SOUTHWEST GEORGIA FINANCIAL CORP
Form 10-Q
November 14, 2006

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

(Mark One)
[X] Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2006

[ ] Transition report under Section 13 or 15(d) of the Exchange Act.
For the transition period from __________ to __________

Commission file number 1-12053

SOUTHWEST GEORGIA FINANCIAL CORPORATION
(Exact Name Of Small Business Issuer as specified in its Charter)

Georgia	58-1392259
(State Or Other Jurisdiction Of Incorporation Or Organization)	(I.R.S. Employer Identification No.)

201 FIRST STREET, S.E., MOULTRIE, GEORGIA 31768
Address Of Principal Executive Offices

(229) 985-1120
Registrant's Telephone Number, Including Area Code

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, 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 non-accelerated filer (as defined in Rule 12b-2 of the Act).

Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

Indicate the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date.

Class	Outstanding At October 15, 2006
Common Stock, $1 Par Value	4,288,555

SOUTHWEST GEORGIA FINANCIAL CORPORATION
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2006

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SOUTHWEST GEORGIA FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS
September 30, 2006 and December 31, 2005

	(Unaudited) September 30, 2006	(Audited) December 31, 2005
ASSETS		
Cash and due from banks	$ 13,305,489	$ 11,699,277
Interest-bearing deposits in banks	3,386,768	10,156,067
Federal funds sold	11,517,622	3,550,000
Investment securities available for sale, at fair value	34,364,662	48,042,924
Investment securities held to maturity (fair value approximates $101,611,990 and $104,601,359)	103,771,865	106,778,632
Federal Home Loan Bank stock, at cost	2,197,000	2,205,200
Total investment securities	140,333,527	157,026,756
Loans	126,956,980	104,675,241
Less: Unearned income	(41,688)	(40,837)
Allowance for loan losses	(2,420,458)	(2,453,689)
Loans, net	124,494,834	102,180,715
Premises and equipment, net	6,625,589	6,840,298
Foreclosed assets, net	0	0
Intangible assets	2,161,585	3,004,693
Other assets	7,281,168	6,815,899
Total assets	$309,106,582	$301,273,705
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
NOW accounts	$ 55,070,386	$ 51,604,863
Money Market	25,180,168	17,079,484
Savings	22,258,076	25,481,261
Certificates of deposit $100,000 and over	24,738,762	23,691,032
Other time accounts	65,260,880	67,077,882
Total interest-bearing deposits	192,508,272	184,934,522
Noninterest-bearing deposits	33,794,097	36,909,869
Total deposits	226,302,369	221,844,391
Federal funds purchased	0	0
Other borrowed funds	20,000,000	5,000,000
Long-term debt	15,342,857	30,342,857
Other liabilities	6,542,852	4,233,637
Total liabilities	268,188,078	261,420,885
Stockholders' equity:		
Common stock - $1 par value, 5,000,000 shares authorized, 4,277,695 shares issued	4,277,695	4,266,680
Capital surplus	31,437,408	31,265,216
Retained earnings	16,571,883	15,258,388
Accumulated other comprehensive income	(933,877)	(1,223,252)
Treasury stock, at cost 1,042,912shares for 2006 and 1,008,912 shares for 2005	(10,434,605)	(9,714,212)
Total stockholders' equity	40,918,504	39,852,820
Total liabilities and stockholders' equity	$309,106,582	$301,273,705

SOUTHWEST GEORGIA FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	For The Three Months Ended September 30, 2006	2005
Interest income:		
Interest and fees on loans	$ 2,527,731	$ 2,111,190
Interest on taxable securities available for sale	318,443	393,028
Interest on taxable securities held to maturity	1,022,457	1,068,373
Interest on tax exempt securities available for sale	158,692	158,658
Interest on tax exempt securities held to maturity	50,723	50,731
Dividends	32,672	18,641
Interest on federal funds sold	16,570	0
Interest on deposits in banks	17,974	12,336
Total interest income	4,145,262	3,812,957
Interest expense:		
Interest on deposits	1,404,663	888,001
Interest on federal funds purchased	19,297	5,791
Interest on other short-term borrowings	101,566	9,903
Interest on long-term debt	200,276	303,342
Total interest expense	1,725,802	1,207,037
Net interest income	2,419,460	2,605,920
Provision for loan losses	0	20,000
Net interest income after provision for loan losses	2,419,460	2,585,920
Noninterest income:		
Service charges on deposit accounts	438,645	406,670
Income from trust services	76,202	81,688
Income from retail brokerage services	68,193	62,508
Income from insurance services	236,993	252,317
Income from mortgage banking services	944,019	1,235,786
Net gain(loss) on disposition of assets	9,970	(28,448)
Net gain(loss) on sale of securities	(564,455)	0
Other income	36,617	37,567
Total noninterest income	1,246,184	2,048,088
Noninterest expense:		
Salaries and employee benefits	1,761,564	1,856,910
Occupancy expense	220,584	211,504
Equipment expense	160,106	169,612
Data processing expense	183,044	188,011
Amortization of intangible assets	550,234	122,721
Other operating expenses	778,859	510,052
Total noninterest expenses	3,654,391	3,058,810
Income before income taxes	11,253	1,575,198
Provision for income taxes	(186,553)	385,292
Net income	$ 197,806	$ 1,189,906
Earnings per share of common stock:		
Net income, basic	$ 0.06	$ 0.36
Net income, diluted	$ 0.06	$ 0.36
Dividends declared	$ 0.13	$ 0.13
Weighted average shares outstanding	3,233,782	3,264,547
Diluted average shares outstanding	3,246,158	3,285,125

