COLONY BANKCORP INC
Form 10-Q
August 07, 2006
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

EXCHANGE ACT OF 1934

FOR QUARTER ENDED JUNE 30, 2006   COMMISSION FILE NUMBER 0-12436

COLONY BANKCORP, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

GEORGIA	**58-1492391**
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	**(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 x   NO ¨

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

LARGE ACCELERATED FILER ¨ ACCELERATED FILER x NON ACCELERATED FILER ¨

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS A SHELL COMPANY (AS DEFINED IN RULE 12B-2 OF THE ACT). YES ¨ NO 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 AUGUST 7, 2006**
COMMON STOCK, $1 PAR VALUE	7,190,535

Table of Contents

TABLE OF CONTENTS

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, potenti similar import, constitute forward-looking statements , as do any other statements that expressly or implicitly predict future events, results, or performance. Factors that could cause results to differ from results expressed or implied by our forward-looking statements include, among others, risks discussed in the text of this Quarterly Report as well as the following specific items:

General economic conditions, whether national or regional, that could affect the demand for loans or lead to increased loan losses;

Competitive factors, including increased competition with community, regional, and national financial institutions, that may lead to pricing pressures that reduce yields the Company achieves on loans and increase rates the Company pays on deposits, loss of the Company s most valued customers, defection of key employees or groups of employees, or other losses;

Increasing or decreasing interest rate environments, including the shape and level of the yield curve, that could lead to decreases in net interest margin, lower net interest and fee income, including lower gains on sales of loans, and changes in the value of the Company s investment securities;

Changing business or regulatory conditions, or new legislation, affecting the financial services industry that could lead to increased costs, changes in the competitive balance among financial institutions, or revisions to our strategic focus;

Changes or failures in technology or third party vendor relationships in important revenue production or service areas, or increases in required investments in technology that could reduce our revenue, increase our costs or lead to disruptions in our business.

Readers are cautioned not to place undue reliance on our forward-looking statements, which reflect management s analysis only as of the date of the statements. The Company does not intend to publicly revise or update forward-looking statements to reflect events or circumstances that arise after the date of this report.

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

Table of Contents

PART 1. FINANCIAL INFORMATION

ITEM 1.

FINANCIAL STATEMENTS

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

A. CONSOLIDATED BALANCE SHEETS JUNE 30, 2006 AND DECEMBER 31, 2005.

B. CONSOLIDATED STATEMENTS OF INCOME FOR THE THREE MONTHS ENDED JUNE 30, 2006 AND 2005 AND FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005.

C. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE THREE MONTHS ENDED JUNE 30, 2006 AND 2005 AND FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005.

D. CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005.

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

THE RESULTS OF OPERATIONS FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2006 ARE NOT NECESSARILY INDICATIVE OF THE RESULTS TO BE EXPECTED FOR THE FULL YEAR.

Table of Contents

Part I (Continued)

Item 1 (Continued)

COLONY BANKCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

JUNE 30, 2006 AND DECEMBER 31, 2005

(DOLLARS IN THOUSANDS)

	June 30, 2006 (Unaudited)	December 31, 2005
ASSETS		
Cash and Cash Equivalents		
Cash and Due from Banks	$ **22,554**	21,606
Federal Funds Sold	**51,830**	57,456
	74,384	79,062
Interest-Bearing Deposits	**2,914**	1,635
Investment Securities		
Available for Sale, at Fair Value	**130,155**	124,247
Held to Maturity, at Cost (Fair Value of $75 and $79, as of June 30, 2006 and December 31, 2005, Respectively)	**75**	79
	130,230	124,326
Federal Home Loan Bank Stock, at Cost	**5,109**	5,034
Loans	**912,913**	859,117
Allowance for Loan Losses	**(11,658)**	(10,762)
Unearned Interest and Fees	**(474)**	(302)
	900,781	848,053
Premises and Equipment	**27,651**	25,676
Other Real Estate	**2,935**	2,170
Goodwill	**2,412**	2,412
Other Intangible Assets	**469**	520
Other Assets	**22,276**	19,450
Total Assets	**$ 1,169,161**	$ 1,108,338

LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits		
Noninterest-Bearing	**$ 73,624**	$ 78,778
Interest-Bearing	**931,462**	865,587
	1,005,086	944,365
Borrowed Money		
Subordinated Debentures	**24,229**	19,074
Other Borrowed Money	**62,117**	70,226
	86,346	89,300
Other Liabilities	**6,678**	6,545
Commitments and Contingencies		
Stockholders Equity		
Common Stock, Par Value $1 a Share, Authorized 20,000,000 Shares, Issued 7,190,535 and 7,181,320 Shares as of June 30, 2006 and December 31, 2005, Respectively	**7,191**	7,181
Paid-In Capital	**24,210**	24,000
Retained Earnings	**42,388**	38,602
Restricted Stock Unearned Compensation	**(418)**	(302)
Accumulated Other Comprehensive Loss, Net of Tax	**(2,320)**	(1,353)
	71,051	68,128
Total Liabilities and Stockholders Equity	**$ 1,169,161**	$ 1,108,338

The accompanying notes are an integral part of these statements.

