
Installment Loans to Individuals	70,430	72,350
All Other Loans	20,486	22,028
	\$ 943,412	\$ 945,279

Table of Contents

Part 1 (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 \$14,421 and \$14,956 as of March 31, 2008 and December 31, 2007, respectively and total recorded investment in loans past due 90 days or more and still accruing interest approximated \$17 and \$60, respectively.

## (5) Allowance for Loan Losses

Transactions in the allowance for loan losses are summarized below for three months ended March 31, 2008 and March 31, 2007 as follows:

	March 31, 2008	March 31, 2007
Balance, Beginning	\$ 15,513	\$ 11,989
Provision Charged to Operating Expenses	1,071	914
Loans Charged Off	(1,431)	(982)
Loan Recoveries	67	249
Balance, Ending	\$ 15,220	\$ 12,170

## (6) Premises and Equipment

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

	March 31, 2008	December 31, 2007
Land	\$ 7,799	\$ 7,799
Building	20,902	20,901
Furniture, Fixtures and Equipment	13,190	12,641
Leasehold Improvements	994	994
Construction in Progress	1,020	448
	43,905	42,783
Accumulated Depreciation	(15,378)	(14,974)
	\$ 28,527	\$ 27,809

Depreciation charged to operations totaled \$481 and \$469 for March 31, 2008 and March 31, 2007, respectively.

Certain Company facilities and equipment are leased under various operating leases. Rental expense approximated \$90 and \$100 for three months ended March 31, 2008 and March 31, 2007, respectively.



Table of Contents

Part 1 (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 three months ended March 31, 2008 and March 31, 2007:

	Three Months Ended March 31, 2008	Three Months Ended March 31, 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	(9)	(10)
Balance, Ending	\$ 393	\$ 429

The following table reflects the expected amortization for the core deposit intangible at March 31, 2008:

2008	\$ 27
2009	36
2010	36
2011	36
2012 and thereafter	258
	\$ 393

## (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:

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

- 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.



Table of Contents

Part 1 (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 March 31, 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.

Other Real Estate Owned

Certain assets such as other real estate owned (OREO) are measured at fair value less cost to sell. We believe that the fair value component in its valuation follows the provisions of SFAS No. 157. Fair value of OREO at March 31, 2008 was determined by sales agreement. Cost to sell associated with OREO was based on estimation per the terms and conditions of the sales agreement.

Assets measured at fair value at March 31, 2008 are as follows:

		Fair Value Measurements at Reporting Date Using		
		Quoted Prices in	Significant Other	Significant Unobservable
		Active Markets	Observable Inputs	Inputs (Level 3)
		for Identical	(Level 2)	
		Assets (Level 1)		
	3/31/2008			
Securities Available for Sale				

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

U.S. Government  
Agencies

Mortgage-Backed	\$	132,064	\$	---	\$	132,064	\$	---
Other		5,177		---		5,177		---
State, County & Municipal		12,260		---		12,260		---
Corporate Obligations		5,501		---		5,501		---
Asset-Backed Securities		1,000		---		1,000		---
Marketable Equity Securities		2		---		2		---
	\$	156,004	\$	---	\$	156,004	\$	---

Liabilities

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

Table of Contents

Part 1 (Continued)

Item 1 (Continued)

## (10) Deposits

The aggregate amount of overdrawn deposit accounts reclassified as loan balances totaled \$488 and \$574 as of March 31, 2008 and December 31, 2007.

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

	March 31, 2008	December 31, 2007
Interest-Bearing Demand	\$ 191,282	\$ 190,304
Savings	33,920	31,588
Time, \$100,000 and Over	337,555	347,219
Other Time	354,199	363,379
	\$ 916,956	\$ 932,490

At March 31, 2008 and December 31, 2007, the Company had brokered deposits of \$51,213 and \$54,737 respectively. The aggregate amount of short-term jumbo certificates of deposit, each with a minimum denomination of \$100,000 was approximately \$305,059 and \$310,971 as of March 31, 2008 and December 31, 2007, respectively.