SOUTHWEST GEORGIA FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	For The Nine Months Ended September 30, 2006	2005
Interest income:		
Interest and fees on loans	$ 6,807,930	$ 5,688,934
Interest on taxable securities available for sale	982,162	1,207,750
Interest on taxable securities held to maturity	3,149,551	3,351,044
Interest on tax exempt securities available for sale	476,051	476,859
Interest on tax exempt securities held to maturity	152,175	156,642
Dividends	93,191	64,551
Interest on federal funds sold	149,274	0
Interest on deposits in banks	123,813	92,269
Total interest income	11,934,147	11,038,049
Interest expense:		
Interest on deposits	3,713,123	2,395,718
Interest on federal funds purchased	25,497	9,291
Interest on other short-term borrowings	162,654	49,063
Interest on long-term debt	733,199	820,731
Total interest expense	4,634,473	3,274,803
Net interest income	7,299,674	7,763,246
Provision for loan losses	0	60,000
Net interest income after provision for loan losses	7,299,674	7,703,246
Noninterest income:		
Service charges on deposit accounts	1,272,450	1,137,916
Income from trust services	225,320	229,327
Income from retail brokerage services	206,278	194,400
Income from insurance services	882,166	818,989
Income from mortgage banking services	3,490,334	3,473,867
Net gain(loss) on disposition of assets	15,047	7,595
Net gain(loss) on sale of securities	(564,455)	0
Other income	167,846	174,410
Total noninterest income	5,694,986	6,036,504
Noninterest expense:		
Salaries and employee benefits	5,431,356	5,502,319
Occupancy expense	635,123	619,345
Equipment expense	479,314	515,866
Data processing expense	526,631	543,663
Amortization of intangible assets	795,676	368,163
Other operating expenses	1,966,936	1,719,115
Total noninterest expenses	9,835,036	9,268,471
Income before income taxes	3,159,624	4,471,279
Provision for income taxes	658,710	1,033,468
Net income	$ 2,500,914	$ 3,437,811
Earnings per share of common stock:		
Net income, basic	$ 0.77	$ 1.05
Net income, diluted	$ 0.76	$ 1.04
Dividends declared	$ 0.39	$ 0.39
Weighted average shares outstanding	3,246,386	3,269,402
Diluted average shares outstanding	3,267,627	3,296,488

SOUTHWEST GEORGIA FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	For The Three Months Ended September 30, 2006	2005
Net income	$ 197,806	$ 1,189,906
Other comprehensive income, net of tax:		
Unrealized gain(loss) on securities available for sale	1,301,805	(707,437)
Unrealized gain(loss) on pension plan benefits	0	0
Federal income tax expense(benefit)	442,614	(240,529)
Other comprehensive income(loss), net of tax:	859,191	(466,908)
Total comprehensive income	$ 1,056,997	$ 722,998

SOUTHWEST GEORGIA FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	For The Nine Months Ended September 30, 2006	2005
Net income	$ 2,500,914	$ 3,437,811
Other comprehensive income, net of tax:		
Unrealized gain(loss) on securities available for sale	438,448	(922,690)
Unrealized gain(loss) on pension plan benefits	0	0
Federal income tax expense(benefit)	149,073	(313,714)
Other comprehensive income(loss), net of tax:	289,375	(608,976)
Total comprehensive income	$ 2,790,289	$ 2,828,835

SOUTHWEST GEORGIA FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For The Nine Months Ended September 30, 2006	2005

Cash flows from operating activities:		
Net income	$ 2,500,914	$ 3,437,811
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	0	60,000
Depreciation	584,263	589,522
Net amortization and accretion of investment securities	(355)	10,535
Amortization of intangibles	795,676	368,163
Net loss(gain) on sale and disposal of assets	559,078	(7,595)
Net change in funds related to mortgage banking activities	2,397,269	(1,507,783)
Increase in other assets, net	(439,451)	(580,140)
Decrease (increase) in other liabilities, net	(237,289)	685,192
Net cash provided by operating activities	6,160,105	3,055,705
Cash flows from investing activities:		
Proceeds from maturities of securities held to maturity	5,000,000	11,500,000
Proceeds from maturities of securities available for sale	130,511	2,571,117
Proceeds from sale of securities available for sale	13,435,545	0
Purchase of securities held to maturity	(2,000,000)	(2,325,000)
Purchase of securities available for sale	0	(255,400)
Net change in other short-term investments	(7,967,622)	0
Net change in loans	(22,314,119)	(10,016,167)
Purchase of premises and equipment	(370,518)	(524,572)
Proceeds from sales of other assets	29,638	283,186
Net change in interest-bearing deposits in banks	6,769,299	3,258,875
Net cash provided(used) for investing activities	(7,287,266)	4,492,039
Cash flows from financing activities:		
Net change in deposits	4,457,978	(3,195,254)
Payment of short-term debt and S-T portion of long term debt	0	(8,000,000)
Payment of long-term debt	0	(60,000)
Proceeds from issuance of long-term debt	0	5,000,000
Cash dividends declared	(1,187,418)	(1,274,071)
Proceeds from the exercise of stock options	183,206	46,511
Payment for common stock	(720,393)	(427,830)
Net cash provided(used) for financing activities	2,733,373	(7,910,644)
Increase(decrease) in cash and due from banks	1,606,212	(362,900)
Cash and due from banks - beginning of period	11,699,277	13,366,631
Cash and due from banks - end of period	$ 13,305,489	$ 13,003,731
NONCASH ITEMS:		
Increase in foreclosed properties and decrease in loans	$ 0	$ 239,434
Unrealized gain(loss) on securities available for sale	$ 289,375	$ (608,976)

SOUTHWEST GEORGIA FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Basis of Presentation

Southwest Georgia Financial Corporation (the "Corporation"), a bank-holding company organized under the laws of Georgia, provides deposit, lending, and other financial services to businesses and individuals primarily in the Southwest region of Georgia. The Corporation and its subsidiaries are subject to regulation by certain federal and state agencies.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and therefore do not include all information and footnotes necessary for a fair presentation of financial position, results of operations, and changes in financial position in conformity with generally accepted accounting principles. The interim financial statements furnished reflect all adjustments which are, in the opinion of management, necessary to a fair statement of the results for the interim periods presented. The interim consolidated financial statements should be read in conjunction with the Corporation's 2005 Annual Report on Form 10K.

