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, 2010	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 x NO o

INDICATE BY CHECK MARK WHETHER THE REGISTRANT HAS SUBMITTED ELECTRONICALLY AND POSTED ON ITS CORPORATE WEB SITE, IF ANY, EVERY INTERACTIVE DATA FILE REQUIRED TO BE SUBMITTED AND POSTED PURSUANT TO RULE 405 OF REGULATION S-T (§232.405 OF THIS CHAPTER) DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO SUBMIT AND POST SUCH FILES).

YES o NO o

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 o	ACCELERATED FILER o
NON ACCELERATED FILER o	SMALLER REPORTING COMPANY x
(DO NOT CHECK IF A SMALLER REPORTING COMPANY)	

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

YES o NO x

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

CLASS	OUTSTANDING AT AUGUST 13, 2010
COMMON STOCK, $1 PAR VALUE	8,444,308

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Forward Looking Statement Disclosure

Statements in this Quarterly Report regarding future events or performance are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 (the PSLRA) and are made pursuant to the safe harbors of the PSLRA. Actual results of Colony Bankcorp, Inc. (the Company) could be quite different from those expressed or implied by the forward-looking statements. Any statements containing the words “could,” “may,” “will,” “should,” “plan,” “believe,” “anticipates,” “estimates,” “predicts,” “expects,” “projections,” “potential,” “continue,” or 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).

PART 1. FINANCIAL INFORMATION
ITEM 1

FINANCIAL STATEMENTS

THE FOLLOWING FINANCIAL STATEMENTS ARE PROVIDED FOR COLONY BANKCORP, INC. AND ITS WHOLLY-OWNED SUBSIDIARY BANK, COLONY BANK

A. CONSOLIDATED BALANCE SHEETS – JUNE 30, 2010 AND DECEMBER 31, 2009.

B. CONSOLIDATED STATEMENTS OF INCOME – FOR THE THREE MONTHS ENDEDJUNE 30, 2010 AND 2009 AND FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009.

C. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME – FOR THE THREE MONTHSENDED JUNE 30, 2010 AND 2009 AND FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009.

D. CONSOLIDATED STATEMENTS OF CASH FLOWS – FOR THE THREE MONTHS ENDED JUNE 30, 2010 AND 2009.

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

THE RESULTS OF OPERATIONS FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2010 ARE NOT NECESSARILY INDICATIVE OF THE RESULTS TO BE EXPECTED FOR THE FULL YEAR.

Part I (Continued)
Item 1 (Continued)

COLONY BANKCORP, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2010 AND DECEMBER 31, 2009
(DOLLARS IN THOUSANDS)

ASSETS	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
Cash and Cash Equivalents		
Cash and Due from Banks	$ 20,171	$ 25,996
Federal Funds Sold	13,646	16,433
	33,817	42,429
Interest-Bearing Deposits	17,228	6,479
Investment Securities		
Available for Sale, at Fair Value	289,410	267,247
Held to Maturity, at Cost (Fair Value of $52 and $57, as of June 30, 2010 and December 31, 2009, Respectively)	49	54
	289,459	267,301
Federal Home Loan Bank Stock, at Cost	6,345	6,345
Loans	856,415	931,392
Allowance for Loan Losses	(28,536)	(31,401)
Unearned Interest and Fees	(81)	(140)
	827,798	899,851
Premises and Equipment	27,999	28,826
Other Real Estate	21,364	19,705
Other Intangible Assets	313	331
Other Assets	27,454	35,822
Total Assets	$ 1,251,777	$ 1,307,089
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Noninterest-Bearing	$ 77,446	$ 84,239
Interest-Bearing	930,919	973,348
	1,008,365	1,057,587
Borrowed Money		
Securities Sold Under Agreements to Repurchase	25,000	40,000
Subordinated Debentures	24,229	24,229
Other Borrowed Money	91,667	91,000
	140,896	155,229
Other Liabilities	4,431	4,999
Commitments and Contingencies		
Stockholders' Equity		
	27,431	27,357

Preferred Stock, No Par Value; Authorized 10,000,000 Shares, Issued 28,000 Shares				
Common Stock, Par Value $1 a Share; Authorized 20,000,000 Shares, Issued 8,444,308 and 7,229,163 Shares as of June 30, 2010 and December 31, 2009, Respectively		8,444		7,229
Paid-In Capital		29,186		25,393
Retained Earnings		29,985		29,554
Restricted Stock - Unearned Compensation		(97)		(159)
Accumulated Other Comprehensive Income (Loss), Net of Tax		3,136		(100)
		98,085		89,274
Total Liabilities and Stockholders' Equity	$	1,251,777	$	1,307,089

The accompanying notes are an integral part of these statements.