Table of Contents

Part I (Continued)

Item 1 (Continued)

COLONY BANKCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

THREE MONTHS ENDED JUNE 30, 2006 AND 2005

AND SIX MONTHS ENDED JUNE 30, 2006 AND 2005

(UNAUDITED)

(DOLLARS IN THOUSANDS)

	Three Months Ended		Six Months Ended	
	6/30/2006	6/30/2005	6/30/2006	6/30/2005
Interest Income				
Loans, Including Fees	**$ 18,652**	$ 14,140	**$ 35,405**	$ 27,114
Federal Funds Sold	**517**	193	**996**	428
Deposits with Other Banks	**36**	17	**54**	34
Investment Securities				
U.S. Government Agencies	**1,182**	770	**2,346**	1,638
State, County and Municipal	**88**	64	**179**	118
Corporate Obligations	**37**	36	**73**	66
Dividends on Other Investments	**69**	47	**128**	81
	20,581	15,267	**39,181**	29,479
Interest Expense				
Deposits	**8,662**	5,063	**16,176**	9,547
Federal Funds Purchased	**7**	7	**16**	7
Borrowed Money	**1,232**	952	**2,376**	1,828
	9,901	6,022	**18,568**	11,382
Net Interest Income	**10,680**	9,245	**20,613**	18,097
Provision for Loan Losses	**1,047**	1,025	**1,969**	1,833
Net Interest Income After Provision for Loan Losses	**9,633**	8,220	**18,644**	16,264
Noninterest Income				
Service Charges on Deposits	**1,155**	1,050	**2,187**	1,980
Other Service Charges, Commissions and Fees	**203**	169	**418**	353
Mortgage Fee Income	**213**	126	**336**	233
Other	**447**	154	**685**	535
	2,018	1,499	**3,626**	3,101
Noninterest Expenses				
Salaries and Employee Benefits	**4,247**	3,552	**8,326**	6,874

Occupancy and Equipment	**1,003**	925	**1,988**	1,825
Other	**2,349**	1,815	**4,372**	3,877
	7,599	6,292	**14,686**	12,576
Income Before Income Taxes	**4,052**	3,427	**7,584**	6,789
Income Taxes	**1,442**	1,180	**2,665**	2,368
Net Income	**$ 2,610**	$ 2,247	**$ 4,919**	$ 4,421
Net Income Per Share of Common Stock				
Basic	**$ 0.36**	$ 0.31	**$ 0.69**	$ 0.62
Diluted	**$ 0.36**	$ 0.31	**$ 0.69**	$ 0.62
Weighted Average Basic Shares Outstanding	**7,176,258**	7,143,741	**7,173,332**	7,143,741
Weighted Average Diluted Shares Outstanding	**7,177,367**	7,169,617	**7,175,018**	7,170,122
Cash Dividends Declared Per Share of Common Stock	**$ 0.08**	$ 0.07	**$ 0.1575**	$ 0.1380

The accompanying notes are an integral part of these statements.

6

Table of Contents

Part I (Continued)

Item 1 (Continued)

COLONY BANKCORP INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

THREE MONTHS ENDED JUNE 30, 2006 AND 2005

AND SIX MONTHS ENDED JUNE 30, 2006 AND 2005

(UNAUDITED)

(DOLLARS IN THOUSANDS)

	Three Months Ended		Six Months Ended	
	06/30/06	**06/30/05**	**06/30/06**	**06/30/05**
Net Income	**$ 2,610**	$ 2,247	**$ 4,919**	$ 4,421
Other Comprehensive Income, Net of Tax				
Gains (Losses) on Securities Arising During the Year	**(674)**	700	**(967)**	(17)
Reclassification Adjustment	**0**	0	**0**	0
Unrealized Gains (Losses) on Securities	**(674)**	700	**(967)**	(17)
Comprehensive Income	**$ 1,936**	$ 2,947	**$ 3,952**	$ 4,404

The accompanying notes are an integral part of these statements.

7

Table of Contents

Part I (Continued)

Item 1 (Continued)

COLONY BANKCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

SIX MONTHS ENDED JUNE 30, 2006 AND 2005

(UNAUDITED)