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Southwest Georgia Financial Corporation and Subsidiaries conform to generally accepted accounting principles and to general practices within the banking industry. The following is a description of the more significant of those policies.

Principles of Consolidation

The consolidated financial statements include the accounts of Southwest Georgia Financial Corporation and its wholly-owned Subsidiaries, Southwest Georgia Bank (the "Bank") and Empire Financial Services, Inc. ("Empire"). All significant intercompany accounts and transactions have been eliminated in the consolidation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with these evaluations, management obtains independent appraisals for significant properties.

A substantial portion of the Corporation's loans are secured by real estate located primarily in Georgia. Accordingly, the ultimate collection of these loans may be susceptible to changes in the real estate market conditions of this market area.

Interest-Bearing Deposits in Banks

Interest-bearing deposits in banks mature within one year and are carried at cost.

Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as "available for sale" and recorded at fair value with unrealized gains and losses reported in other comprehensive income.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. 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 Corporation 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 on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Long-Lived Assets

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation has been calculated primarily using the straight-line method for buildings and building improvements over the assets estimated useful lives. Equipment and furniture are depreciated using the modified accelerated recovery system method over the assets estimated useful lives for financial reporting and income tax purposes for assets purchased on or before December 31, 2003. For assets acquired after December 31, 2003, the Corporation used the straight-line method of depreciation. The following estimated useful lives are used for financial statement purposes:

Land improvements	5 - 31 years
Building and improvements	10 - 40 years
Machinery and equipment	5 - 10 years
Computer equipment	3 - 5 years
Office furniture and fixtures	5 - 10 years

All of the Corporation's leases are operating leases and are not capitalized as assets for financial reporting purposes. Maintenance and repairs are charged to expense and betterments are capitalized.

Long-lived assets are evaluated regularly for other-than-temporary impairment. If circumstances suggest that their value may be impaired and the write-down would be material, an assessment of recoverability is performed prior to any write-down of the asset. Impairment on intangibles is evaluated at each balance sheet date or whenever events or changes in circumstances indicate that the carrying amount should be assessed. Impairment, if any, is recognized through a valuation allowance with a corresponding charge recorded in the income statement.

Loans and Allowances for Loan Losses

Loans are stated at principal amounts outstanding less unearned income and the allowance for loan losses. Interest income is credited to income based on the principal amount outstanding at the respective rate of interest except for interest on certain installment loans made on a discount basis which is recognized in a manner that results in a level-yield on the principal outstanding.

Accrual of interest income is discontinued on loans when, in the opinion of management, collection of such interest income becomes doubtful. Accrual of interest on such loans is resumed when, in management's judgment, the collection of interest and principal becomes probable.

Fees on loans and costs incurred in origination of most loans are recognized at the time the loan is placed on the books. Because loan fees are not significant, the results on operations are not materially different from the results which would be obtained by accounting for loan fees and costs as amortized over the term of the loan as an adjustment of the yield.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation 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 for commercial and construction loans 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.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Corporation does not separately identify individual consumer and residential loans for impairment disclosures.

The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes the collection of the principal is unlikely. The allowance is an amount which management believes will be adequate to absorb estimated losses on existing loans that may become uncollectible based on evaluation of the collectibility of loans and prior loss experience. This evaluation takes into consideration such factors as changes in the nature and volume of the loan portfolios, current economic conditions that may affect the borrowers' ability to pay, overall portfolio quality, and review of specific problem loans.

Management believes that the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based upon changes in economic conditions. Also, various regulatory agencies, as an integral part of their examination process, periodically review the Corporation's allowance for loan losses. Such agencies may require the Corporation to recognize additions to the allowance based on their judgments of information available to them at the time of their examination.

Foreclosed Assets

Properties acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at the lower of cost or fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets.

Credit Related Financial Instruments

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

Retirement Plans

The Corporation and its subsidiaries have pension plans covering substantially all employees. The Corporation makes annual contributions to the plans in amounts not exceeding the regulatory requirements.

Income Taxes

The Corporation and the Bank file a consolidated income tax return. The Bank's subsidiary provides for income taxes based on its contribution to income taxes (benefits) of the consolidated group.

Deferred income tax assets and liabilities result from temporary differences between the tax basis of assets and liabilities and their reportable amounts in the financial statements that will result in taxable or deductible amounts in future years. Recognition of deferred tax assets is based on management's belief that it is more likely than not that the tax benefit associated with certain temporary differences and tax credits will be realized.

Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123(R), "Share-Based Payment". SFAS No. 123(R) replaces SFAS No. 123, "Accounting for Stock-Based Compensation", and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees". This Statement requires compensation costs related to share-based payment transactions to be recognized in the financial statements over the period that an employee provides service in exchange for the award. Public companies are required to adopt the new standard using either a modified prospective method or may elect to restate prior periods using the modified retrospective method. Under the modified prospective method, companies are required to record compensation cost for new and modified awards over the related vesting period of such awards prospectively and record compensation cost prospectively for the unvested portion, at the date of adoption, of previously issued and outstanding awards over the remaining vesting period of such awards. No change to prior periods presented is permitted under the modified prospective method. SFAS No. 123(R) is

effective for periods beginning after June 15, 2005. Effective July 1, 2005, the Corporation has adopted this new standard using the modified prospective method. All required details of stock option awards are disclosed in Note 9 of the December 31, 2005 consolidated financial statements.

In December 2003, the FASB issued SFAS No. 132 (revised 2003), "Employers' Disclosures about Pensions and Postretirement Benefits". This Statement requires additional disclosures about the assets, obligations and cash flows of defined benefit pension and postretirement plans, as well as the expense recorded for such plans. As of December 31, 2005, the Corporation has disclosed the required elements related to its defined benefit pension plan in Note 9 to these consolidated financial statements.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Corporation considers cash and cash equivalents to include cash on hand, noninterest-bearing deposit amounts due from banks, and highly liquid debt instruments purchased with an original maturity of three months or less.

Trust Department

Trust income is included in the accompanying consolidated financial statements on the cash basis in accordance with established industry practices. Reporting of such fees on the accrual basis would have no material effect on reported income.

Servicing and Origination Fees on Loans

The Corporation from its subsidiary, Empire, recognizes as income in the current period all loan origination and brokerage fees collected on loans originated and closed for investing participants. Loan servicing fees are based on a percentage of loan interest paid by the borrower and recognized over the term of the loan as loan payments are received. Empire does not directly fund any mortgages and acts as a service-oriented broker for participating mortgage lenders. Fees charged for continuing servicing fees are comparable with market rates charged in the industry. Based on these facts and after a thorough analysis and evaluation of deferred mortgage servicing costs as defined under FASB 122 and amended by FASB 140, they are insignificant and immaterial to be recognized. Late charges assessed on past due payments are recognized as income by the Corporation when collected.

Advertising Costs

It is the policy of the Corporation to expense advertising costs as they are incurred. The Corporation does not engage in any direct-response advertising and accordingly has no advertising costs reported as assets on its balance sheet.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

In addition to historical information, this Form 10-Q report contains forward-looking statements within the meaning of the federal securities laws. The Corporation cautions that there are various factors that could cause actual results to differ materially from the anticipated results or other expectations expressed in the Corporation's forward-looking statements; accordingly, there can be no assurance that such indicated results will be realized.

These factors include asset quality; the adequacy of the allowance for loan losses; technology difficulties or failures; the Corporation's ability to execute its business strategy; the loss of key personnel; competition; changes in regulation and monetary policy; legislative and regulatory initiatives regarding deregulation and restructuring of the banking industry; acquisitions or dispositions of assets or internal restructuring, that may be pursued by the Corporation; changes in or application of environmental and other laws and regulations to which the Corporation is subject; political, legal and local economic conditions and developments; financial market conditions and the results of financing efforts; changes in commodity prices and interest rates; weather, natural disasters and other catastrophic events; and other factors discussed in the Corporation's other filings with the Securities and Exchange Commission.

Readers are cautioned not to place undue reliance on any forward-looking statements made by or on behalf of the Corporation. Any such statement speaks only as of the date the statement was made. The Corporation undertakes no obligation to update or revise any forward-looking statements. Additional information with respect to factors that may cause results to differ materially from those contemplated by such forward-looking statements is included in the Corporation's current and subsequent filings with the Securities and Exchange Commission.

Overview

The Corporation is a full-service community bank holding company headquartered in Moultrie, Georgia. The community of Moultrie has been served by the Corporation and its predecessors since 1928. We provide comprehensive financial services to consumer, business and governmental customers, which, in addition to conventional banking products, include a full range of mortgage banking, trust, investment and insurance services. Our primary market area incorporates Colquitt County, where we are headquartered, and Baker, Thomas, and Worth Counties, each contiguous with Colquitt County. We have four full service banking facilities and six automated teller machines.

Our strategy is to:
* maintain the diversity of our revenue, including growth in both interest and noninterest income through a broad base of business,
* strengthen our sales and marketing efforts while developing our employees to provide the best possible service to our customers,
* expand our market share where opportunity exists, and
* grow outside of our current geographic footprint, through acquisitions, into areas proximate to our current market area.

The Corporation's profitability, like most financial institutions, is dependent to a large extent upon net interest income, which is the difference between the interest received on earning assets, such as loans, securities and federal funds sold, and the interest paid on interest-bearing liabilities, principally deposits and borrowings. Net interest income is highly sensitive to the fluctuations in interest rates. This quarter the Federal Reserve Bank kept short-term rates flat at 5.25%. Since July 2004, short-term rates were increased seventeen times, or 4.25%, by September 30, 2006.

Our profitability, as in any business, is impacted as well by operating expenses such as salaries and employee benefits, occupancy and other operating expenses, including income taxes.
Our lending activities are significantly influenced by regional and local

economic factors. Some specific factors include changes in population, demographics of the population, competition among lenders, interest rate conditions and prevailing market rates on competing investments, customer preferences and levels of personal income and savings in the Corporation's primary market area.

To address interest rate fluctuations out of our control, we manage our balance sheet in an effort to diminish the impact of sudden interest rates changes by broadening our revenue sources to reduce the risk and exposure of our financial results to the impact of changes in interest rates, which is outside of our control.

