SOUTHWEST GEORGIA FINANCIAL CORP
Form 10-Q
November 14, 2007

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, 2007

[ ] 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, 2007
Common Stock, $1 Par Value	4,293,835

SOUTHWEST GEORGIA FINANCIAL CORPORATION
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2007

TABLE OF CONTENTS

CONSOLIDATED BALANCE SHEETS
September 30, 2007 and December 31, 2006

	(Unaudited) September 30, 2007	(Audited) December 31, 2006
ASSETS		
Cash and due from banks	$ 10,057,671	$ 11,969,567
Interest-bearing deposits in banks	131,755	83,210
Federal funds sold	0	332,000
Investment securities available for sale, at fair value	31,389,212	33,322,855
Investment securities held to maturity (fair value approximates $97,451,095 and $100,283,068)	98,235,717	102,232,804
Federal Home Loan Bank stock, at cost	1,945,300	1,966,900
Total investment securities	131,570,229	137,522,559
Loans	127,264,537	125,535,755
Less: Unearned income	(39,801)	(43,963)
Allowance for loan losses	(2,411,861)	(2,417,140)
Loans, net	124,812,875	123,074,652
Premises and equipment, net	6,362,602	6,578,997
Foreclosed assets, net	2,346,510	0
Intangible assets	1,386,376	1,750,511
Other assets	7,446,291	7,204,926
Total assets	$284,114,309	$288,516,422
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
NOW accounts	$ 50,099,540	$ 55,013,082
Money Market	15,426,589	24,376,607
Savings	21,112,073	22,228,442
Certificates of deposit $100,000 and over	29,933,016	25,725,026
Other time accounts	66,439,282	65,977,976
Total interest-bearing deposits	183,010,500	193,321,133
Noninterest-bearing deposits	33,183,102	33,387,979
Total deposits	216,193,602	226,709,112
Federal funds purchased	5,125,000	0
Other borrowed funds	16,500,000	15,000,000
Long-term debt	15,228,571	15,228,571
Other liabilities	3,064,808	3,621,820
Total liabilities	256,111,981	260,559,503
Stockholders' equity:		
Common stock - $1 par value, 5,000,000 shares authorized, 4,291,855 and 4,288,555 shares issued, respectively	4,291,855	4,288,555
Capital surplus	31,678,763	31,644,063
Retained earnings	18,088,206	16,763,299
Accumulated other comprehensive income	(382,476)	(482,588)
Treasury stock, at cost 1,722,012 shares for 2007 and 1,648,912 shares for 2006	(25,674,020)	(24,256,410)
Total stockholders' equity	28,002,328	27,956,919
Total liabilities and stockholders' equity	$284,114,309	$288,516,422

SOUTHWEST GEORGIA FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

	For The Three Months Ended September 30, (Unaudited) 2007	(Unaudited) 2006
Interest income:		
Interest and fees on loans	$2,722,715	$2,527,731
Interest on taxable securities available for sale	178,683	318,443
Interest on taxable securities held to maturity	958,825	1,022,457
Interest on tax exempt securities available for sale	146,938	158,692
Interest on tax exempt securities held to maturity	50,713	50,723
Dividends	29,542	32,672
Interest on federal funds sold	0	16,570
Interest on deposits in banks	5,767	17,974
Total interest income	4,093,183	4,145,262
Interest expense:		
Interest on deposits	1,412,038	1,404,663
Interest on federal funds purchased	77,565	19,297
Interest on other short-term borrowings	156,080	101,566
Interest on long-term debt	182,332	200,276
Total interest expense	1,828,015	1,725,802
Net interest income	2,265,168	2,419,460
Provision for loan losses	0	0
Net interest income after provision for loan losses	2,265,168	2,419,460
Noninterest income:		
Service charges on deposit accounts	453,973	438,645
Income from trust services	67,602	76,202
Income from retail brokerage services	81,492	68,193
Income from insurance services	256,806	236,993
Income from mortgage banking services	607,165	944,019
Net gain(loss) on disposition of assets	1,562	9,970
Net gain(loss) on sale of credit card portfolio	247,531	0
Net gain(loss) on sale of securities	0	(564,455)
Other income	63,162	36,617
Total noninterest income	1,779,293	1,246,184
Noninterest expense:		
Salaries and employee benefits	1,671,310	1,761,564
Occupancy expense	222,627	220,584
Equipment expense	163,856	160,106
Data processing expense	180,078	183,044
Amortization of intangible assets	121,379	550,234
Other operating expenses	635,994	778,859
Total noninterest expenses	2,995,244	3,654,391
Income before income taxes	1,049,217	11,253
Provision for income taxes	271,430	(186,553)
Net income	$ 777,787	$ 197,806
Earnings per share of common stock:		
Net income, basic	$ 0.30	$ 0.06
Net income, diluted	$ 0.30	$ 0.06
Dividends declared	$ 0.14	$ 0.13
Weighted average shares outstanding	2,574,964	3,233,782
Diluted average shares outstanding	2,584,309	3,246,158

-3-

SOUTHWEST GEORGIA FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

For The Nine Months
Ended September 30,

	(Unaudited) 2007	(Unaudited) 2006
Interest income:		
Interest and fees on loans	$7,873,655	$6,807,930
Interest on taxable securities available for sale	556,165	982,162
Interest on taxable securities held to maturity	2,900,135	3,149,551
Interest on tax exempt securities available for sale	453,053	476,051
Interest on tax exempt securities held to maturity	152,148	152,175
Dividends	91,388	93,191
Interest on federal funds sold	427	149,274
Interest on deposits in banks	108,447	123,813
Total interest income	12,135,418	11,934,147
Interest expense:		
Interest on deposits	4,179,449	3,713,123
Interest on federal funds purchased	86,610	25,497
Interest on other short-term borrowings	414,818	162,654
Interest on long-term debt	557,585	733,199
Total interest expense	5,238,462	4,634,473
Net interest income	6,896,956	7,299,674
Provision for loan losses	0	0
Net interest income after provision for loan losses	6,896,956	7,299,674
Noninterest income:		
Service charges on deposit accounts	1,291,770	1,272,450
Income from trust services	207,579	225,320
Income from retail brokerage services	253,492	206,278
Income from insurance services	887,903	882,166
Income from mortgage banking services	2,444,974	3,490,334
Net gain(loss) on disposition of assets	12,951	15,047
Net gain(loss) on sale of credit card portfolio	247,531	0
Net gain(loss) on sale of securities	0	(564,455)
Other income	192,884	167,846
Total noninterest income	5,539,084	5,694,986
Noninterest expense:		
Salaries and employee benefits	5,377,530	5,431,356
Occupancy expense	635,431	635,123
Equipment expense	475,748	479,314
Data processing expense	515,145	526,631
Amortization of intangible assets	364,136	795,676
Other operating expenses	1,794,190	1,966,936
Total noninterest expenses	9,162,180	9,835,036
Income before income taxes	3,273,860	3,159,624
Provision for income taxes	863,946	658,710
Net income	$2,409,914	$2,500,914
Earnings per share of common stock:		
Net income, basic	$ 0.93	$ 0.77
Net income, diluted	$ 0.93	$ 0.76
Dividends declared	$ 0.42	$ 0.39
Weighted average shares outstanding	2,592,786	3,246,386
Diluted average shares outstanding	2,602,783	3,267,627

SOUTHWEST GEORGIA FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For The Three Months
Ended September 30,
(Unaudited) (Unaudited)

	2007	2006
Net income	$ 777,787	$ 197,806
Other comprehensive income, net of tax:		
Unrealized gain(loss) on securities available for sale, net of tax benefit of $142,746 and $442,614 for the quarter	277,095	859,191
Total comprehensive income	$1,054,882	$1,056,997

SOUTHWEST GEORGIA FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For The Nine Months Ended September 30,	
	(Unaudited)	(Unaudited)
	2007	2006
Net income	$2,409,914	$2,500,914
Other comprehensive income, net of tax:		
Unrealized gain(loss) on securities available for sale, net of tax benefit of $51,573 and $149,073 for the year	100,112	289,375
Total comprehensive income	$2,510,026	$2,790,289

-5-

SOUTHWEST GEORGIA FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For The Nine Months Ended September 30,	
	(Unaudited)	(Unaudited)
	2007	2006
Cash flows from operating activities:		

Net income	$ 2,409,914	$ 2,500,914
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	556,196	584,263
Net amortization and accretion of investment securities	(8,390)	(355)
Amortization of intangibles	364,136	795,676
Net loss(gain) on sale of credit card portfolio	(247,531)	0
Net loss(gain) on sale and disposal of assets	(12,952)	559,078
Net change in funds related to mortgage banking activities	(402,054)	2,397,269
Change in other assets	(241,368)	(439,451)
Change in other liabilities	(206,531)	(237,289)
Net cash provided by operating activities	2,211,420	6,160,105
Cash flows from investing activities:		
Proceeds from maturities of securities held to maturity	4,090,806	5,000,000
Proceeds from maturities of securities available for sale	1,533,900	130,511
Proceeds from sale of securities available for sale	1,000,000	13,435,545
Purchase of securities held to maturity	0	(2,000,000)
Purchase of securities available for sale	(512,300)	0
Net change in other short-term investments	332,000	(7,967,622)
Proceeds from sale of credit card portfolio	1,805,006	0
Net change in loans	(5,792,971)	(22,314,119)
Purchase of premises and equipment	(343,586)	(370,518)
Proceeds from sales of other assets	167,500	29,638
Net change in interest-bearing deposits in banks	(48,545)	6,769,299
Net cash provided(used) for investing activities	2,231,810	(7,287,266)
Cash flows from financing activities:		
Net change in deposits	(10,515,510)	4,457,978
Increase in federal funds purchased	5,125,000	0
Payment of short-term debt	(15,000,000)	0
Proceeds from issuance of short-term debt	11,500,000	0
Proceeds from issuance of long-term debt	5,000,000	0
Cash dividends declared	(1,085,006)	(1,187,418)
Proceeds from the exercise of stock options	38,000	183,206
Payment for common stock	(1,417,610)	(720,393)
Net cash provided(used) for financing activities	(6,355,126)	2,733,373
Increase(decrease) in cash and due from banks	(1,911,896)	1,606,212
Cash and due from banks - beginning of period	11,969,567	11,699,277
Cash and due from banks - end of period	$10,057,671	$13,305,489
NONCASH ITEMS:		
Increase in foreclosed properties and decrease in loans	$ 2,497,273	$ 0
Unrealized gain(loss) on securities available for sale	$ 100,112	$ 289,375

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 2006 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 inter-company accounts and transactions have been eliminated in the consolidation.

Nature of Operations

The Corporation offers comprehensive financial services to consumer, business, and governmental customers through its banking offices in southwest Georgia. Its primary deposit products are savings and certificates of deposit, and its primary lending products are consumer and commercial mortgage loans. The Corporation provides, in addition to conventional banking services, investment planning and management, trust management, mortgage banking, and commercial and individual insurance products. Insurance products and advice are provided by the Bank's Southwest Georgia Insurance Services Division. Mortgage banking for primarily commercial properties is provided by Empire, a mortgage banking services subsidiary.

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.

Cash and Due from Banks Balances and Cash Flows

For purposes of reporting cash flows, the Corporation considers cash and cash equivalents to include cash on hand, cash items in process of collection and deposit amounts due from banks. Cash flows from loans, federal funds sold, and interest bearing deposits with banks are reported separately and net. The Corporation maintains its cash balances in several financial institutions. Accounts at the financial institutions are secured by the Federal Deposit

Insurance Corporation up to $100,000. Uninsured deposits aggregate to $2,670,510 at September 30, 2007.

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

On December 31, 2006, the Corporation adopted Statement of Financial Accounting Standards No. 158, Employer's Accounting for Deferred Benefit Pension and Other Postretirement Plans. The adoption date requirement for this standard was for fiscal year ending after December 15, 2006. This standard requires an employer to recognize in its statement of financial position an asset for a pension retirement plan's overfunded status or a liability for an underfunded status. The Corporation's funded status of pension retirement plan is the difference between the fair value of the plan assets and the projected benefit obligation on December 31, 2006.

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 consolidated financial statements.

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. Costs that were expensed during third quarter 2007 were $53,326 and $149,230 for the nine-month period.

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 lowered short-term rates to 4.75%. From July 2004 to September 2007, short-term rates were increased seventeen times, or 4.25%, and in September 2007 the rate was decreased 50 basis points.

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 has grown over the last few years and was 79% of third quarter 2007 net interest income and 30% of third quarter 2007 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, 2007 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, 2007, 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, 2007, 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, 2007, total capital increased $45 thousand to $28 million. Under a share repurchase program adopted by the Board in January 2000, the Corporation repurchased 73,100 shares of its common stock during the first nine months of 2007 at an average price of $19.39 per share. There are approximately 100,000 shares authorized to be repurchased under the current program. Also, the Corporation continues to maintain a healthy level of capital adequacy as measured by its equity-to-asset ratio of 9.86% as of September 30, 2007. 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 ending September 30, 2007, was $778 thousand compared with a net income of $198 thousand for the same period in 2006, representing an increase of $580 thousand. Last year's third quarter was negatively impacted by a $564 thousand loss on the sale of securities and expenses of approximately $160 thousand associated with a repurchase of 575,000 shares through a stock tender. Additionally during that quarter, large payoffs in the loan servicing portfolio increased the amortization of intangible assets by $429 thousand.

-15-

On a per share basis, net income for the third quarter increased to $.30 per diluted share compared with $.06 per diluted share for the same quarter in 2006. The weighted average common diluted shares outstanding for the quarter were 2.584 million, down 20% from the previous comparable quarter. This decrease in average quarterly diluted shares was due to the Corporation's last year's stock tender offer and the stock repurchase program. Because of our strong capital position, we continued with the stock repurchase program that began in January 2000.

For the first nine months of 2007, net income was $2.410 million compared with net income of $2.501 million for the same period in 2006. Earnings per diluted share for the first nine months of 2007 were $0.93, up 22% compared with earnings per diluted share of $.76 for the same period in 2006. The quarterly impact of the slow down in mortgage banking activities was also reflected in net income for the nine-month period.

We measure our performance on selected key ratios, which are provided for the previous five quarterly periods ended September 30, 2007.

	3rd Qtr 2007	2nd Qtr 2007	1st Qtr 2007	4th Qtr 2006	3rd Qtr 2006
Return on average total assets	1.09%	0.85%	1.38%	.73%	.26%
Return on average total equity	11.17%	8.92%	14.57%	6.92%	1.95%
Average shareholders' equity to Average total assets	9.76%	9.57%	9.45%	10.49%	13.15%
Net interest margin (tax equivalent)	3.71%	3.72%	3.68%	3.65%	3.62%

Comparison of Statements of Income for the Quarter

Noninterest income was $1.779 million for the third quarter, compared with $1.810 million for the same period in 2006, adjusted for the $564 thousand loss on the sale of securities to fund the tender offer. During the current quarter, we sold the retail credit card portfolio which increased noninterest income by a gain on sale of $248 thousand. The largest contributor to noninterest income, mortgage banking services, had $607 thousand in revenue, a 35.7% decrease compared with the third quarter of 2006. 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 $454 thousand, up 3.5% compared with the same period in 2006. Revenue from insurance services for the quarter was $257 thousand, up 8.4% compared with the same period last year. Revenue from trust and brokerage services for the quarter was $149 thousand, up 3.3% compared with the third quarter of 2006.

Total interest income decreased $52 thousand, or 1.3%, for the three months ended September 30, 2007 compared with the same period in 2006. This decrease for the three-month period resulted from a reduction in interest on a lower volume of investment securities resulting from last year's sale of securities to fund the stock tender offer. This decrease was partially offset by an increase of $195 thousand in interest and fees on loans for the third quarter 2007 when compared to the same period in 2006.

Total interest expense increased $102 thousand, or 5.9%, in the third quarter of 2007 compared with the same period in 2006. Interest on deposits increased $7 thousand, or .5%, during the third quarter of 2007. While interest on federal funds purchased increased $59 thousand and interest on the short-term portion of long-term debt increased $54 thousand, it was partially offset by a decrease of $18 thousand in interest on long-term debt during the period. This temporary short-term borrowings need resulted from repaying some Federal Home Loan Bank debt and reaching a low point in our seasonal deposit level. Looking ahead, the challenge will be to manage funding costs in a declining 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 2007 was $2.265 million compared with $2.419 million for the same period in 2006. The decrease was due primarily to funding costs increasing at a faster rate than increases in interest income on loans and short term investments. Total interest expense was $1.828 million for the third quarter, up $102 thousand from the same period a year ago. The increase in total interest expense was primarily higher interest expense on federal funds purchased and the Federal Home Loan Bank debt. These increases were due to $4.3 million larger average balance of federal funds purchased and 81 basis points higher average rate paid on Federal Home Loan Bank debt for this quarter compared with the same period a year ago. The Corporation's net interest margin improved to 3.71% for the third quarter of 2007 compared with 3.62% from the same period a year ago, and down slightly when compared with 3.72% for the second quarter 2007. The average rate paid on interest-bearing deposits increased 16 basis points and the average volume of interest-bearing deposits declined $9 million 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 declining rate environment.

No provision for loan losses was recorded for the third quarters of 2007 and 2006 due to the quality of the loan portfolio and the adequacy of the allowance for loan losses.

Noninterest expense decreased to $2.995 million from $3.654 million for the third quarter of last year. The bulk of this decrease occurred in the amortization of intangible assets which had a one-time adjustment of $429 thousand in the third quarter of 2006. This additional amortization of intangible assets resulted from large payoffs in the loan servicing portfolio last year. Also, the Corporation incurred expenses of $160 thousand associated with the repurchase of shares through a stock tender during the third quarter of 2006. The decrease in salary and employee benefits is due to declines in performance incentives when compared with the same quarter a year ago. All other major categories of noninterest expense were relatively flat for the quarter when compared with the third quarter of 2006.

Comparison of Statements of Income for the Nine-month Period

Total noninterest income was $5.539 million for the first nine months of 2007, down 2.7% from the same period in 2006. Mortgage banking services decreased $1.045 million to $2.445 million from the same period last year. Service charges on deposit accounts increased 1.5% to $1.292 million, income from insurance services increased .7% to $888 thousand and revenue from trust

services and retail brokerage services increased 7% to $461 thousand when comparing the first nine months of 2007 to the same period last year.

For the first nine months of 2007, total interest income increased $201 thousand when comparing it with the same period in 2006. The bulk of the increase was in interest and fees on loans resulting from $11.6 million growth in average volume of loans for the nine-month period compared with the same period last year. This increase was partially offset by decreases in interest income from securities. The lower volume of securities was the results of selling securities last year to fund the $13.2 million stock repurchase.

The total interest expense for the nine-month period ended September 30, 2007 increased $604 thousand, or 13%, compared with the same period in 2006. Over this period, the average balances on interest-bearing deposits decreased $2.5 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 short and long-term debt. The rate on time deposits increased 107 basis points comparing the first nine months of 2007 with the same period in 2006. Interest on both the short-term portion of long-term and long-term debt increased $76 thousand, or 8.5%, for the first nine months of 2007 compared with 2006, while interest on federal funds purchased increased $62 thousand for the first nine months of 2007. The majority of the short-term increase is due to moving the short-term portion of the long-term debt to short-term.

Net interest income for the first nine months of 2007 declined 5.5% to $6.897 million compared with the same period in 2006. During the nine-month period ended September 30, 2007, the Corporation's net interest margin was 3.70% compared with 3.65% for the same period in 2006.

The nine-month provision for loan losses of $0 remained unchanged from the comparable period of 2006. Noninterest expense decreased $673 thousand for the first nine months of 2007 compared with the same period last year. The bulk of this decrease occurred in the amortization of intangible assets which had a one-time adjustment of $429 thousand in the third quarter of 2006. This additional amortization of intangible assets resulted from large payoffs in the loan servicing portfolio last year. Also, the Corporation incurred expenses of $160 thousand associated with the repurchase of shares through a stock tender during the third quarter of 2006. The decrease in salary and employee benefits is due to declines in performance incentives when compared with the same quarter a year ago. All other major categories of noninterest expense were relatively flat for the first nine months when compared with the same period last year.

Comparison of Financial Condition Statements

At September 30, 2007, total assets were $284.1 million, a 1.5% decrease from December 31, 2006. The majority of the decrease in assets occurred in investment securities of $5.9 million, federal funds sold of $332 thousand, and in cash and due from banks of $1.9 million. These decreases were partially offset by increases of $1.7 million in loans and $2.3 million in foreclosed assets.

The Corporation's loan portfolio of $127.2 million increased 1.4% from the December 31, 2006, level of $125.5 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 44.8% of total assets.

Investment securities and other short-term investments which include federal funds sold and interest-bearing deposits in banks represent 46.4% of total assets. Investment securities decreased $5.9 million and short-term investments have remained relatively flat since December 31, 2006.

Deposits decreased to $216.2 million at the end of the third quarter of 2007, down $10.1 million from the same period in 2006 and down $10.5 million from the end of last year. The majority of the deposits decreases occurred in money market accounts. At September 30, 2007, total deposits represented 76.1% of total assets.

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

Long-term debt consist of the following:

	September 30, 2007	December 31, 2006	September 30, 2006
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), (transferred 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 5.24% fixed rate of interest maturing February 6, 2009.	5,000,000	0	0
Advance from Federal Home Loan Bank with a 5.21% fixed rate of interest due in annual installments maturing December 17, 2008.	228,571	228,571	342,857
Total long-term debt	$15,228,571	$15,228,571	$15,342,857

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 1.90% of total loans outstanding at September 30, 2007, compared

-19-

with 1.93% of loans outstanding at December 31, 2006. Non-performing assets as a percentage of total assets was .87%, an 86 basis point increase from last year. Management considers the allowance for loan losses as of September 30, 2007, 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, 2007	September 30, 2006
Commitments to extend credit	$ 11,957	$ 21,338
Standby letters of credit and financial guarantees	$ 36	$ 142

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, 2007, the Corporation's one-year cumulative rate-sensitive assets represented 88% of the cumulative rate-sensitive liabilities compared with 83% for the same period in 2006. 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 increasing amount of maturing investment securities coming due in the next twelve months. 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 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 13, 2007