(DOLLARS IN THOUSANDS)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	**$ 4,919**	$ 4,421
Adjustments to Reconcile Net Income to Net Cash		
Provided by Operating Activities:		
Depreciation	**946**	899
Provision for Loan Losses	**1,969**	1,833
Amortization and Accretion	**392**	699
(Gain) Loss on Sale of Other Real Estate and Repossessions	**(93)**	32
Gain on Sale of Equipment	**(1)**	(1)
Increase in Cash Surrender Value of Life Insurance	**(93)**	(103)
Other Prepaids, Deferrals and Accruals, Net	**(1,866)**	352
	6,173	8,132
CASH FLOWS FROM INVESTING ACTIVITIES		
Federal Home Loan Bank Stock	**(75)**	(533)
Purchases of Investment Securities Available for Sale	**(21,332)**	(14,149)
Proceeds from Maturities, Calls, and Paydowns of		
Investment Securities:		
Available for Sale	**13,828**	17,090
Held to Maturity	**9**	
Other Investments	**(200)**	
Interest-Bearing Deposits in Other Banks	**(1,279)**	485
Net Loans to Customers	**(57,307)**	(53,229)
Purchase of Premises and Equipment	**(2,924)**	(2,791)
Other Real Estate and Repossessions	**1,901**	826
Proceeds from Sale of Premises and Equipment	**5**	
Investment in Statutory Trust	**(155)**	
	(67,529)	(52,301)
CASH FLOWS FROM FINANCING ACTIVITIES		
Noninterest-Bearing Customer Deposits	**(5,154)**	(2,313)
Interest-Bearing Customer Deposits	**65,882**	11,396
Dividends Paid	**(1,096)**	(962)
Proceeds from Other Borrowed Money	**23,000**	11,500
Principal Payments on Other Borrowed Money	**(31,109)**	(3,613)

Proceeds from Issuance of Subordinated Debentures	**5,155**	
	56,678	16,008
Net Decrease in Cash and Cash Equivalents	**(4,678)**	(28,161)
Cash and Cash Equivalents at Beginning of Period	**79,062**	64,947
Cash and Cash Equivalents at End of Period	**$ 74,384**	$ 36,786

The accompanying notes are an integral part of these statements.

Table of Contents

Part I (Continued)

Item 1 (Continued)

COLONY BANKCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

Principles of Consolidation

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

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

Nature of Operations

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

Use of Estimates

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

Reclassifications

In certain instances, amounts reported in prior years consolidated financial statements have been reclassified to conform to statement presentations selected for 2006. Such reclassifications had no effect on previously reported stockholders equity or net income.

Concentrations of Credit Risk

Lending is concentrated in commercial and real estate loans to local borrowers. The Company has a high concentration of real estate loans; however, these loans are well collateralized and, in management s opinion, do not pose an adverse credit risk. In addition, the balance of the loan portfolio is sufficiently diversified to avoid significant concentration of credit risk. Although the Company has a diversified loan portfolio, a substantial portion of borrowers ability to honor their contracts is dependent upon the viability of the real estate economic sector.

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

Accounting Policies

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

Table of Contents

Part I (Continued)

Item 1 (Continued)

(1) Summary of Significant Accounting Policies (Continued)

Investment Securities

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

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

Federal Home Loan Bank Stock

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

Loans

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

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

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

Allowance for Loan Losses

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

Table of Contents

Part I (Continued)

Item 1 (Continued)

(1) Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

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

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as either doubtful, substandard or special mention. 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

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.

Part I (Continued)

Item 1 (Continued)

(1) Summary of Significant Accounting Policies (Continued)

Goodwill and Intangible Assets (Continued)

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

Transfers of Financial Assets

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

Statement of Cash Flows

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

Income Taxes

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

Other Real Estate

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

Comprehensive Income

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

Off-Balance Sheet Credit Related Financial Instruments

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

Table of Contents

Part I (Continued)

Item 1 (Continued)

(1) Summary of Significant Accounting Policies (Continued)

Changes in Accounting Principles and Effects of New Accounting Pronouncements

In March 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 156, Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140. SFAS No. 156 requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in specific situations. Additionally, the servicing asset or servicing liability shall be initially measured at fair value; however, an entity may elect the amortization method or fair value method for subsequent balance sheet reporting periods. SFAS No. 156 is effective as of an entity s first fiscal year beginning after September 15, 2006. Early adoption is permitted as of the beginning of an entity s fiscal year, provided the entity has not yet issued financial statements, including interim financial statements, for any period of that fiscal year. We do not expect the adoption of this statement to have a material impact on our financial condition, results of operations or cash flows.

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140. SFAS No. 155 simplifies accounting for certain hybrid instruments currently governed by SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, by allowing fair value remeasurement of hybrid instruments that contain an embedded derivative that otherwise would require bifurcation. SFAS No. 155 also eliminates the guidance in SFAS No. 133 Implementation Issue No. D1, Application of Statement 133 to Beneficial Interests in Securitized Financial Assets, which provides such beneficial interests are not subject to SFAS No. 133. SFAS No. 155 amends SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities a Replacement of FASB Statement No. 125, by eliminating the restriction on passive derivative instruments that a qualifying special-purpose entity may hold. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity s first fiscal year that begins after September 15, 2006. We do not expect the adoption of this statement to have a material impact on our financial condition, results of operations or cash flows.

Table of Contents

Part I (Continued)

Item 1 (Continued)

(2) Cash and Due from Banks

Components of cash and balances due from banks are as follows as of June 30, 2006 and December 31, 2005:

	June 30, 2006	December 31, 2005
Cash on Hand and Cash Items	**$ 8,357**	$ 8,971
Noninterest-Bearing Deposits with Other Banks	**14,197**	12,635
	$ 22,554	$ 21,606

As of June 30, 2006, the Banks had required deposits of approximately $2,952 with the Federal Reserve.