As a result of our strategy to diversify revenue, noninterest income adjusted for the loss on sale of securities has grown over the last few years and was 75% of third quarter 2006 net interest income and 30% of third quarter 2006 total revenue. Sources of noninterest income include our insurance agency and Empire, the Corporation's commercial mortgage banking subsidiary, as well as fees on customer accounts, trust and retail brokerage services.

Critical Accounting Policies

In the course of the Corporation's normal business activity, management must select and apply many accounting policies and methodologies that lead to the financial results presented in the consolidated financial statements of the Corporation. Management considers the accounting policy relating to the allowance for loan losses to be a critical accounting policy because of the uncertainty and subjectivity inherent in estimating the levels of allowance needed to cover probable credit losses within the loan portfolio and the material effect that these estimates can have on the Corporation's results of operations. We believe that the allowance for loan losses as of September 30, 2006 is adequate, however, under adversely different conditions or assumptions, future additions to the allowance may be necessary. There have

been no significant changes in the methods or assumptions used in our accounting policies that require material estimates and assumptions. Note 1 to the Consolidated Financial Statements provides a description of our significant accounting policies and contributes to the understanding of how our financial performance is reported.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity management involves the ability to meet the cash flow requirements of customers who may be either depositors wanting to withdraw their funds or borrowers needing assurance that sufficient funds will be available to meet their credit needs. In the ordinary course of business, the Corporation's cash flows are generated from interest and fee income as well as from loan repayments and the maturity or sale of other earning assets. In addition, liquidity is continuously provided through the acquisition of new deposits and borrowings or the rollover of maturing deposits and borrowings. The Corporation strives to maintain an adequate liquidity position by managing the balances and maturities of interest-earning assets and interest-earning liabilities so its short-term investments balance, at any given time, will adequately cover any reasonably anticipated immediate need for funds. Additionally, the Bank maintains relationships with correspondent banks that could provide funds on short notice, if needed.

The liquidity and capital resources of the Corporation are monitored on a periodic basis by state and Federal regulatory authorities. As determined under guidelines established by these regulatory authorities, the Bank's liquidity ratios at September 30, 2006, were considered satisfactory. At that date, the Bank's short-term investments were adequate to cover any reasonably anticipated immediate need for funds. The Corporation is aware of no events or trends likely to result in a material change in liquidity. At September 30, 2006, the Corporation's and the Bank's risk-based capital ratios were considered adequate based on guidelines established by regulatory authorities. During the nine months ended September 30, 2006, total capital increased $1.066 million to $40.9 million. The majority of this increase was a result of net earnings growth and by an increase in accumulated other comprehensive income related to unrealized losses on available for sale securities.

Under a share repurchase program adopted by the Board in January 2000, the Corporation repurchased on the open market 34,000 shares of its common stock during the first nine months of 2006 at an average price of $21.19 per share. There are approximately 100,000 shares authorized to be repurchased under the current program.

On September 18, 2006, the Corporation announced the commencement of a tender offer to repurchase up to 575,000 shares of its common stock at a price of $23.00 per share. This represents approximately 18% of outstanding common stock, and the purchase price represents a 19% premium to the closing sales price of $19.40 on September 14, 2006, the last trading day before the Company filed the offer.

Subsequent to the end of this quarter, the Corporation's tender offer expired on October 13, 2006. The tender offer was oversubscribed and the shareholders tendering shares had their orders reduced by 32.34% as a result of the proration. Additional information regarding the tender offer is disclosed in Item 5 "Subsequent Event" on page 23.

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The Corporation continues to maintain a healthy level of capital adequacy as measured by its equity-to-asset ratio of 13.24% as of September 30, 2006, and will continue to do so following the completion of the tender offer. The Corporation is not aware of any events or trends likely to result in a material change in capital resources other than the effects of normal operations on the retention of net earnings, repurchasing shares, and paying dividends to shareholders. Also, the Corporation's management is not aware of any current recommendations by the regulatory authorities which, if they were implemented, would have a material effect on the Corporation's capital resources.

RESULTS OF OPERATIONS

The Corporation's results of operations are determined by its ability to effectively manage interest income and expense, to minimize loan and investment losses, to generate noninterest income and to control noninterest expense. Since interest rates are determined by market forces and economic conditions beyond the control of the Corporation, the ability to generate net interest income is dependent upon the Bank's ability to obtain an adequate spread between the rate earned on interest-earning assets and the rate paid on interest-bearing liabilities. Thus, the key performance measure for net interest income is the interest margin or net yield, which is taxable-equivalent net interest income divided by average earning assets.

Performance Summary

The Corporation's net income after taxes for the three-month period ended

September 30, 2006, was $198 thousand compared with net income of $1.190 million for the same period in 2005. The reduction in earnings was primarily due to a $564 thousand loss incurred on the sale of securities to fund our tender offer to purchase stock and $160 thousand in expenses related to the tender offer. Also, large payoffs within the Company's loan servicing portfolio increased the amortization of intangible mortgage servicing assets resulting in an additional cost of $429 thousand for the quarter. Net income adjusted for these one-time expenses and loss would have been approximately $959 thousand for the quarter compared with $1.2 million for the same period a year ago as reflected in the table below.