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

Maturity	March 31, 2008	December 31, 2007
One Year and Under	\$ 619,159	\$ 632,936
One to Three Years	61,596	42,977
Three Years and Over	10,999	34,685
	\$ 691,754	\$ 710,598

## (11) Other Borrowed Money

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

	March 31, 2008	December 31, 2007
Federal Home Loan Bank Advances	\$ 70,500	\$ 73,500
Silverton Note Payable	400	100
	\$ 70,900	\$ 73,600

Advances from the Federal Home Loan Bank (FHLB) have maturities ranging from 2008 to 2019 and interest rates ranging from 2.74 percent to 5.93 percent. Under the Blanket Agreement for Advances and Security Agreement with the FHLB, residential first mortgage loans and cash balances held by the FHLB are pledged as collateral for the FHLB advances outstanding. At March 31, 2008, the Company had available line of credit commitments totaling \$100,352 of which \$29,852 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 March 31, 2008, \$600 was available to be drawn on the line of credit.

The aggregate stated maturities of other borrowed money at March 31, 2008 are as follows:

Year	Amount
2008	\$ 6,500
2009	400
2010	1,000
2011	---
2012 and Thereafter	63,000
	\$ 70,900

The Company also has available federal funds lines of credit with various financial institutions totaling \$47,300, of which there was \$2,917 outstanding amount at March 31, 2008.

Table of Contents

Part 1 (Continued)

Item 1 (Continued)

(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 March 31, 2008, the floating rate securities had a 5.48 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 March 31, 2008 the floating-rate securities had a 4.20 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 March 31, 2008, the floating-rate securities had a 4.35 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 March 31, 2008, the floating-rate securities had a 4.65 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 is 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 March 31, 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 5,548 shares have been forfeited, thus remaining shares which may be subject to restricted stock awards are 114,642 at March 31, 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).

(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 three months ended March 31, 2008 was \$155 compared to \$209 for the three months ended March 31, 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.

Table of Contents

Part 1 (Continued)

Item 1 (Continued)

## (15) Commitments and Contingencies (Continued)

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 March 31, 2008 and December 31, 2007 the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	March 31, 2008	December 31, 2007
Loan Commitments	\$ 93,501	\$ 93,105
Standby Letters of Credit	3,357	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 March 31, 2008, the Company had an outstanding commitment of approximately \$1,967 to construct and furnish an office in Savannah. As of March 31, 2008, the Company has paid \$1,020 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.

Liabilities accrued under the plans totaled \$1,150 and \$1,159 as of March 31, 2008 and December 31, 2007, respectively. Benefit payments under the contracts were \$47 and \$47 for the three month period ended March 31, 2008 and March 31, 2007, respectively. Provisions charged to operations totaled \$37 and \$39 for the three month period ended March 31, 2008 and March 31, 2007, respectively.

Fee income recognized with deferred compensation plans totaled \$61 and \$49 for three month period ended March 31, 2008 and March 31, 2007, respectively.



Table of Contents

Part 1 (Continued)

Item 1 (Continued)

## (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 March 31, 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 March 31, 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 March 31, 2008						
Total Capital to Risk-Weighted Assets						
Consolidated	\$ 117,524	12.47%	\$ 75,413	8.00%	NA	NA
Fitzgerald	20,006	13.31	12,023	8.00	\$ 15,028	10.00%
Ashburn	30,220	11.60	20,839	8.00	26,049	10.00
Worth	16,135	11.55	11,175	8.00	13,968	10.00
Southeast	23,656	13.15	14,391	8.00	17,988	10.00
Quitman	13,021	12.14	8,580	8.00	10,725	10.00
Tier 1 Capital to Risk-Weighted Assets						
Consolidated	\$ 105,698	11.21%	\$ 37,706	4.00%	NA	NA
Fitzgerald	18,118	12.06	6,011	4.00	\$ 9,017	6.00%

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

Ashburn	26,943	10.34	10,420	4.00	15,630	6.00
Worth	14,385	10.30	5,587	4.00	8,381	6.00
Southeast	21,399	11.90	7,195	4.00	10,793	6.00
Quitman	11,680	10.89	4,290	4.00	6,435	6.00