(3) Investment Securities

Investment securities as of June 30, 2006 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale:				
U.S. Government Agencies				
Mortgage Backed	**$ 77,200**	**$ 13**	**$ (2,297)**	**$ 74,916**
Other	**44,371**		**(1,184)**	**43,187**
State, County & Municipal	**8,899**	**18**	**(165)**	**8,752**
Corporate Obligations	**3,038**		**(52)**	**2,986**
Marketable Equity Securities	**163**	**165**	**(14)**	**314**
	$ 133,671	**$ 196**	**$ (3,712)**	**$ 130,155**
Securities Held to Maturity:				
State, County and Municipal	**$ 75**	**$**	**$**	**$ 75**

The amortized cost and fair value of investment securities as of June 30, 2006, 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	**$ 2,117**	**$ 2,084**		
Due After One Year Through Five Years	**47,566**	**46,272**		
Due After Five Years Through Ten Years	**5,412**	**5,365**	**$ 75**	**$ 75**
Due After Ten Years	**1,213**	**1,204**		

	56,308	**54,925**	**75**	**75**
Mortgage Backed Securities	**77,200**	**74,916**		
Marketable Equity Securities	**163**	**314**		
	$ 133,671	**$ 130,155**	**$ 75**	**$ 75**

14

Table of Contents

Part I (Continued)

Item 1 (Continued)

(3) Investment Securities (Continued)

Investment securities as of December 31, 2005 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale:				
U.S. Government Agencies				
Mortgage Backed	$ 74,811	$ 22	$ (1,545)	$ 73,288
Other	39,073	23	(651)	38,445
State, County & Municipal	9,187	51	(47)	9,191
Corporate Obligations	3,062		(39)	3,023
Marketable Equity Securities	163	151	(14)	300
	$ 126,296	$ 247	$ (2,296)	$ 124,247
Securities Held to Maturity:				
State, County and Municipal	$ 79	$	$	$ 79

There were no proceeds from sales of investments available for sale during first and second quarter 2006 or first and second quarter 2005.

Investment securities having a carry value approximating $76,525 and $63,487 as of June 30, 2006 and December 31, 2005, respectively, were pledged to secure public deposits and for other purposes.

Information pertaining to securities with gross unrealized losses at June 30, 2006 and December 31, 2005 aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
June 30, 2006						
U.S. Government Agencies						
Mortgage Backed	$ 29,111	$ (532)	$ 42,686	$ (1,765)	$ 71,797	($ 2,297)
Other	17,444	(260)	25,743	(924)	43,187	(1,184)
State, County and Municipal	**6,352**	**(129)**	**1,352**	**(36)**	**7,704**	**(165)**
Corporate Obligations	**996**	**(8)**	**1,990**	**(44)**	**2,986**	**(52)**
Marketable Equity Securities			**46**	**(14)**	**46**	**(14)**
	$ 53,903	**$ (929)**	**$ 71,817**	**$ (2,783)**	**$ 125,720**	**$ (3,712)**
December 31, 2005						
U.S. Government Agencies						
Mortgage Backed	$ 28,900	$ (409)	$ 37,482	$ (1,137)	$ 66,382	$ (1,546)
Other	20,677	(337)	11,305	(314)	31,982	(651)
State, County and Municipal	4,041	(33)	406	(14)	4,447	(47)

Corporate Obligations	1,002	(20)	1,016	(18)	2,018	(38)
Marketable Equity Securities	47	(14)			47	(14)
	$ 54,667	$ (813)	$ 50,209	$ (1,483)	$ 104,876	$ (2,296)

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.

Table of Contents

Part I (Continued)

Item 1 (Continued)

(3) Investment Securities (Continued)

At June 30, 2006, the debt securities with unrealized losses have depreciated 2.87 percent from the Company s amortized cost basis. These securities are guaranteed by either U.S. Government or other governments. These unrealized losses relate principally to current interest rates for similar type of securities. In analyzing an issuer s financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred and the results of reviews of the issuer s financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other-than-temporary.

(4) Loans

The composition of loans as of June 30, 2006 and December 31, 2005 was as follows:

	June 30, 2006	December 31, 2005
Commercial, Financial and Agricultural	**$ 67,980**	$ 48,849
Real Estate Construction	**176,226**	152,944
Real Estate Farmland	**42,005**	37,152
Real Estate Other	**533,390**	529,599
Installment Loans to Individuals	**75,270**	73,473
All Other Loans	**18,042**	17,100
	$ 912,913	$ 859,117

Nonaccrual loans are loans for which principal and interest are doubtful of collection in accordance with original loan terms and for which accruals of interest have been discontinued due to payment delinquency. Nonaccrual loans totaled $6,209 and $8,579 as of June 30, 2006 and December 31, 2005, respectively and total recorded investment in loans past due 90 days or more and still accruing interest approximated $11 and $14, respectively.