Dollars in thousands	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
GAAP net income	$ 198	$ 1,190	$ 2,501	$ 3,438
Adjusted for tender offer costs and amortization for large servicing loan payoffs:				
Loss on sale of securities	$ 564		$ 564	
Costs of tender offer	160		160	
Amortization of intangibles	429		429	
	$ 1,153		$ 1,153	
Income tax benefit	(392)		(392)	
Adjusted net income	$ 959	$ 1,190	$ 3,262	$ 3,438
Adjusted basic earnings per share	$ .30	$ .36	$ 1.00	$ 1.05
Adjusted diluted earnings per share	$ .30	$ .36	$ 1.00	$ 1.04

On a per share basis, net income for the third quarter was $.06 per diluted share compared with $.36 per diluted share for the same quarter in 2005. Quarterly, earnings per share adjusted for the one-time expenses and loss would have been $.30 per diluted share. The weighted average common diluted shares outstanding for the quarter were 3.246 million, down 1.2% or 38,967 average diluted shares from the comparable quarter a year ago. This decrease in average quarterly diluted shares was due to the Corporation's stock repurchase program. Because of our strong capital position, we will continue after the completion of the tender offer with the stock repurchase program that began in January 2000.

On a year-to-date basis, net income was $2.501 million compared with $3.438 million for the same period in 2005. Year-to-date earnings per diluted share were $.76 versus $1.04 for the same period in 2005. If adjusted for these one-time expenses and loss, year-to-date net income would have been approximately $3.262 million with diluted earnings per share of $1.00.

We measure our performance on selected key ratios, which are provided for the previous five quarterly periods ended September 30, 2006.

	3rd Qtr 2006	2nd Qtr 2006	1st Qtr 2006	4th Qtr 2005	3rd Qtr 2005
Return on average total assets	0.26%	1.60%	1.40%	1.19%	1.61%
Return on average total equity	1.95%	12.11%	10.85%	8.88%	11.91%
Average shareholders' equity to average total assets	13.15%	13.20%	12.92%	13.36%	13.51%
Net interest margin (tax equivalent)	3.62%	3.66%	3.68%	3.78%	4.02%

Comparison of Statements of Income for the Quarter

Noninterest income, adjusted for the $564 thousand loss on the sale of securities to fund the tender offer, was $1.810 million for the third quarter, compared with $2.048 million for the same period in 2005. The largest contributor to noninterest income, mortgage banking services, had $944 thousand in revenue, a 23.6% decrease compared with the third quarter of 2005. The level and timing of recognizing income from the mortgage banking business is dependent on many factors related to originating and closing relatively large commercial mortgage loans, and therefore can fluctuate from quarter to quarter. Quarterly income from service charges on deposit accounts was $438 thousand, up 7.9% compared with the same period in 2005. Revenue from insurance services for the quarter was $237 thousand, down 6.1% compared with the same period last year. Revenue from trust and brokerage services for the quarter was relatively flat compared with the third quarter of 2005.

Total interest income increased $332 thousand, or 8.7%, for the three months ended September 30, 2006 compared with the same period in 2005. This improvement for the three-month period resulted from increases in interest and fees on loans, interest on deposits in banks, and interest on federal funds sold. These increases were partially offset by decreases in interest on investment securities.

Total interest expense increased $519 thousand, or 43.0%, in the third quarter of 2006 compared with the same period in 2005. Interest on deposits increased $517 thousand, or 58.2%, during the third quarter of 2006. While interest on the short-term portion of long-term debt increased $105 thousand, it was partially offset by a decrease of $103 thousand on long-term debt during the period. Looking ahead, the challenge will be to manage funding costs in a rising rate environment. Our focus on cost discipline, retaining and expanding customer relationships, and identifying acquisition opportunities are the core components of our growth strategy.

The primary source of revenue for the Corporation is net interest income, which is the difference between total interest income on earning assets and interest expense on interest-bearing sources of funds. Net interest income for the third quarter of 2006 was $2.419 million compared with $2.606 million for the same period in 2005. The decrease was due primarily to funding costs increasing at a faster rate than increases in interest income on loans and short term investments. As a result, the Corporation's net interest margin was 3.62% for the third quarter of 2006, down 40 basis points from the same period a year ago. Total interest expense was $1.726 million for the third quarter, up $519 thousand from the same period a year ago, due primarily to increased interest expense on deposits. The average rate paid on interest-bearing deposits increased 99 basis points for the quarter compared with the same period a year ago. Higher funding costs have impacted our ability to grow net interest income, and our challenge continues to be managing these costs in a rising rate environment.

Provision for loan losses was $0 for the third quarter compared with $20 thousand in the same quarter of 2005. Adjusted for the increased amortization of intangible assets of $429 thousand and the tender offer expenses of $160 thousand, total noninterest expense was relatively flat for the quarter compared with the same period last year. The largest component of noninterest expense, salaries and employee benefits, decreased 5.2% to $1.761 million for the third quarter from $1.857 million a year ago. This

decline was due primarily to lower incentive compensation in the mortgage banking services operation. Other major categories of noninterest expense were either relatively flat or had decreases in the third quarter of 2006 when compared with the same period of 2005.

Comparison of Statements of Income for the Nine-month Period

Total noninterest income, adjusted for the loss on the sale of securities to fund the tender offer, was $6.259 million for the first nine months of 2006, up 3.7% from the same period in 2005. Mortgage banking services increased $16 thousand to $3.490 million from the same period last year. Service charges on deposit accounts increased $135 thousand, and income from insurance services increased 7.7% to $882 thousand when comparing the first nine months of 2006 to the same period last year. Revenue from trust services and retail brokerage services were relatively flat in the first nine months of 2006 compared with the same period in 2005.

For the first nine months of 2006, total interest income increased $896 thousand when comparing it with the same period in 2005. The basis for the increase in the nine-month period of 2006 was primarily due to increases in both interest and fees on loans and interest on short-term investments. The average volume of loans increased $13.1 million for the nine-month period compared with the same period last year.