Tier 1 Capital to  
Average Assets

Consolidated	\$	105,698	8.90%	\$	47,490	4.00%	NA	NA	
Fitzgerald		18,118	9.47		7,650	4.00	\$	9,562	5.00%
Ashburn		26,943	8.22		13,221	4.00		16,526	5.00
Worth		14,385	8.10		7,103	4.00		8,879	5.00
Southeast		21,399	10.34		8,276	4.00		10,345	5.00
Quitman		11,680	8.02		5,827	4.00		7,283	5.00

23

Table of Contents

Part 1 (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 Contents

Part 1 (Continued)

Item 1 (Continued)

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

The parent company's balance sheets as of March 31, 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  
MARCH 31, 2008 AND DECEMBER 31, 2007

ASSETS	March 31, 2008 (Unaudited)	December 31, 2007
Cash	\$ 72	\$ 973
Premises and Equipment, Net	1,217	1,236
Investment in Subsidiaries, at Equity	108,536	105,323
Other	1,512	1,491
<b>Totals Assets</b>	<b>\$ 111,337</b>	<b>\$ 109,023</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Dividends Payable	\$ 704	\$ 684
Other	390	367
<b>Subordinated Debt</b>	<b>1,094</b>	<b>1,051</b>
	<b>24,229</b>	<b>24,229</b>
<b>Stockholders' Equity</b>		
Common Stock, Par Value \$1 a Share; Authorized 20,000,000 Shares, Issued 7,216,113 and 7,200,913 Shares as of March 31, 2008 and December 31, 2007, Respectively	7,216	7,201
Paid-In Capital	24,601	24,420
Retained Earnings	53,596	52,087
Restricted Stock - Unearned Compensation	(410)	(237)
Accumulated Other Comprehensive Income, Net of Tax	1,011	272
	<b>86,014</b>	<b>83,743</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 111,337</b>	<b>\$ 109,023</b>

Table of Contents

Part 1 (Continued)

Item 1 (Continued)

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

Income		
Dividends from Subsidiaries	\$ 1,262	\$ 1,516
Other	24	41
	1,286	1,557
Expenses		
Interest	388	528
Salaries and Employee Benefits	258	273
Other	362	351
	1,008	1,152
Income Before Taxes and Equity in Undistributed		
Earnings of Subsidiaries	278	405
Income Tax (Benefits)	(312)	(358)
Income Before Taxes and Equity in Undistributed		
Earnings of Subsidiaries	590	763
Equity in Undistributed Earnings of Subsidiaries	1,623	1,711
Net Income		
	2,213	2,474
Other Comprehensive Income, Net of Tax		
Gains on Securities Arising During Year	1,115	406
Reclassification Adjustment	(376)	(121)
Change in Net Unrealized Gains on Securities Available For Sale, Net of Reclassification Adjustment and Tax Effect		
	739	285
Comprehensive Income	\$ 2,952	\$ 2,759

26

Table of Contents

Part 1 (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 THREE MONTHS ENDED MARCH 31, 2008 AND MARCH 31, 2007  
(UNAUDITED)

	2008	2007
Cash Flows from Operating Activities		
Net Income	\$ 2,213	\$ 2,474
Adjustments to Reconcile Net Income to Net Cash		
Provided from Operating Activities		
Depreciation and Amortization	79	75
Equity in Undistributed Earnings of Subsidiary	(1,623)	(1,711)
Other	(34)	(467)
	635	371
Cash Flows from Investing Activities		
Capital Infusion in Subsidiary	(850)	--
Purchases of Premises and Equipment	(2)	(15)
Investment in Capital Trust	---	(279)
Liquidation of Statutory Trust	---	279
	(852)	(15)
Cash Flows from Financing Activities		
Dividends Paid	(684)	(611)
Proceeds from Issuance of Subordinated Debentures	---	9,279
Principal Payment on Subordinated Debentures	---	(9,279)
	(684)	(611)
Net Increase in Cash	(901)	(255)
Cash, Beginning	973	2,224
Cash, Ending	\$ 72	\$ 1,969

Table of Contents

Part 1 (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 ended March 31, 2008 and 2007, respectively, under the requirements of Statement 128:

	Three Months Ended March 31, 2008			Three Months Ended March 31, 2007		
	Income	Common		Income	Common	
	Numerator	Shares	EPS	Numerator	Shares	EPS
		Denominator			Denominator	
<b>Basic EPS</b>						
Income Available to Common Stockholders	\$ 2,213	7,192	\$ 0.31	\$ 2,474	7,182	\$ 0.34
<b>Dilutive Effect of Potential Common Stock</b>						
Restricted Stock		0			13	
<b>Diluted EPS</b>						
Income Available to Common Stockholders						
After Assumed Conversions of Dilutive Securities	\$ 2,213	7,192	\$ 0.31	\$ 2,474	7,195	\$ 0.34

28

Table of Contents

Part 1 (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 cost and effects of litigation and of unexpected or adverse outcomes in such litigation.