(5) Allowance for Loan Losses

Transactions in the allowance for loan losses are summarized below for six months ended June 30, 2006 and June 30, 2005 as follows:

	June 30, 2006	June 30, 2005
Balance, Beginning	**$ 10,762**	$ 10,012
Provision Charged to Operating Expenses	**1,969**	1,833
Loans Charged Off	**(1,543)**	(1,900)
Loan Recoveries	**470**	174
Balance, Ending	**$ 11,658**	$ 10,119

16

Table of Contents

Part I (Continued)

Item 1 (Continued)

(6) Premises and Equipment

Premises and equipment are comprised of the following as of June 30, 2006 and December 31, 2005:

	June 30, 2006	December 31, 2005
Land	**$ 7,303**	$ 6,094
Building	**20,662**	18,687
Furniture, Fixtures and Equipment	**12,042**	11,547
Leasehold Improvements	**994**	966
Construction in Progress		1,076
	41,001	38,370
Accumulated Depreciation	**(13,350)**	(12,694)
	$ 27,651	$ 25,676

Depreciation charged to operations totaled $946 and $899 for June 30, 2006 and June 30, 2005, respectively.

Certain Company facilities and equipment are leased under various operating leases. Rental expense approximated $169 and $177 for six months ended June 30, 2006 and June 30, 2005, respectively.

(7) Goodwill and Intangible Assets

The following is an analysis of the goodwill and core deposit intangible asset activity for the six months ended June 30, 2006 and June 30, 2005:

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Goodwill		
Balance, Beginning	**$ 2,412**	$ 2,412
Goodwill Acquired		
Balance, Ending	**$ 2,412**	$ 2,412
Net Core Deposit, Intangible		
Balance, Beginning	**$ 520**	$ 634
Amortization Expense	**(51)**	(63)
Balance, Ending	**$ 469**	$ 571

The following table reflects the expected amortization for the core deposit intangible at June 30, 2006:

2006	$ 30

2007	36
2008	36
2009	36
2010 and thereafter	331
	$ 469

(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.

Table of Contents

Part I (Continued)

Item 1 (Continued)

(9) Deposits

The aggregate amount of overdrawn deposit accounts reclassified as loan balances totaled $785 and $594 as of June 30, 2006 and December 31, 2005.

Components of interest-bearing deposits as of June 30, 2006 and December 31, 2005 are as follows:

	June 30, 2006	December 31, 2005
Interest-Bearing Demand	**$ 175,452**	$ 187,736
Savings	**36,263**	35,245
Time, $100,000 and Over	**355,871**	283,583
Other Time	**363,876**	359,023
	$ 931,462	$ 865,587

At June 30, 2006 and December 31, 2005, the Company had brokered deposits of $89,398 and $45,729 respectively. The aggregate amount of short-term jumbo certificates of deposit, each with a minimum denomination of $100,000 was approximately $302,689 and $234,307 as of June 30, 2006 and December 31, 2005, respectively.

As of June 30, 2006 and December 31, 2005, the scheduled maturities of certificates of deposits are as follows:

Maturity	June 30, 2006	December 31, 2005
One Year and Under	**$ 618,112**	$ 543,311
One to Three Years	**74,014**	74,215
Three Years and Over	**27,621**	25,080
	$ 719,747	$ 642,606

(10) Other Borrowed Money

Other borrowed money at June 30, 2006 and December 31, 2005 is summarized as follows:

	June 30, 2006	December 31, 2005
Federal Home Loan Bank Advances	**$ 62,000**	$ 67,500
The Banker s Bank Note Payable	**0**	2,500
The Banker s Bank Note Payable	**117**	226
	$ 62,117	$ 70,226

Advances from the Federal Home Loan Bank (FHLB) have maturities ranging from 2006 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, commercial real estate loans and cash balances held by the FHLB are pledged as collateral for the FHLB advances outstanding. At June 30, 2006, the Company had available line of credit commitments totaling $108,048, of which $46,048 was available.

The Banker s Bank note payable originated on May 27, 2005 for $1,500. On December 20, 2005, the original $1,500 was renewed into a new note with an additional $1,000 advanced at an interest rate of The Wall Street Prime minus 0.75 percent. Interest payments were due quarterly with the entire unpaid balance due May 27, 2006. The loan is collateralized by a negative pledge of Colony Bank Wilcox stock. The loan was paid off in April 2006.

The Banker s Bank note payable was renewed on January 7, 2003 for $1,113 at a rate of the Wall Street Prime minus one half percent. Payments are due monthly with the entire unpaid balance due January 7, 2007. The debt is secured by all furniture, fixtures, machinery, equipment and software of Colony Management Services, Inc. Colony Bankcorp, Inc. guarantees the debt.