Part I (Continued)
Item 1 (Continued)

COLONY BANKCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS ENDED JUNE 30, 2010 AND 2009
AND SIX MONTHS ENDED JUNE 30, 2010 AND 2009
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	Three Months Ended		Six Months Ended	
	6/30/2010	6/30/2009	6/30/2010	6/30/2009
Interest Income				
Loans, Including Fees	$13,039	$14,576	$26,471	$28,773
Federal Funds Sold	14	6	40	11
Deposits with Other Banks	14	--	17	--
Investment Securities				
U.S. Government Agencies	1,995	1,907	3,671	3,954
State, County and Municipal	23	60	48	148
Corporate Obligations and Asset-Backed Securities	34	90	90	213
Dividends on Other Investments	4	--	8	--
	15,123	16,639	30,345	33,099
Interest Expense				
Deposits	4,430	5,553	8,870	11,726
Federal Funds Purchased	181	204	367	436
Borrowed Money	916	943	1,834	1,938
	5,527	6,700	11,071	14,100
Net Interest Income	9,596	9,939	19,274	18,999
Provision for Loan Losses	3,400	13,355	6,650	17,580
Net Interest Income (Loss) After Provision for Loan Losses	6,196	(3,416)	12,624	1,419
Noninterest Income				
Service Charges on Deposits	936	1,042	1,843	2,030
Other Service Charges, Commissions and Fees	288	252	558	488
Mortgage Fee Income	79	121	140	219
Securities Gains	97	221	878	2,538
Other	619	360	1,140	679
	2,019	1,996	4,559	5,954
Noninterest Expenses				
Salaries and Employee Benefits	3,510	3,583	7,064	7,390
Occupancy and Equipment	1,098	1,041	2,206	2,050
Other	3,088	3,671	6,739	6,212
	7,696	8,295	16,009	15,652
Income (Loss) Before Income Taxes	519	(9,715)	1,174	(8,279)
Income Taxes (Benefits)	(2)	(3,318)	(31)	(2,960)
Net Income (Loss)	521	(6,397)	1,205	(5,319)
Preferred Stock Dividends	350	350	700	665
Net Income (Loss) Available to Common Stockholders	$171	$(6,747)	$505	$(5,984)

Net Income (Loss) Per Share of Common Stock				
Basic	$0.02	$(0.94)	$0.06	$(0.83)
Diluted	$0.02	$(0.94)	$0.06	$(0.83)
Cash Dividends Declared Per Share of Common Stock	$0.00	$0.05	$0.00	$0.15
Weighted Average Basic Shares Outstanding	8,443,884	7,209,865	7,849,973	7,206,275
Weighted Average Diluted Shares Outstanding	8,443,884	7,209,865	7,849,973	7,206,275

The accompanying notes are an integral part of these statements.

Part I (Continued)
Item 1 (Continued)

COLONY BANKCORP INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
THREE MONTHS ENDED JUNE 30, 2010 AND 2009
AND SIX MONTHS ENDED JUNE 30, 2010 AND 2009
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	Three Months Ended		Six Months Ended	
	06/30/10	06/30/09	06/30/10	06/30/09
Net Income (Loss)	$521	$(6,397)	$1,205	$(5,319)
Other Comprehensive Income (Loss), Net of Tax				
Gains on Securities Arising During the Year	3,113	1,368	3,815	1,148
Reclassification Adjustment	(63)	(146)	(579)	(1,675)
Change in Net Unrealized Gains (Losses) on Securities Available for Sale, Net of Reclassification Adjustment and Tax Effect	3,050	1,222	3,236	(527)
Comprehensive Income (Loss)	$3,571	$(5,175)	$4,441	$(5,846)

The accompanying notes are an integral part of these statements.