The total interest expense for the nine-month period ended September 30, 2006 increased $1.359 million, or 41.5%, compared with the same period in 2005. Over this period, the average balances on interest-bearing deposits increased $3.7 million. However, the increase in interest expense was primarily related to higher rates paid on interest-bearing deposits and increased interest expense on a larger average volume of long-term debt. The rate on time deposits increased 114 basis points comparing the first nine months of 2006 with the same period in 2005. Interest on both the short-term portion of long-term and long-term debt increased $26 thousand, or 3%, for the first nine months of 2006 compared with 2005, while interest on federal funds purchased increased $16 thousand for the first nine months of 2006. This increase resulted from the higher average long-term borrowings from the Federal Home Loan Bank.

Net interest income for the first nine months of 2006 declined 5.9% to $7.300 million compared with the same period in 2005. During the nine-month period ended September 30, 2006, the Corporation's net interest margin was 3.65% compared with 3.95% for the same period in 2005.

The nine-month provision for loan losses of $0 was $60 thousand less than in the comparable period of 2005. Adjusted for the increased amortization of intangible assets of $429 thousand and the tender offer expenses of $160 thousand, noninterest expense decreased $22 thousand for the first nine months of 2006 compared with the same period last year. Salary and employee benefits, equipment expense, and data processing expense all decreased while occupancy and other operating expenses increased slightly when comparing the first nine months of 2006 to the same period last year.

Comparison of Financial Condition Statements

At September 30, 2006, total assets were $309.1 million, a 2.6% increase from December 31, 2005. The majority of the increase in assets was a result of increases in total loans of $22.3 million, in federal funds sold of $8.0 million, and in cash and due from banks of $1.6 million. These increases

were partially offset by declines of $6.8 million in interest-bearing deposits in banks and $16.7 million in investment securities.

The Corporation's loan portfolio of $126.9 million increased nearly 21.3% from the December 31, 2005, level of $104.7 million. Some of this loan growth was originated from strong local economic development due to affordability of real estate and abundance of natural resources. The Corporation continues to be conservative in its lending practices in order to maintain a quality loan portfolio. Loans, a major use of funds, represent 41.1% of total assets.

Investment securities and other short-term investments which include federal funds sold and interest-bearing deposits in banks represent 50.2% of total assets. Investment securities decreased $16.7 million and short-term investments increased $1.2 million since December 31, 2005. This resulted in an overall decrease in investments of $15.5 million.

Deposits increased to $226.3 million at the end of the third quarter of 2006, up $7.0 million from the same period in 2005 and up $4.5 million from the end of last year. At September 30, 2006, total deposits represented 73.2% of total assets.

The following table shows the major contractual obligations for the Corporation.

Long-term debt consist of the following:

	September 30, 2006	December 31, 2005	September 30, 2005
Advance from Federal Home Loan Bank with a 3.21% fixed rate of interest maturing June 29, 2015. (convertible to a variable rate at option of			

Federal Home Loan Bank on June 29, 2007)(Moved to short-term borrowings).	$ 0	$ 5,000,000	$ 5,000,000
Advance from Federal Home Loan Bank with a 2.85% fixed rate of interest maturing March 11, 2013. (convertible to a variable rate at option of Federal Home Loan Bank on March 11, 2008).	5,000,000	5,000,000	5,000,000
Advance from Federal Home Loan Bank with a 4.00% fixed rate of interest maturing August 6, 2012, (convertible to a variable rate at option of Federal Home Loan Bank on August 6, 2007)(Moved to short-term borrowings).	0	5,000,000	5,000,000
Advance from Federal Home Loan Bank with a 3.85% fixed rate of interest maturing April 30, 2014, (convertible to a variable rate at option of Federal Home Loan Bank on April 30, 2009).	10,000,000	10,000,000	10,000,000
Advance from Federal Home Loan Bank with a 3.08% fixed rate of interest maturing August 13, 2014, (convertible to a variable rate at option of Federal Home Loan Bank on August 13, 2007)(Moved to short-term borrowings).	0	5,000,000	5,000,000
Advance from Federal Home Loan Bank with a 2.43% fixed rate of interest maturing October 28, 2014, (convertible to a variable rate at option of Federal Home Loan Bank on October 30, 2006)(Moved to short-term borrowings).	0	0	5,000,000
Advance from Federal Home Loan Bank with a 5.21% fixed rate of interest due in annual installments maturing December 17, 2008.	342,857	342,857	457,143
Total long-term debt	$15,342,857	$30,342,857	$35,457,143

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The allowance for loan losses represents a reserve for potential losses in the loan portfolio. The adequacy of the allowance for loan losses is evaluated monthly based on a review of all significant loans, with a particular emphasis on nonaccruing, past due, and other loans that management believes require attention.

Other factors used in determining the adequacy of the reserve are management's judgment about factors affecting loan quality and their assumptions about the local and national economy. The allowance for loan losses was 1.91% of total loans outstanding at September 30, 2006, compared with 2.35% of loans outstanding at December 31, 2005. Non-performing assets as a percentage of total assets was .01%, a 15 basis point improvement over last year. Management considers the allowance for loan losses as of September 30, 2006, adequate to cover potential losses in the loan portfolio.

Off-Balance Sheet Arrangements

In the normal course of business, we are a party to financial instruments with off-balance-sheet risk to meet the financing needs of our customers and reduce risk exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit in the form of loans or through letters of credit. The instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the financial statements. Since many of the commitments to extend credit and standby letters of credit are expected to expire without being drawn upon, the contractual or notional amounts do not represent future cash requirements.

Financial instruments whose contract amounts represent credit risk (dollars in thousands):	September 30, 2006	September 30, 2005
Commitments to extend credit	$ 21,338	$ 32,578
Standby letters of credit and financial guarantees	$ 142	$ 282

The Corporation does not have any special purpose entities or off-balance sheet financing arrangements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Corporation's primary market risk lies within its exposure to interest rate movement. The Corporation has no foreign currency exchange rate risk, commodity price risk, or any other material market risk. The Corporation has no trading investment portfolio. As a result, it does not hold any market risk-sensitive instruments, which would be subject to a trading environment characterized by volatile short-term movements in interest rates. Also, the Corporation has no interest rate swaps, or other derivative instruments, that are either designated and effective as hedges or modify the interest rate characteristics of specified assets or liabilities. The Corporation's primary source of earnings, net interest income, can fluctuate with significant interest rate movements. To lessen the impact of these movements, the Corporation seeks to maximize net interest income while remaining within prudent ranges of risk by practicing sound interest rate sensitivity management. The Corporation attempts to accomplish this objective by structuring the balance sheet so differences in repricing opportunities between assets and liabilities are minimized. Interest rate sensitivity refers to the responsiveness of earning assets and interest-bearing liabilities to changes in market interest rates. The Corporation's interest rate risk management is carried out by the Asset/Liability Management Committee operating under policies and guidelines established by Management. The principal objective of asset/liability management is to manage the levels of interest-sensitive assets and liabilities to minimize net interest income fluctuations in times of fluctuating market interest rates. To effectively measure and manage interest rate risk, the Corporation uses computer simulations that determine the impact on net interest income of numerous interest rate scenarios, balance sheet trends and strategies. These simulations cover the following financial instruments: short-term financial instruments, investment securities, loans, deposits, and borrowings. These simulations incorporate assumptions about balance sheet dynamics, such as loan and deposit growth and pricing, changes in funding mix, and asset and liability repricing and maturity characteristics. Simulations are run under various interest rate scenarios to determine the impact on net income and capital. From these computer simulations, interest rate risk is quantified and appropriate strategies are developed and implemented. The Corporation maintains an investment portfolio that staggers maturities and provides flexibility over time in managing exposure to changes in interest rates. At any point in time, any imbalances in the repricing opportunities constitute a financial institution's interest rate sensitivity.

The Corporation uses a number of tools to measure interest rate risk. One of the indicators for the Corporation's interest rate sensitivity position is the measurement of the difference between its rate-sensitive assets and rate-sensitive liabilities, referred to as the "gap." A gap analysis displays the earliest possible repricing opportunity for each asset and liability category based upon contractual maturities and repricing. As of September 30, 2006, the Corporation's one-year cumulative rate-sensitive assets represented 83% of the cumulative rate-sensitive liabilities compared with 78% for the same period in 2005. This change in the cumulative gap is a result of the Corporation's management of its exposure to interest rate risk. We are slightly liability-sensitive at the one year gap position. This improved change to a more balanced position is mainly due to the Corporation's growth in adjustable rate commercial loans. This balanced position will decrease the Corporation's exposure to changing interest rates. All interest rates and yields do not adjust at the same velocity; therefore, the interest rate sensitivity gap is only a general indicator of the potential effects of interest rate changes on net interest income. The Corporation's asset and liability mix is monitored ensuring the effects of interest rate movements in either direction are not significant over time.

ITEM 4. CONTROLS AND PROCEDURES

The Corporation's management, including the Chief Executive Officer and Chief Financial Officer, supervised and participated in an evaluation of the effectiveness of its disclosure controls and procedures (as defined in federal securities rules) as of the end of the period covered by this report. Based on, and as of the date of, that evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer have concluded that the Corporation's disclosure controls and procedures were effective in accumulating and communicating information to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures of that information under the Securities and Exchange Commission's rules and forms and that the Corporation's disclosure controls and procedures are designed to ensure that the information required to be disclosed in reports that are filed or submitted by the Corporation under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

No changes were made to the Corporation's internal control over financial reporting during this quarter that materially affected or could reasonably likely to materially affect the Corporation's internal controls over financial reporting.

PART II. - OTHER INFORMATION

ITEM 5 SUBSEQUENT EVENTS

The Corporation recently announced the final results of its tender offer that expired Friday, October 13, 2006. Consistent with preliminary results released October 16, 2006, the Corporation purchased 575,000 shares at $23.00 per share. The value of the shares purchased was $13.225 million, and the number of shares purchased represents approximately 17.7% of the Corporation's 3,245,643 shares of common stock outstanding net of Corporation's treasury shares on October 23, 2006.

Because 847,125 shares tendered exceeded the number of shares the Corporation anticipated purchasing, and after the Corporation purchased all of the "small lot" shares properly tendered, the Corporation prorated the remaining shares accepted for purchase. Small lots were defined in the offer to be lots of less than 100 shares. Shareholders tendering shares had their orders reduced by 32.34% as a result of proration.

ITEM 6 EXHIBITS

Exhibit 31.1	Section 302 Certification of Periodic Financial Report by Chief Executive Officer.
Exhibit 31.2	Section 302 Certification of Periodic Financial Report by Chief Financial Officer.
Exhibit 32.1	Section 906 Certification of Periodic Financial Report by Chief Executive Officer.
Exhibit 32.2	Section 906 Certification of Periodic Financial Report by Chief Financial Officer.

SIGNATURES

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

SOUTHWEST GEORGIA FINANCIAL CORPORATION

BY: /s/George R. Kirkland

GEORGE R. KIRKLAND
SENIOR VICE-PRESIDENT AND TREASURER
(FINANCIAL AND ACCOUNTING OFFICER)

Date: November 10, 2006