Table of Contents

Part I (Continued)

Item 1 (Continued)

(10) Other Borrowed Money (Continued)

The aggregate stated maturities of other borrowed money at June 30, 2006 are as follows:

Year	Amount
2006	$ 6,598
2007	9,019
2008	9,500
2009	
2010 and Thereafter	37,000
	$ 62,117

(11) Subordinated Debentures (Trust Preferred Securities)

During the first quarter of 2002, the Company formed a subsidiary whose sole purpose was to issue $9,000 in Trust Preferred Securities through a pool sponsored by FTN Financial Capital Markets. The Trust Preferred Securities have a maturity of 30 years and are redeemable after five years with certain exceptions. At June 30, 2006, the floating-rate securities had a 9.06 percent interest rate, which will reset quarterly at the three-month LIBOR rate plus 3.60 percent.

During the fourth quarter of 2002, the Company formed a second subsidiary whose sole purpose was to issue $5,000 in Trust Preferred Securities through a pool sponsored by FTN Financial Capital Markets. The Trust Preferred Securities have a maturity of 30 years and are redeemable after five years with certain exceptions. At June 30, 2006 the floating-rate securities had a 8.71 percent interest rate, which will reset quarterly at the three-month LIBOR rate plus 3.25 percent.

During the second quarter of 2004, the Company formed a third subsidiary whose sole purpose was to issue $4,500 in Trust Preferred Securities through a pool sponsored by FTN Financial Capital Markets. The Trust Preferred Securities have a maturity of 30 years and are redeemable after five years with certain exceptions. At June 30, 2006, the floating rate securities had a 8.076 percent interest rate, which will reset quarterly at the three-month LIBOR rate plus 2.68 percent.

During the second quarter of 2006, the Company formed a fourth subsidiary whose sole purpose was to issue $5,000 in Trust Preferred Securities through a pool sponsored by SunTrust Capital Markets. The Trust Preferred Securities have a maturity of 30 years and are redeemable after five years with certain exceptions. At June 30, 2006 the floating-rate securities had a 7.00 percent interest rate, which will reset quarterly at the three-month LIBOR rate plus 1.50 percent.

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

(12) Restricted Stock Unearned Compensation

In 1999, the board of directors of Colony Bankcorp, Inc. adopted a restricted stock grant plan which awards certain executive officers common shares of the Company. The maximum number of shares (split-adjusted) which may be subject to restricted stock awards is 64,701. During 2000 2006, 72,928 split-adjusted shares were issued under this plan and since the plan s inception, 11,102 shares have been forfeited; thus, remaining shares which may be subject to restricted stock awards are 2,875 at June 30, 2006. The shares are recorded at fair market value (on the date granted) as a separate component of stockholders equity. The cost of these shares is being amortized against earnings using the straight-line method over three years (the restriction period.)

In April 2004, the stockholders of Colony Bankcorp, Inc. adopted a restricted stock grant plan which awards certain executive officers common shares of the Company. The maximum number of shares which may be subject to restricted stock awards (split-adjusted) is 143,500. During 2006, 6,855 shares were issued under this plan and since the plan s inception 700 shares have been forfeited, thus remaining shares which may be subject to restricted stock awards are 137,345 at June 30, 2006. The shares are recorded at fair market value (on the date granted) as a separate component of stockholders equity. The cost of these shares is being amortized against earnings using the straight-line method over three years (the restriction period).

Table of Contents

Part I (Continued)

Item 1 (Continued)

(13) Profit Sharing Plan

The Company has a profit sharing plan that covers substantially all employees who meet certain age and service requirements. It is the Company s policy to make contributions to the plan as approved annually by the board of directors. The total provision for contributions to the plan was $558 for 2005, $479 for 2004 and $476 for 2003.

(14) Commitments and Contingencies

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

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

At June 30, 2006 and December 31, 2005 the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	June 30, 2006	**December 31, 2005**
Loan Commitments	**$ 121,153**	$ 112,056
Standby Letters of Credit	**2,328**	2,572
Performance Letter of Credit	**467**	472

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 issue 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.

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

(15) Deferred Compensation Plan

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

Table of Contents

Part I (Continued)

Item 1 (Continued)

(15) Deferred Compensation Plan (Continued)

Liabilities accrued under the plans totaled $1,098 and $1,114 as of June 30, 2006 and December 31, 2005, respectively. Benefit payments under the contracts were $88 and $84 for the six month period ended June 30, 2006 and June 30, 2005, respectively. Provisions charged to operations totaled $72 and $269 for the six month period ended June 30, 2006 and June 30, 2005, respectively.

Fee income recognized with deferred compensation plans totaled $93 and $266 for six month period ended June 30, 2006 and June 30, 2005, respectively.

(16) Regulatory Capital Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. The amounts and ratios as defined in regulations are presented hereafter. Management believes, as of June 30, 2006, the Company meets all capital adequacy requirements to which it is subject under the regulatory framework for prompt corrective action. In the opinion of management, there are no conditions or events since prior notification of capital adequacy from the regulators that have changed the institution s category.

Table of Contents

Part I (Continued)

Item 1 (Continued)

(16) Regulatory Capital Matters (Continued)

The following table summarizes regulatory capital information as of June 30, 2006 and December 31, 2005 on a consolidated basis and for each significant subsidiary, as defined.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 2006						
Total Capital to Risk-Weighted Assets						
Consolidated	**$ 105,629**	**11.41%**	**$ 74,046**	**8.00%**	**$ 92,557**	**10.00%**
Fitzgerald	**17,809**	**10.75**	**13,249**	**8.00**	**16,562**	**10.00**
Ashburn	**28,925**	**11.17**	**20,712**	**8.00**	**25,890**	**10.00**
Worth	**14,162**	**11.09**	**10,219**	**8.00**	**12,774**	**10.00**
Southeast	**18,875**	**11.18**	**13,507**	**8.00**	**16,884**	**10.00**
Quitman	**11,787**	**11.74**	**8,034**	**8.00**	**10,042**	**10.00**
Tier 1 Capital to Risk-Weighted Assets						
Consolidated	**$ 93,990**	**10.15%**	**$ 37,023**	**4.00%**	**$ 55,534**	**6.00%**
Fitzgerald	**15,732**	**9.50**	**6,625**	**4.00**	**9,937**	**6.00**
Ashburn	**25,687**	**9.92**	**10,356**	**4.00**	**15,534**	**6.00**
Worth	**12,564**	**9.84**	**5,109**	**4.00**	**7,664**	**6.00**
Southeast	**17,027**	**10.08**	**6,754**	**4.00**	**10,130**	**6.00**
Quitman	**10,531**	**10.49**	**4,017**	**4.00**	**6,025**	**6.00**
Tier 1 Capital to Average Assets						
Consolidated	**$ 93,990**	**8.16%**	**$ 46,056**	**4.00%**	**$ 57,570**	**5.00%**
Fitzgerald	**15,732**	**8.04**	**7,831**	**4.00**	**9,789**	**5.00**
Ashburn	**25,687**	**7.85**	**13,085**	**4.00**	**16,356**	**5.00**
Worth	**12,564**	**7.49**	**6,709**	**4.00**	**8,386**	**5.00**
Southeast	**17,027**	**8.75**	**7,784**	**4.00**	**9,730**	**5.00**
Quitman	**10,531**	**7.50**	**5,620**	**4.00**	**7,025**	**5.00**

Table of Contents

Part I (Continued)

Item 1 (Continued)

16) 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, 2005						
Total Capital to Risk-Weighted Assets						
Consolidated	$ 95,873	11.02%	$ 69,600	8.00%	$ 87,000	10.00%
Fitzgerald	16,801	11.34	11,849	8.00	14,811	10.00
Ashburn	28,183	11.07	20,363	8.00	25,454	10.00
Worth	13,718	10.48	10,475	8.00	13,094	10.00
Southeast	15,025	10.30	11,665	8.00	14,581	10.00
Quitman	11,237	12.15	7,397	8.00	9,246	10.00
Tier 1 Capital to Risk-Weighted Assets						
Consolidated	$ 85,049	9.78%	$ 34,800	4.00%	$ 52,200	6.00%
Fitzgerald	14,998	10.12	5,924	4.00	8,887	6.00
Ashburn	24,999	9.82	10,181	4.00	15,272	6.00
Worth	12,079	9.22	5,238	4.00	7,856	6.00
Southeast	13,687	9.39	5,833	4.00	8,749	6.00
Quitman	10,164	10.99	3,698	4.00	5,548	6.00
Tier 1 Capital to Average Assets						
Consolidated	$ 85,049	7.77%	$ 43,768	4.00%	$ 54,710	5.00%
Fitzgerald	14,988	8.03	7,463	4.00	9,329	5.00
Ashburn	24,999	7.60	13,162	4.00	16,452	5.00
Worth	12,079	7.25	6,668	4.00	8,335	5.00
Southeast	13,687	8.36	6,551	4.00	8,188	5.00
Quitman	10,164	8.06	5,044	4.00	6,305	5.00

Table of Contents

Part I (Continued)

Item 1 (Continued)

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

The parent company s balance sheets as of June 30, 2006 and December 31, 2005 and the related statements of income and comprehensive income and cash flows are as follows:

COLONY BANKCORP, INC. (PARENT ONLY)

BALANCE SHEETS

JUNE 30, 2006 AND DECEMBER 31, 2005

	June 30, 2006 (Unaudited)	December 31, 2005 (Audited)
ASSETS		
Cash	$ 506	$ 229
Premises and Equipment, Net	1,291	1,285
Investment in Subsidiaries, at Equity	93,419	88,376
Other	1,052	788
Totals Assets	$ 96,268	$ 90,678
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities		
Dividends Payable	$ 575	$ 538
Other	413	438
	988	976
Other Borrowed Money	0	2,500
Subordinated Debt	24,229	19,074
Stockholders Equity		
Common Stock, Par Value $1 a Share; Authorized 20,000,000 Shares, Issued 7,190,535 and 7,181,320 Shares as of June 30, 2006 and December 31, 2005, Respectively	7,191	7,181
Paid-In Capital	24,210	24,000
Retained Earnings	42,388	38,602
Restricted Stock - Unearned Compensation	(418)	(302)
Accumulated Other Comprehensive Loss, Net of Tax	(2,320)	(1,353)
	71,051	68,128
Total Liabilities and Stockholders Equity	$ 96,268	$ 90,678

Table of Contents

Part I (Continued)

Item 1 (Continued)

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

COLONY BANKCORP, INC. (PARENT ONLY)

STATEMENT OF INCOME AND COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND JUNE 30, 2005

(UNAUDITED)

	JUNE 30, 2006	JUNE 30, 2005
Income		
Dividends from Subsidiaries	**$ 2,835**	$ 1,868
Other	**50**	35
	2,885	1,903
Expenses		
Interest	**898**	591
Salaries and Employee Benefits	**544**	521
Other	**397**	374
	1,839	1,486
Income Before Taxes and Equity in Undistributed Earnings of Subsidiaries	**1,046**	417
Income Tax (Benefits)	**(518)**	(474)
Income Before Taxes and Equity in Undistributed Earnings of Subsidiaries	**1,564**	891
Equity in Undistributed Earnings of Subsidiaries	**3,355**	3,530
Net Income	**4,919**	4,421
Other Comprehensive Income, Net of Tax		
Losses on Securities Arising During Year	**(967)**	(17)
Reclassification Adjustment	**0**	0
Unrealized Losses in Securities	**(967)**	(17)
Comprehensive Income	**$ 3,952**	$ 4,404

25

Table of Contents

Part I (Continued)

Item 1 (Continued)

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

COLONY BANKCORP, INC. (PARENT ONLY)

STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND JUNE 30, 2005

(UNAUDITED)

	2006	2005
Cash Flows from Operating Activities		
Net Income	**$ 4,919**	$ 4,421
Adjustments to Reconcile Net Income to Net Cash Provided from Operating Activities		
Depreciation and Amortization	**144**	122
Equity in Undistributed Earnings of Subsidiary	**(3,355)**	(3,530)
Other	**(288)**	(97)
	1,420	916
Cash Flows from Investing Activities		
Capital Infusion in Subsidiary	**(2,500)**	(1,350)
Purchases of Premises and Equipment	**(47)**	(50)
Investment in Statutory Trust	**(155)**	
	(2,702)	(1,400)
Cash Flows from Financing Activities		
Dividends Paid	**(1,096)**	(962)
Principal Payments on Other Borrowed Money	**(2,500)**	
Proceeds from Notes		1,500
Proceeds from Issuance of Subordinated Debentures	**5,155**	
	1,559	538
Increase in Cash	**277**	54
Cash, Beginning	**229**	163
Cash, Ending	**$ 506**	$ 217

26

Table of Contents

Part I (Continued)

Item 1 (Continued)

(18) Earnings Per Share

SFAS No. 128 establishes standards for computing and presenting basic and diluted earnings per share. Basic earnings per share is calculated and presented based on income available to common stockholders divided by the weighted average number of shares outstanding during the reporting periods. Diluted earnings per share reflects the potential dilution of restricted stock. The following presents earnings per share for the three months and six months ended June 30, 2006 and 2005, respectively, under the requirements of Statement 128:

	Three Months Ended June 30, 2006			Three Months Ended June 30, 2005		
	Income Numerator	**Common Shares Denominator**	**EPS**	**Income Numerator**	**Common Shares Denominator**	**EPS**
Basic EPS						
Income Available to Common Stockholders	$ 2,610	7,176	$ 0.36	$ 2,247	7,144	$ 0.31
Dilutive Effect of Potential Common Stock						
Restricted Stock		1			26	
Diluted EPS						
Income Available to Common Stockholders After Assumed Conversions of Dilutive Securities	$ 2,610	7,177	$ 0.36	$ 2,247	7,170	$ 0.31

	Six Months Ended June 30, 2006			Six Months Ended June 30, 2005		
	Income Numerator	**Common Shares Denominator**	**EPS**	**Income Numerator**	**Common Shares Denominator**	**EPS**
Basic EPS						
Income Available to Common Stockholders	$ 4,419	7,173	$ 0.69	$ 4,421	7,144	$ 0.62
Dilutive Effect of Potential Common Stock						
Restricted Stock		2			26	
Diluted EPS						
Income Available to Common Stockholders After Assumed Conversions of Dilutive Securities	$ 4,419	7,175	$ 0.69	$ 4,421	7,170	$ 0.62

Table of Contents

Part I (Continued)

Item 2

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

Forward-Looking Statements and Factors that Could Affect Future Results

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

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

Local and regional economic conditions and the impact they may have on the Company and its customers and the Company s assessment of that impact.

Changes in estimates of future reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements.

The effects of and changes in trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve Board.