Table of Contents

Part 1 (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 Contents

Part 1 (Continued)  
Item 2 (Continued)

## Overview

The following discussion and analysis presents the more significant factors affecting the Company's financial condition as of March 31, 2008 and 2007, and results of operations for each of three months in the periods ended March 31, 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 \$2.21 million, or \$0.31 diluted per common share, in three months ended March 31, 2008 compared to \$2.47 million, or \$0.34 diluted per common share, in three months ended March 31, 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	
	March 31	
	2008	2007
Taxable-equivalent net interest income	\$ 9,699	10,530
Taxable-equivalent adjustment	94	79
Net interest income	9,605	10,451
Provision for possible loan losses	1,071	914
Noninterest income	2,371	2,110
Noninterest expense	7,757	7,909
Income before income taxes	\$ 3,148	3,738
Income Taxes	935	1,264
Net income	\$ 2,213	\$ 2,474

Net Income per common share:

Edgar Filing: COLONY BANKCORP INC - Form 10-Q

Basic	\$	0.31	\$	0.34
Diluted	\$	0.31	\$	0.34
Return on average assets		0.74%		0.82%
Return on average equity		10.38%		12.76%

31

---

Table of Contents

Part 1 (Continued)  
Item 2 (Continued)

Net income for three months ended March 31, 2008 decreased \$0.261 million, or 10.5 percent compared to the same period in 2007. The decrease was primarily the result of a decrease of \$0.846 million in net interest income and an increase of \$0.157 million in provision for possible loan loss. This was offset by an increase of \$0.261 million in non-interest income, a decrease of \$0.152 in non-interest expense and a decrease of \$0.329 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 80.20 percent of total revenue for three months ended March 31, 2008 and 83.20 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 200 basis point reduction during first quarter 2008 the prime rate ended the quarter at 5.25 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 200 basis point reduction during first quarter 2008 the federal funds rate ended the quarter at 2.25 percent. We anticipate another 25 – 50 basis point reduction during second quarter 2008 and then a pause by the Federal Reserve the latter half of 2008.

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 Contents

Part 1 (Continued)

Item 2 (Continued)

## Rate/Volume Analysis

The rate/volume analysis presented hereafter illustrates the change from March 31, 2007 to March 31, 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 March 31, 2007 to March 31, 2008 (1)		
	Volume	Rate	Total
<b>Interest Income</b>			
Loans, Net-taxable	\$ 397	\$ (1,809)	\$ (1,412)
<b>Investment Securities</b>			
Taxable	(1)	158	157
Tax-exempt	10	12	22
Total Investment Securities	9	170	179
<b>Interest-Bearing Deposits in other Banks</b>			
	(23)	(7)	(30)
<b>Federal Funds Sold</b>			
	(392)	(84)	(476)
<b>Other Interest - Earning Assets</b>			
	7	1	8
<b>Total Interest Income</b>	<b>(2)</b>	<b>(1,729)</b>	<b>(1,731)</b>
<b>Interest Expense</b>			
Interest-Bearing Demand and Savings Deposits	47	(142)	(95)
Time Deposits	(574)	(266)	(840)
<b>Federal Funds Purchased</b>			
	34	(13)	21
<b>Subordinated Debentures</b>			
	(30)	(110)	(140)
<b>Other Borrowed Money</b>			
	168	(14)	154
<b>Total Interest Expense</b>	<b>(355)</b>	<b>(545)</b>	<b>(900)</b>
<b>Net Interest Income</b>	<b>\$ 353</b>	<b>\$ (1,184)</b>	<b>\$ (831)</b>

(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 1 (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 about 39 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 200 basis point decrease in first quarter 2008 resulted in significant pressure on net interest margins again. Net interest margin decreased to 3.44 percent for three months ended March 31, 2008 compared to 3.70 percent for the same period a year ago. We anticipate continued margin compression for 2008 given the Federal Reserve's present interest rate forecast of easing to neutral for the balance of 2008.