Part I (Continued)
Item 1 (Continued)

COLONY BANKCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2010 AND 2009
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (Loss)	$ 1,205	$ (5,319)
Adjustments to Reconcile Net Income to Net Cash		
Provided by Operating Activities:		
Depreciation	1,088	1,013
Provision for Loan Losses	6,650	17,580
Securities Gains	(878)	(2,538)
Amortization and Accretion	1,996	1,713
(Gain) Loss on Sale of Other Real Estate and Repossessions	449	(11)
Unrealized Loss on Other Real Estate	441	24
Gain on Sale of Property/Equipment	--	(75)
(Increase) Decrease in Cash Surrender Value of Life Insurance	13	(112)
Other Prepaids, Deferrals and Accruals, Net	5,992	(2,466)
	16,956	9,809
CASH FLOWS FROM INVESTING ACTIVITIES		
Federal Home Loan Bank Stock	--	(73)
Purchases of Investment Securities Available for Sale	(179,428)	(314,588)
Proceeds from Maturities, Calls, and Paydowns of		
Investment Securities:		
Available for Sale	24,642	27,797
Held to Maturity	8	5
Proceeds from Sale of Investment Securities		
Available for Sale	136,572	244,839
Increase in Interest-Bearing Deposits in Other Banks	(10,749)	(82)
(Increase) Decrease in Net Loans to Customers	58,538	(24,145)
Purchase of Premises and Equipment	(261)	(745)
Proceeds from Sale of Other Real Estate and Repossessions	4,286	5,000
Proceeds from Sale of Premises & Equipment	--	111
Other Additions and Adjustments	--	(17)
	33,608	(61,898)
CASH FLOWS FROM FINANCING ACTIVITIES		
Noninterest-Bearing Customer Deposits	(6,793)	(6,127)
Interest-Bearing Customer Deposits	(42,428)	15,674
Federal Funds Purchased	--	10,423
Securities Sold Under Agreements to Repurchase	(15,000)	--
Dividends Paid On Common Stock	--	(1,408)
Dividends Paid On Preferred Stock	(700)	(490)
Proceeds from Issuance of Common Stock	5,078	--
Proceeds from Other Borrowed Money	19,000	19,000

Principal Payments on Other Borrowed Money	(20,000)	(19,000)
Proceeds from Secured Borrowings	1,667	--
Proceeds Allocated to Issuance of Preferred Stock	--	27,215
Proceeds Allocated to Warrants Issued	--	785
	(59,176)	46,072
Net (Decrease) in Cash and Cash Equivalents	(8,612)	(6,017)
Cash and Cash Equivalents at Beginning of Period	42,429	29,458
Cash and Cash Equivalents at End of Period	$33,817	$23,441

The accompanying notes are an integral part of these statements.

Part I (Continued)
Item 1 (Continued)

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

(1) Summary of Significant Accounting Policies

Presentation

Colony Bankcorp, Inc. (the Company) is a bank holding company located in Fitzgerald, Georgia. The Company merged all of its operations into one sole subsidiary effective August 1, 2008. The consolidated financial statements include the accounts of Colony Bankcorp, Inc. and its wholly-owned subsidiary, Colony Bank (which includes its wholly-owned subsidiary, Colony Mortgage Corp.), 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. The Company has evaluated subsequent events for potential recognition and/or disclosure through August 13, 2010, the date the consolidated financial statements included in this quarterly input on Form 10-Q were issued.

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

In the opinion of management, all adjustments necessary for a fair presentation of financial position and results of operations for the interim dates and interim periods are included herein.

Nature of Operations

The Bank provides a full range of retail and commercial banking services for consumers and small- to medium-size businesses located primarily in middle and south Georgia. Colony Bank is headquartered in Fitzgerald, Georgia with banking offices in Albany, Ashburn, Broxton, Centerville, Chester, Columbus, Cordele, Douglas, Eastman, Fitzgerald, Leesburg, Moultrie, Pitts, Quitman, Rochelle, Savannah, Soperton, Sylvester, Thomaston, Tifton, Valdosta and Warner Robins. 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.

Accounting Standards Codification

The Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) became effective on July 1, 2009. At that date, the ASC became FASB's officially recognized source of authoritative U.S. generally accepted accounting principles (GAAP) applicable to all public and non-public non-governmental entities, superseding existing FASB, American Institute of Certified Public Accountants (AICPA), Emerging Issues Task Force (EITF) and related literature. Rules and interpretive releases of the SEC under the authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. All other accounting literature is considered nonauthoritative. The switch to the ASC affects the way companies refer to U.S. GAAP in financial statements and accounting policies. Citing particular content in the ASC involves specifying the unique numeric path to the content through the Topic, Subtopic, Section and Paragraph structure.

Reclassifications

In certain instances, amounts reported in prior years' consolidated financial statements have been reclassified to conform to statement presentations selected for 2010. Such reclassifications had no effect on previously reported stockholders' equity or net income.

Concentrations of Credit Risk

Concentrations of credit risk can exist in relation to individual borrowers or groups of borrowers, certain types of collateral, certain types of industries, or certain geographic regions. The Company has a concentration in real estate loans as well as a geographic concentration that could pose an adverse credit risk, particularly with the current economic downturn in the real estate market. At

Part I (Continued)
Item 1 (Continued)

(1) Summary of Significant Accounting Policies (Continued)

Concentrations of Credit Risk (Continued)

June 30, 2010, approximately 85 percent of the Company's loan portfolio was concentrated in loans secured by real estate. A substantial portion of borrowers' ability to honor their contractual obligations is dependent upon the viability of the real estate economic sector. The continued downturn of the housing and real estate market that began in 2007 has resulted in an increase of problem loans secured by real estate. These loans are centered primarily in the Company's larger MSA markets. Declining collateral real estate values that secure land development, construction and speculative real estate loans in the Company's larger MSA markets have resulted in higher than normal loan loss provisions in 2010. In addition, a large portion of the Company's foreclosed assets are also located in these same geographic markets, making the recovery of the carrying amount of foreclosed assets susceptible to changes in market conditions. Management continues to monitor these concentrations and has considered these concentrations in its allowance for loan loss analysis.

The success of the Company 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.

Investment Securities

The Company classifies its investment 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. Currently, no securities are classified as trading. 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 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 to the extent the impairment is related to credit losses. The amount of impairment related to other factors is recognized in other comprehensive income. 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 the accounting standards. 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.

Part I (Continued)
Item 1 (Continued)

(1) Summary of Significant Accounting Policies (Continued)

Loans (Continued)

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.

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 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. During the fourth quarter 2009, the Company changed its methodology regarding the look back period for charge-off experience from five years to one year. With the significant net charge-offs during 2009, this change resulted in a significant increase in loan loss provisions.

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

Part I (Continued)
Item 1 (Continued)

(1) Summary of Significant Accounting Policies (Continued)

Premises and Equipment (Continued)

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. Testing performed during 2009 indicated total impairment of goodwill and, accordingly, $2,412,338 was expensed as an impairment during 2009.

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

Transfers of Financial Assets

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

Statement of Cash Flows

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

Securities Sold Under Repurchase Agreements

The Company sells securities under agreements to repurchase. These repurchase agreements are treated as borrowings. The obligations to repurchase securities sold are reflected as a liability and the securities underlying the agreements are reflected as assets in the consolidated balance sheets.

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 subsidiary file a consolidated federal income tax return. The subsidiary pays its proportional share of federal income taxes to the Company based on its taxable income.

Part I (Continued)
Item 1 (Continued)

(1) Summary of Significant Accounting Policies (Continued)

Income Taxes (Continued)

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 estimated fair value at the date of acquisition less costs to sell. Losses from the acquisition of property in full or partial satisfaction of debt are recorded as loan losses. Properties are evaluated regularly to ensure the recorded amounts are supported by current fair values, and valuation allowances are recorded as necessary to reduce the carrying amount to fair value less estimated cost of disposal. 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 operations but as a separate component of the equity section of the consolidated balance sheets. Such items are considered components of other comprehensive income (loss). Accounting standards codification requires the presentation in the consolidated financial statements of net income and all items of other comprehensive income (loss) 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.

Accounting Standards Updates

Accounting Standards Update (ASU) No. 2009-16, "Transfers and Servicing (Topic 860) – Accounting for Transfers of Financial Assets." ASU 2009-16 amends prior accounting guidance to enhance reporting about transfers of financial assets, including securitizations, and where companies have continuing exposure to the risks related to transferred financial assets. ASU 2009-16 eliminates the concept of a "qualifying special-purpose entity" and changes the requirements for derecognizing financial assets. ASU 2009-16 also requires additional disclosures about all continuing involvements with transferred financial assets including information about gains and losses resulting from transfers during the period. The provisions of ASU 2009-16 became effective on January 1, 2010 and did not have a significant impact on the Company's financial statements.

ASU No. 2009-17, "Consolidations (Topic 810) – Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities." ASU 2009-17 amends prior guidance to change how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. ASU 2009-17 requires additional disclosures about the reporting entity's involvement with variable-interest entities and any significant changes in risk exposure due to that involvement as well as its affect on the entity's financial statements. As further discussed below, ASU No. 2010-10, "Consolidations (Topic 810)," deferred the effective date of ASU 2009-17 for a reporting entity's interests in investment companies. The provisions of ASU 2009-17 became effective on January 1, 2010 and did not have a significant impact on the Company's financial statements.

Part I (Continued)
Item 1 (Continued)

(1) Summary of Significant Accounting Policies (Continued)

Accounting Standards Updates (Continued)

ASU No. 2010-06, "Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures About Fair Value Measurements." ASU 2010-06 requires expanded disclosures related to fair value measurements including (i) the amounts of significant transfers of assets or liabilities between Levels 1 and 2 of the fair value hierarchy and the reasons for the transfers, (ii) the reasons for transfers of assets or liabilities in or out of Level 3 of the fair value hierarchy, with significant transfers disclosed separately, (iii) the policy for determining when transfers between levels of the fair value hierarchy are recognized and (iv) for recurring fair value measurements of assets and liabilities in Level 3 of the fair value hierarchy, a gross presentation of information about purchases, sales, issuances and settlements. ASU 2010-06 further clarifies that (i) fair value measurement disclosures should be provided for each class of assets and liabilities (rather than major category), which would generally be a subset of assets or liabilities within a line item in the statement of financial position and (ii) companies should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements for each class of assets and liabilities included in Levels 2 and 3 of the fair value hierarchy. The disclosures related to the gross presentation of purchases, sales, issuances and settlements of assets and liabilities included in Level 3 of the fair value hierarchy will be required for the Company beginning January 1, 2011. The remaining disclosure requirements and clarifications made by ASU 2010-06 became effective for the Company on January 1, 2010.

ASU No. 2010-20, "Receivables (Topic 830) – Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." ASU 2010-20 requires entities to provide disclosures designed to facilitate financial statement users' evaluation of (i) the nature of credit risk inherent in the entity's portfolio of financing receivables, (ii) how that risk is analyzed and assessed in arriving at the allowance for credit losses and (iii) the changes and reasons for those changes in the allowance for credit losses. Disclosures must be disaggregated by portfolio segment, the level at which an entity develops and documents a systematic method for determining its allowance for credit losses, and class of financing receivable, which is generally a disaggregation of portfolio segment. The required disclosures include, among other things, a rollforward of the allowance for credit losses as well as information about modified, impaired, non-accrual and past due loans and credit quality indicators. ASU 2010-20 will be effective for the Company's financial statements as of December 31, 2010, as it relates to disclosures required as of the end of a reporting period. Disclosures that relate to activity during a reporting period will be required for the Company's financial statements that include periods beginning on or after January 1, 2011.

(2) Cash and Balances Due from Banks

Components of cash and balances due from banks are as follows as of June 30, 2010 and December 31, 2009:

	June 30, 2010	December 31, 2009
Cash on Hand and Cash Items	$ 9,907	$ 8,773
Noninterest-Bearing Deposits with Other Banks	10,264	17,223
	$ 20,171	$ 25,99

Part I (Continued)
Item 1 (Continued)

3) Investment Securities

Investment securities as of June 30, 2010 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale:				
U.S. Government Agencies Mortgage-Backed	$279,985	$5,198	$(151)	$285,032
State, County & Municipal	2,195	37	(8)	2,224
Corporate Obligations	2,000	114	(92)	2,022
Asset-Backed Securities	479	--	(347)	132
	$284,659	$5,349	$(598)	$289,410
Securities Held to Maturity:				
State, County and Municipal	$49	$3	$--	$52

The amortized cost and fair value of investment securities as of June 30, 2010, 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 After One Year Through Five Years	$215	$231	--	--
Due After Five Years Through Ten Years	1,966	2,102	$49	$52
Due After Ten Years	2,493	2,045	--	--
	4,674	4,378	49	52
Mortgage-Backed Securities	279,985	285,032	--	--
	$284,659	$289,410	$49	$52

Investment securities as of December 31, 2009 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale:				
U.S. Government Agencies Mortgage-Backed	$258,433	$1,536	$(1,059)	$258,910
State, County & Municipal	4,027	75	(35)	4,067
Corporate Obligations	4,458	65	(385)	4,138
Asset-Backed Securities	479	--	(347)	132
	$267,397	$1,676	$(1,826)	$267,247

Securities Held to Maturity:				
State, County and Municipal	$54	$3	$--	$57

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Part I (Continued)
Item 1 (Continued)

3) Investment Securities (Continued)

Proceeds from the sale of investments available for sale during first six months of 2010 totaled $136,572 compared to $244,839 for the first six months of 2009. The sale of investments available for sale during 2010 resulted in gross realized gains of $878 and gross realized losses of $0 and the sale of investments available for sale during 2009 resulted in gross realized gain of $2,582 and losses of $44.

Investment securities having a carry value approximating $143,135 and $157,868 as of June 30, 2010 and December 31, 2009, respectively, were pledged to secure public deposits and for other purposes.

Information pertaining to securities with gross unrealized losses at June 30, 2010 and December 31, 2009 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, 2010						
U.S. Government Agencies Mortgage-Backed	$28,258	$(151)	$--	$--	$28,258	$(151)
State, County and Municipal	--	--	1,005	(8)	1,005	(8)
Corporate Obligations	--	--	908	(92)	908	(92)
Asset-Backed Securities	--	--	132	(347)	132	(347)
	$28,258	$(151)	$2,045	$(447)	$30,303	$(598)
December 31, 2009						
U.S. Government Agencies Mortgage-Backed	$114,223	$(1,056)	$419	$(3)	$114,642	$(1,059)
State, County and Municipal	--	--	1,425	(35)	1,425	(35)
Corporate Obligations	--	--	3,073	(385)	3,073	(385)
Asset-Backed Securities	--	--	132	(347)	132	(347)
	$114,223	$(1,056)	$5,049	$(770)	$119,272	$(1,826)

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

At June 30, 2010, the debt securities with unrealized losses have depreciated 1.94 percent from the Company's amortized cost basis. These securities are guaranteed by either U.S. Government, other governments, or U.S. corporations. These unrealized losses relate principally to current interest rates for similar types 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.

Part I (Continued)
Item 1 (Continued)

(4) Loans

The composition of loans as of June 30, 2010 and December 31, 2009 was as follows:

	June 30, 2010	December 31, 2009
Commercial, Financial and Agricultural	$ 75,236	$ 80,984
Real Estate – Construction	93,719	113,117
Real Estate – Farmland	52,487	54,965
Real Estate – Other	582,883	626,994
Installment Loans to Individuals	36,493	38,383
All Other Loans	15,597	16,949
	$ 856,415	$ 931,392

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 $24,554 and $33,535 as of June 30, 2010 and December 31, 2009, respectively and total recorded investment in loans past due 90 days or more and still accruing interest approximated $0 and $31, respectively.

(5) Allowance for Loan Losses

Transactions in the allowance for loan losses are summarized below for six months ended June 30, 2010 and June 30, 2009 as
follows:

	June 30, 2010	June 30, 2009