Taxable-equivalent net interest income for three months ended March 31, 2008 decreased \$0.83 million, or 7.89 percent compared to the same period a year ago. The fluctuation between the comparable periods primarily resulted from the negative impact of the significant decrease in interest rates. The average volume of earning assets during three months ended March 31, 2008 decreased almost \$12.5 million compared to the same period a year ago while over the same period the net interest margin decreased by 26 basis points from 3.70 percent to 3.44 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 \$18.6 million in three months ended March 31, 2008 compared to the same period a year ago. The average yield on loans decreased 77 basis points in three months ended March 31, 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 \$34.6 million in three months ended March 31, 2008 compared to the same period a year ago, with interest-bearing deposits decreasing \$36.1 million in three months ended March 31, 2008. Accordingly, the ratio of average interest-bearing deposits to total average deposits was 92.1 percent in three months ended March 31, 2008 compared to 92.5 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 24 basis points in three months ended March 31, 2008 compared to the same period a year ago and, (ii) mitigating a portion of the impact of decreased 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 3.04 percent in three months ended March 31, 2008 compared to 3.30 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 \$1.07 million in three months ended March 31, 2008 compared to \$0.91 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 Contents

Part 1 (Continued)  
Item 2 (Continued)

## NonInterest Income

The components of noninterest income were as follows:

	Three Months Ended	
	March 31	
	2008	2007
Service Charges on Deposit Accounts	\$ 1,165	\$ 1,118
Other Charges, Commissions and Fees	254	246
Other	213	310
Mortgage Fee Income	169	252
Securities Gains (Losses)	570	184
<b>Total</b>	<b>\$ 2,371</b>	<b>\$ 2,110</b>

Total noninterest income for three months ended March 31, 2008 increased \$261 thousand, or 12.37 percent compared to the same period a year ago. Growth in noninterest income was primarily in service charges on deposit accounts, other charges, commissions and fees 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 March 31, 2008 increased \$47 thousand, or 4.20 percent, compared to the same period a year ago. The increase was primarily due to an increase in overdraft fees, which were mostly related to consumer and commercial accounts.

**Mortgage Fee Income.** Mortgage fee income for three months ended March 31, 2008 decreased \$83 thousand, or 32.9 percent, compared to the same period a year ago. 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 March 31, 2008 decreased \$89 thousand, or 16.01 percent, compared to the same period a year ago. The most significant decrease was premiums on the sale of SBA loans with \$0 for three months ended March 31, 2008 from \$67 thousand for the same period a year ago.

**Securities Gains.** The Company realized gains from the sale of securities of \$570 thousand in first quarter 2008 compared to \$184 thousand in first quarter 2007.

## Noninterest Expense

The components of noninterest expense were as follows:

	Three Months Ended	
	March 31	
	2008	2007

Salaries and employee benefits	\$ 4,403	\$ 4,542
Occupancy and Equipment	1,007	1,001
Other	2,347	2,366
Total	\$ 7,757	\$ 7,909

35

---

Table of Contents

Part 1 (Continued)  
Item 2 (Continued)

Total noninterest expense for three months ended March 31, 2008 decreased \$152 thousand, or 1.92 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 March 31, 2008 decreased \$139 thousand, or 3.06 percent, compared to the same period a year ago. The slowing economy and lack of growth resulted in decreases in headcount as a result of normal attrition.

**Occupancy and Equipment.** Occupancy and equipment expense has remained relatively flat in both periods with an increase of \$6 thousand for three months ended March 31, 2008 compared to the same year ago period.

**All Other Non-Interest Expense.** All other non-interest expense for three months ended March 31, 2008 decreased \$19 thousand, or 0.80 percent compared to the same year ago period.

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 \$1.190 billion in three months ended March 31, 2008 compared to \$1.205 billion in three months ended March 31, 2007.

Three Months Ended  
March 31,

Source of Funds: