

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES
EXCHANGE ACT OF 1934.

For the quarterly period ended: March 31, 2010

____ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES
EXCHANGE ACT OF 1934.

For the transition period from _____ to _____

Commission File Number: 000-51957

FGBC BANCSHARES, INC.
(Exact name of registrant as specified in its charter)

Georgia
(State or other jurisdiction of
incorporation or organization)

20 - 02743161
(I.R.S. Employer
Identification Number)

101 Main Street, Franklin, Georgia 30217
(Address of principal executive office)

(678) 839-4510
(Issuer's telephone number)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No []

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes [] No []

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ____

Accelerated filer ____

Non-accelerated filer X

Smaller reporting company ____

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [] No [X]

There were 13,993,233 shares of common stock outstanding as of May 1, 2010.

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CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (this “Report”) contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These forward-looking statements include or relate to our future results, including certain projections and business trends. Assumptions relating to forward-looking statements involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. When used in this Report, the words “estimate,” “project,” “intend,” “believe” and “expect” and similar expressions identify forward-looking statements. Although we believe that assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate, and we may not realize the results contemplated by the forward-looking statement. Management decisions are subjective in many respects and susceptible to interpretations and periodic revisions based on actual experience and business developments, the impact of which may cause us to alter our business strategy that may, in turn, affect our results of operations. In light of the significant uncertainties inherent in the forward-looking information included in this Report, you should not regard the inclusion of this information as our representation that we will achieve any strategy, objectives or other plans. The forward-looking statements contained in this Report speak only as of the date of the Report and we undertake no obligation to update or revise any of these forward-looking statements.

The forward-looking statements that we make in this Report, as well as other statements that are not historical facts, are based largely on management’s current expectations and assumptions and are subject to a number of risks and uncertainties that could cause actual results to differ materially from those contemplated by forward-looking statements. These risks and uncertainties include, among other things, the risks and uncertainties described in Item 1A of our Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 15, 2010.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

FGBC BANCSHARES, INC. AND SUBSIDIARY

**CONSOLIDATED BALANCE SHEETS
MARCH 31, 2010 AND DECEMBER 31, 2009**

	March 31, 2010 (unaudited)	December 31, 2009 (audited)
<u>Assets</u>		
Cash and due from banks	\$ 13,697,344	\$ 15,752,900
Interest-bearing deposits in banks	121,103,609	68,547,359
Federal funds sold	-	-
Securities available-for-sale, at fair value	48,163,218	44,955,347
Restricted equity securities, at cost	2,694,000	2,694,000
Loans	592,418,776	612,213,063
Less allowance for loan losses	13,328,422	12,879,081
Loans, net	579,090,354	599,333,982
Premises and equipment	36,622,066	37,045,578
Foreclosed assets	19,411,568	13,740,602
Accrued interest receivable	3,057,919	2,929,608
Other assets	6,724,658	7,201,231
Total assets	\$ 830,564,736	\$ 792,200,607
 <u>Liabilities and Stockholders' Equity</u>		
Liabilities		
Deposits:		
Noninterest-bearing	\$ 45,026,652	\$ 37,663,983
Interest-bearing	729,153,132	697,125,137
Total deposits	774,179,784	734,789,120
Other borrowings	22,000,000	22,000,000
Accrued interest payable	640,667	531,655
Other liabilities	973,499	502,237
Total liabilities	797,793,950	757,823,012
 Stockholders' equity		
Preferred stock, par value \$0; 10,000,000 shares authorized; 0 shares issued and outstanding	-	-
Common stock, par value \$0; 100,000,000 shares authorized; 13,993,233 shares issued and outstanding	77,488,261	77,440,952
Accumulated deficit	(44,321,908)	(42,741,631)
Accumulated other comprehensive loss	(366,552)	(321,726)
Treasury stock, 8,290 shares	(29,015)	-
Total stockholders' equity	32,770,786	34,377,595
Total liabilities and stockholders' equity	\$ 830,564,736	\$ 792,200,607

See notes to consolidated financial statements.

FGBC BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(Unaudited)

	2010	2009
Interest income:		
Loans, including fees	\$ 8,572,581	\$ 9,417,296
Taxable securities	373,626	623,147
Nontaxable securities	63,447	147,009
Federal funds sold	-	11,026
Other interest income	86,731	48,695
Total interest income	9,096,385	10,247,173
Interest expense:		
Deposits	3,324,911	5,382,899
Other borrowings	114,606	436,197
Total interest expense	3,439,517	5,819,096
Net interest income	5,656,868	4,428,077
Provision for loan losses	2,271,322	1,919,007
Net interest income after provision for loan losses	3,385,546	2,509,070
Other income:		
Service charges on deposit accounts	497,483	458,539
Mortgage origination fees	128,845	324,986
Net gain on sale of securities available for sale	226,319	710,592
Net gain on sale of premises and equipment	9,000	-
Other operating income	128,916	79,203
Total other income	990,563	1,573,320
Other expenses:		
Salaries and employee benefits	2,446,187	3,144,476
Equipment and occupancy expenses	764,017	837,157
Net loss on sale of foreclosed assets	95,881	92,167
Write down on foreclosed assets	71,700	-
Foreclosed asset expenses	546,495	142,948
FDIC insurance premiums	895,089	467,772
Other operating expenses	1,137,016	1,301,415
Total other expenses	5,956,385	5,985,935
Net loss before income taxes	(1,580,276)	(1,903,545)
Income tax benefit	-	(727,656)
Net loss	\$ (1,580,276)	\$ (1,175,889)
Basic losses per share	\$ (0.11)	\$ (0.09)
Diluted losses per share	\$ (0.11)	\$ (0.09)
Cash dividends per share	\$ -	\$ -

See notes to consolidated financial statements.

FGBC BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(Unaudited)

	2010	2009
Net loss	\$ (1,580,276)	\$ (1,175,889)
Other comprehensive loss:		
Reclassification adjustment for net gains on sales of securities included in net loss, net of tax of \$0 and \$270,025, respectively	(226,319)	(440,567)
Net unrealized holding gains on securities available for sale arising during period, net of tax benefit of \$27,474 and \$23,758, respectively	181,493	38,763
Other comprehensive loss	(44,826)	(401,804)
Comprehensive loss	\$ (1,625,102)	\$ (1,577,693)

See notes to consolidated financial statements.

FGBC BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(Unaudited)

	2010	2009
OPERATING ACTIVITIES		
Net loss	\$ (1,580,276)	\$ (1,175,889)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	441,839	495,506
Provision for loan losses	2,271,322	1,919,007
Amortization and accretion of securities	93,942	15,067
Writedowns of foreclosed assets	71,700	43,121
Stock compensation expense	47,309	79,663
Deferred taxes	-	(96,294)
Net gain on sale of securities available-for-sale	(226,319)	(710,592)
Net loss on sale of foreclosed assets	95,881	92,167
Gain on sale of premises and equipment	(9,000)	-
Decrease in income taxes payable	-	(93,328)
(Increase) decrease in interest receivable	(128,311)	499,783
Increase in interest payable	109,012	16,650
Net other operating activities	945,481	(360,641)
Net cash provided by operating activities	2,132,580	724,220
INVESTING ACTIVITIES		
(Increase) decrease in interest-bearing deposits in banks	(52,556,250)	7,041,414
Purchases of securities available for sale	(13,204,254)	(17,137,895)
Proceeds from maturities of securities available for sale	1,440,843	1,710,592
Proceeds from sales of securities available for sale	8,615,617	34,761,480
Purchases of restricted equity securities	-	(246,900)
Decrease in federal funds sold	-	(14,749,000)
Net decrease in loans	10,566,913	10,587,337
Purchase of premises and equipment	(18,327)	(677,722)
Proceeds from sale of foreclosed assets	1,596,770	1,571,068
Proceeds from sale of premises and equipment	9,000	-
Additions to other real estate owned	(29,112)	(43,864)
Net cash provided by (used in) investing activities	(43,578,800)	22,816,510
FINANCING ACTIVITIES		
Net increase in deposits	39,390,664	10,856,514
Net repayments of other borrowings	-	(16,750,000)
Proceeds from exercise of stock options	-	115,586
Net cash provided by financing activities	39,390,664	(5,777,900)
Net increase (decrease) in cash and due from banks	(2,055,556)	17,762,830
Cash and due from banks, beginning of period	15,752,900	8,858,796
Cash and due from banks, end of period	\$ 13,697,344	\$ 26,621,626
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during period for:		
Interest	\$ 3,439,517	\$ 5,819,511
Income taxes	\$ -	\$ -
NONCASH TRANSACTIONS		
Financed sales of foreclosed assets	\$ 222,266	\$ 593,300
Loans transferred to foreclosed assets	\$ 7,627,659	\$ 7,260,481
Treasury stock acquired in collection of loan	\$ 29,015	\$ -

See notes to consolidated financial statements.

**FGBC BANCSHARES, INC.
AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2010
(Unaudited)**

NOTE 1. BASIS OF PRESENTATION

The financial information contained herein is unaudited. Accordingly, the information does not include all the information and footnotes required by generally accepted accounting principles for complete financial statements, however, such information reflects all adjustments (consisting solely of normal recurring adjustments), which are, in the opinion of management, necessary for a fair statement of results for the interim periods.

Operating results for the three month period ended March 31, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. These statements should be read in conjunction with the financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2009.

NOTE 2. REGULATORY OVERSIGHT, CAPITAL ADEQUACY AND MANAGEMENT'S PLANS

The Consolidated Financial Statements have been prepared on a going concern basis, which contemplates the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future. However, due to the Company's 2009 financial results, the substantial uncertainty throughout the U.S. banking industry and other matters discussed below, a substantial doubt exists regarding the Company's ability to continue as a going concern. Management's plans in addressing the issues that raise substantial doubt regarding the Company's ability to continue as a going concern are as follows:

As more fully described in Note 15, Regulatory Matters, in the footnotes to the Company's Form 10-K for the year ended December 31, 2009, the Bank is currently operating under heightened regulatory scrutiny and is subject to certain requirements and restrictions including but not limited to:

- Achieving and maintaining a minimum Tier 1 Leverage Ratio of 8%; and
- Planning for the scheduled reduction of certain "classified assets"; and
- No cash dividends may be paid without prior regulatory approval.

As of March 31, 2010 and during the subsequent period prior to the issuance of this report, we were not in compliance with regulatory capital requirements defined for our Bank. Our failure to comply with this requirement will likely result in further action by our banking regulators such as the issuance of a formal written agreement (i.e. Consent Order). Management and the Board of Directors are working on plans to improve our capital ratios and to further reduce the level of classified assets, and are also considering various strategic alternatives.

As of March 31, 2010, the Company was considered "undercapitalized," not "well-capitalized" under regulatory guidelines. In light of the requirement to improve the capital ratios of the Bank, management is pursuing a number of strategic alternatives. Current market conditions for banking institutions, the overall uncertainty in financial markets and the Company's high level of non-performing assets are potential barriers to the success of these strategies. Failure to adequately address the regulatory concerns may result in actions by the banking regulators including, but not limited to, entry into a formal written agreement. Ongoing failure to adequately address regulatory concerns could ultimately result in the eventual appointment of a receiver or conservator of the Bank's assets. If current adverse market factors continue for a prolonged period of time, new adverse market factors emerge, and/or the Company is unable to successfully execute its plans or adequately address regulatory concerns in a sufficiently timely manner; it could have a material adverse effect on the Company's business, results of operations and financial position.

NOTE 3. EARNINGS (LOSSES) PER SHARE

The Company is required to report earnings per common share with and without the dilutive effects of potential common stock issuances from instruments such as options, convertible securities and warrants on the face of the statements of operations. Earnings per common share are based on the weighted average number of common shares outstanding during the

period while the effects of potential common shares outstanding during the period are included in diluted earnings per share. Presented below is a summary of the components used to calculate basic and diluted earnings per common share.

	Three Months Ended	
	March 31,	
	2010	2009
Basic earnings (losses) per share:		
Weighted average common shares outstanding	13,993,233	12,508,802
Net income (loss)	\$ (1,580,276)	\$ (1,175,889)
Basic earnings (losses) per share	\$ (0.11)	\$ (0.09)
Diluted earnings (losses) per share:		
Weighted average common shares outstanding	13,993,233	12,508,802
Net effect of the assumed exercise of stock options based on the treasury stock method using average market prices for the year	-	-
Total weighted average common shares and common stock equivalents outstanding	13,993,233	12,508,802
Net income (loss)	\$ (1,580,276)	\$ (1,175,889)
Diluted earnings (losses) per share	\$ (0.11)	\$ (0.09)

Potential common shares of 1,428,625 and 671,765 for the three months ended March 31, 2010 and 2009, respectively, were anti-dilutive and not included in the computation of diluted earnings per share.

NOTE 4. ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

In January 2010, the FASB amended existing guidance for fair value measurements and disclosures which requires disclosures for transfers in and out of Levels 1 and 2 fair value measurements and activity in Level 3 fair value measurements. The amendments in the guidance also clarify existing disclosures for the level of disaggregation and disclosures about inputs and valuation techniques. The amendments in the guidance also include conforming amendments to the guidance on employers' disclosures about postretirement benefit plan assets. The guidance was effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The effect of adopting this new guidance did not have any material effect on the Company's operating results or financial condition.

In February 2010, the FASB issued Accounting Standards Update No. 2010-09, Subsequent Events: Amendments to Certain Recognition and Disclosure Requirements ("ASC No. 2010-09"). ASU No. 2010-09 removes some contradictions between the requirements of GAAP and the filing rules of the Securities and Exchange Commission ("SEC"). SEC filers are required to evaluate subsequent events through the date the financial statements are issued, and they are no longer required to disclose the date through which subsequent events have been evaluated. This guidance was effective upon issuance except for the use of the issued date for conduit debt obligors, and it is not expected to have a material impact on the Company's results of operations, financial position or disclosures.

NOTE 5. FAIR VALUE DISCLOSURES

Determination of Fair Value

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the Fair Value Measurements and Disclosures guidance, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices.

However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The recent fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Fair Value Hierarchy

In accordance with this guidance, the Company groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 - Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuation is based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 - Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following methods and assumptions were used by the Company in estimating fair value disclosures for financial instruments:

Cash and cash equivalents and interest-bearing deposits in banks: The carrying amounts of cash and short-term instruments approximate fair values based on the short-term nature of the assets. Fair values of other interest-bearing deposits are estimated using discounted cash flow analyses based on current rates for similar types of deposits.

Securities Available for Sale: Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets.

Restricted equity securities: The carrying value of restricted equity securities with no readily determinable fair value approximates fair value.

Loans: The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, a creditor may measure impairment based on a loan's observable market price, or the fair value of the collateral if repayment of the loan is dependent upon the sale of the underlying collateral. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At March 31, 2010, substantially

all of the total impaired loans were evaluated based on the fair value of the collateral. In accordance with generally accepted accounting principles, impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as nonrecurring Level 3.

Foreclosed Assets: Foreclosed assets are adjusted to fair value upon transfer of the loans to foreclosed assets. Subsequently, foreclosed assets are carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the foreclosed asset as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the foreclosed asset as nonrecurring Level 3.

Deposits: The carrying amount of demand deposits, savings deposits, and variable-rate certificates of deposit approximates fair value. The fair value of fixed-rate certificates of deposit is estimated based on discounted contractual cash flows using interest rates currently being offered for certificates of similar maturities.

Other Borrowings: The fair value of fixed rate borrowings is based on discounted contractual cash flows using interest rates currently offered for debt with similar terms.

Accrued Interest: The carrying amount of accrued interest approximates fair value.

Assets measured at fair value on a recurring basis are summarized below:

	(Dollars In Thousands)			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
March 31, 2010				
Available for sale securities	\$ -	\$ 48,163	\$ -	\$ 48,163
Total assets at fair value	<u>\$ -</u>	<u>\$ 48,163</u>	<u>\$ -</u>	<u>\$ 48,163</u>
December 31, 2009				
Available for sale securities	\$ -	\$ 44,955	\$ -	\$ 44,955
Total assets at fair value	<u>\$ -</u>	<u>\$ 44,955</u>	<u>\$ -</u>	<u>\$ 44,955</u>

Assets measured at fair value on a nonrecurring basis are summarized below:

	(Dollars In Thousands)			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
March 31, 2010				
Impaired loans	\$ -	\$ 22,953	\$ 22,652	\$ (1,534)
Foreclosed assets	-	5,950	13,461	(72)
Total	<u>\$ -</u>	<u>\$ 28,903</u>	<u>\$ 36,113</u>	<u>\$ (1,606)</u>
December 31, 2009				
Impaired loans	\$ -	\$ 24,665	\$ 24,452	\$ (19,256)
Foreclosed assets	-	5,165	8,575	(1,251)
Total	<u>\$ -</u>	<u>\$ 29,830</u>	<u>\$ 33,027</u>	<u>\$ (20,507)</u>

In accordance with the provisions of the loan impairment guidance, individual loans with a carrying amount of \$47,139,260 were written down to their fair value of \$45,605,239 resulting in an impairment charge of \$1,534,021 which was included in earnings for the period. Write downs of impaired loans are estimated using the present value of expected cash flows or the appraised value of the underlying collateral discounted as necessary due to reflect management's estimates of changes in economic conditions.

The carrying amount and estimated fair value of the Company's financial instruments at March 31, 2010 and December 31, 2009 were as follows:

	March 31, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(Dollars In Thousands)				
Financial Assets:				
Cash and cash equivalents	\$ 134,801	\$ 134,801	\$ 84,300	\$ 84,300
Securities available-for-sale	48,163	48,163	44,955	44,955
Restricted equity securities	2,694	2,694	2,694	2,694
Loans, net	579,090	577,455	599,334	596,516
Accrued interest receivable	3,058	3,058	3,104	3,104
Financial Liabilities:				
Deposits	\$ 774,180	\$ 778,946	\$ 734,789	\$ 739,833
Other borrowings	22,000	21,707	22,000	21,243
Accrued interest payable	641	641	532	532

NOTE 5. SECURITIES AVAILABLE-FOR-SALE

The amortized cost and fair value of securities available-for-sale with gross unrealized gains and losses are summarized on the following page:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2010:				
U.S. Government-sponsored Enterprises (GSEs)	\$ 1,500,000	\$ 7,031	\$ -	\$ 1,507,031
Mortgage-backed securities				
GSE residential	38,769,745	76,869	(246,652)	38,599,962
State, county and municipals	5,944,437	6,573	(313,115)	5,637,895
Corporate securities	2,540,249	-	(121,919)	2,418,330
	<u>\$ 48,754,431</u>	<u>\$ 90,473</u>	<u>\$ (681,686)</u>	<u>\$ 48,163,218</u>
December 31, 2009:				
U.S. Government-sponsored Enterprises (GSEs)	\$ 1,500,000	\$ -	\$ (16,406)	\$ 1,483,594
Mortgage-backed securities				
GSE residential	35,043,311	215,528	(294,669)	34,964,170
State, county and municipals	6,389,224	18,909	(309,052)	6,099,081
Corporate securities	2,541,724	-	(133,222)	2,408,502
	<u>\$ 45,474,259</u>	<u>\$ 234,437</u>	<u>\$ (753,349)</u>	<u>\$ 44,955,347</u>

Securities with a carrying value of \$11,853,945 and \$7,760,242 as of March 31, 2010 and December 31, 2009, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

Temporarily Impaired Securities

The following table shows the gross unrealized losses and fair value of the Company's available-for-sale investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position.

Description of Securities	March 31, 2010					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government-sponsored enterprises (GSEs)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Mortgage-backed securities						
GSE residential	26,918,628	(246,652)	-	-	26,918,628	(246,652)
State, county and municipals	542,651	(14,821)	2,433,139	(298,294)	2,975,790	(313,115)
Corporate securities	930,000	(70,000)	1,488,330	(51,919)	2,418,330	(121,919)
Total temporarily impaired securities	\$ 28,391,279	\$ (331,473)	\$ 3,921,469	\$ (350,213)	\$ 32,312,748	\$ (681,686)

Description of Securities	December 31, 2009					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government-sponsored enterprises (GSEs)	\$ 1,483,594	\$ (16,406)	\$ -	\$ -	\$ 1,483,594	\$ (16,406)
Mortgage-backed securities						
GSE residential	24,022,030	(294,669)	-	-	24,022,030	(294,669)
State, county and municipals	1,236,523	(22,342)	2,445,005	(286,710)	3,681,528	(309,052)
Corporate securities	930,000	(70,000)	1,478,502	(63,222)	2,408,502	(133,222)
Total temporarily impaired securities	\$ 27,672,147	\$ (403,417)	\$ 3,923,507	\$ (349,932)	\$ 31,595,654	\$ (753,349)

The amortized cost and fair value of debt securities as of March 31, 2010 by contractual maturity are shown on the following page. Actual maturities may differ from contractual maturities of mortgage-backed securities because the mortgages underlying the securities may be called or repaid without penalty. Therefore, these securities are not included in the maturity categories in the following summary.

	Amortized Cost	Fair Value
After ten years	\$ 9,984,686	\$ 9,563,256
Mortgage-backed securities	38,769,745	38,599,962
	<u>\$ 48,754,431</u>	<u>\$ 48,163,218</u>

The gross gains and losses realized by the Company from sales of available-for-sale securities for the three months ended March 31, 2010 and 2009, respectively, were as follows:

	Three Months Ended	
	March 31,	
	2010	2009
Gross gains	\$ 226,319	\$ 710,592
Gross losses	-	-
Net realized gains	<u>\$ 226,319</u>	<u>\$ 710,592</u>

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is management's discussion and analysis of certain significant factors which have affected our financial position and operating results during the periods included in the accompanying consolidated financial statements.

Overview

We experienced a net loss for the three months ended March 31, 2010 of \$1,580,276, or \$0.11 per share. This compares to a net loss of \$1,175,889 for the first quarter of 2009, or \$0.09 per share. The net loss for the first quarter of 2009 was mitigated by an income tax benefit of \$727,656. Due to our recent significant losses, we will not be able to record any further tax benefits until we can show that it is more likely than not that we will realize such benefits.

Our first quarter results reflect continued weak economic conditions, although we believe that the trend of asset deterioration has slowed considerably when compared to the pace of decline that we experienced during the last half of 2009. Our provision for loan losses was \$2.3 million for the three months ended March 31, 2010, compared to \$1.9 million for the corresponding period in 2009. Net charge-offs for the first quarter of 2010 totaled \$1.8 million compared to \$1.4 million for the first quarter of 2009. Nonperforming assets of \$64.3 million were 7.75% of total assets at March 31, 2010, compared to 7.88% at December 31, 2009 and 4.86% at March 31, 2009. Our allowance for loan losses was \$13.3 million at March 31, 2010, or 2.25% of total loans, compared to \$12.9 million at December 31, 2009, or 2.10% of total loans.

On a positive note, we continue to experience improvements in our net interest margin, which was 3.01% for the three months ended March 31, 2010 compared to 2.32% for the corresponding period in 2009. Our net interest income, even after increased provisions, increased from \$2.5 million for the first quarter of 2009 to \$3.4 million for the first quarter of 2010. Non-interest income dropped from \$1.6 million for the first quarter of 2009 to \$1.0 million for the first quarter of 2010 due largely to a decline in mortgage origination income and lower gains on sales of securities. Other expenses were relatively stable from the first quarter of 2009 to the first quarter of 2010. Over the last year management has focused on the reduction or elimination of any "non-essential" expenses such as directors' fees, social club dues, marketing and certain employee related expenses. As part of that effort, management eliminated 34 positions and reduced salaries for several executive positions. The savings achieved from this effort, however, have been offset by increased expenses relating to foreclosed assets and higher levels of FDIC insurance premiums.

Total assets increased from \$792 million at December 31, 2009 to \$831 million at March 31, 2010. The increase was primarily attributable to an increase of approximately \$48 million in cash and cash equivalents, funded largely by an increase in deposits, which offset a marginal decline in loans. This change in the composition of our balance sheet reflects management's intent to increase liquidity in light of the Bank's undercapitalized regulatory status, which among other things prohibits the Bank from accepting, renewing or rolling over brokered deposits without a regulatory waiver and also restricts the level of interest rates that the Bank may pay on deposits. We intend to maintain a high level of liquidity until the economies in the communities we serve stabilize and our capital position improves.

Critical Accounting Policies

The accounting and financial policies of the Company conform to accounting principles generally accepted in the United States and to general practices within the banking industry. To prepare consolidated financial statements in conformity with accounting principles generally accepted in the United States, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and future results could differ. The allowance for loan losses, valuation of foreclosed real estate and fair value of financial instruments are particularly significant to us and subject to change. Information concerning our accounting policies with respect to these items is available in Item 6, "Management's Discussion and Analysis of Financial Condition and Results of Operations," in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 as filed with the SEC on April 15, 2010.

Liquidity and Capital Resources

Our primary sources of liquidity are our deposits, the scheduled repayments on our loans, and interest and maturities of our investments. All securities have been classified as available for sale, which means they are carried at fair value with unrealized gains and losses excluded from earnings and reported as a separate component of other comprehensive income (loss). If necessary, we have the ability to sell a portion of our unpledged investment securities to manage interest sensitivity gap or liquidity. Our pledged securities totaled \$11.9 million at March 31, 2010 as compared to \$7.8 million at December 31, 2009. Cash and due from banks and interest-bearing deposits in banks may also be utilized to meet liquidity needs. Due to our undercapitalized status, we are unable to accept, rollover, or renew any brokered deposits. The Company has \$31.9 million of

brokered deposits maturing in the next twelve months and as these brokered deposits mature it could create a strain on liquidity. We are also currently prohibited from paying yields for deposits in excess of 75 basis points above a published national average rate for deposits of comparable maturity unless the FDIC permits the use of a higher local market rate. Banks in the state of Georgia are currently deemed by the FDIC to be in a high interest rate market. As a result we are allowed to analyze the average interest rate in each of our markets and are limited to offering rates no more than 75 basis points above this average. This analysis occurs on a weekly basis and the FDIC may at anytime revoke their high rate designation for any or all of our markets. Such rate restrictions could negatively impact our ability to attract or maintain deposits and therefore may negatively affect our liquidity. Based on current and expected liquidity needs and sources, however, management expects to be able to meet obligations at least for the foreseeable future.

We are subject to minimum capital standards as set forth by federal bank regulatory agencies. Our capital for regulatory purposes differs from our equity as determined under generally accepted accounting principles. Generally, "Tier 1" regulatory capital will equal capital as determined under generally accepted accounting principles less any unrealized gains or losses on securities available for sale while "Tier 2" capital includes the allowance for loan losses up to certain limitations. Total risk based capital is the sum of Tier 1 and Tier 2 capital. Our capital ratios and required minimums at March 31, 2010 are shown below. Because of our recent deterioration and risk exposure, our regulators expect us to maintain capital ratios substantially above the regulatory minimums.

	<u>Tier 1 Leverage</u>	<u>Tier 1 Risk- based</u>	<u>Total Risk- based</u>
Minimum regulatory requirement	4.00%	4.00%	8.00%
Minimum regulatory requirement for well capitalized status	5.00%	6.00%	10.00%
Actual ratios at March 31, 2010			
FGBC Bancshares, Inc.	4.05%	5.60%	6.86%
First Georgia Banking Company	4.04%	5.57%	6.84%

As of March 31, 2010, the Company and the Bank were undercapitalized, primarily due to the net loss recorded for the year ended December 31, 2009. As a result, we are prohibited from directly or indirectly accepting, renewing or rolling over any brokered deposits. In addition, as an undercapitalized Bank we will be required to comply with additional operating restrictions, including having to submit a plan to restore the Bank to an acceptable capital category. Failure to adequately comply could eventually allow the banking regulators to appoint a receiver or conservator of our net assets. Our total capital also has an important effect on the amount of FDIC insurance premiums paid as institutions considered undercapitalized are subject to higher rates for FDIC insurance. These matters are a major focus of the attention and efforts of the Board of Directors and management. Significant additional restrictions can be imposed on FDIC-insured depository institutions that fail to meet applicable capital requirements. Please see "Supervision and Regulation – Capital Adequacy" within Item 1 of our Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 15, 2010 for a more complete discussion of regulatory capital requirements.

Off-Balance Sheet Risk

We are a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit and standby letters of credit. Such commitments involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amount recognized in the balance sheets.

Our exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. We use the same credit policies in making commitments and conditional obligations as we do for on-balance sheet instruments. A summary of our commitments is as follows:

	March 31, 2010 (Dollars in Thousands)
Commitments to extend credit	\$ 34,343
Letters of credit	913
	<u>\$ 35,256</u>

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by us upon extension of credit, is based on our credit evaluation of the customer.

Standby letters of credit are conditional commitments issued by us to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. Collateral is required in instances which we deem necessary.

Financial Condition

The following is a summary of our balance sheets at the dates indicated:

	March 31, 2010	December 31, 2009
	(Dollars in Thousands)	
Cash and due from banks	\$ 13,698	\$ 15,753
Interest-bearing deposits in banks	121,104	68,547
Securities, available-for-sale	48,163	44,955
Restricted equity securities, at cost	2,694	2,694
Loans, net	579,090	599,334
Premises and equipment	36,622	37,046
Foreclosed assets	19,412	13,741
Accrued interest receivable	3,058	2,930
Other assets	6,724	7,201
	<u>\$ 830,565</u>	<u>\$ 792,201</u>
Deposits	\$ 774,180	\$ 734,789
Other borrowings	22,000	22,000
Accrued interest payable	641	532
Other liabilities	973	502
Stockholders' equity	32,771	34,378
	<u>\$ 830,565</u>	<u>\$ 792,201</u>

Our total assets increased by \$38,364,129, or 4.8%, to \$830,564,736 for the first three months of 2010 as compared to December 31, 2009, which is due primarily to an increase of \$50,500,694 in cash and interest-bearing deposits in banks, \$5,670,966 in foreclosed assets and \$3,207,871 in securities available-for-sale combined with a decrease in net loans of \$20,243,628. These changes reflect management's intent to increase liquidity due to our undercapitalized regulatory status and shrink the loan portfolio. Changes to premises and equipment, accrued interest receivable and other assets were not significant for these same periods.

For the first three months of 2010 as compared to December 31, 2009, total liabilities increased by \$39,970,938, or 5.27%, primarily due to a \$32,027,995 increase in interest-bearing deposits and a \$7,362,669 increase in non-interest bearing deposits. The balance in FHLB borrowed funds did not change from December 31, 2009 and changes to other liabilities and accrued interest payable were not significant. Stockholders' equity decreased by \$1,606,809 due to a \$1,580,276 loss for the first three months of 2010, an increase in other comprehensive loss of \$44,826, treasury stock of \$29,015 and an increase to common stock of \$47,309 as we recognized stock compensation expense.

Results of Operations for the Three Months Ended March 31, 2010 and 2009

The following is a summary of our operations for the periods indicated:

	Three Months Ended March 31,	
	2010	2009
	(Dollars in Thousands)	
Interest income	\$ 9,096	\$ 10,247
Interest expense	(3,440)	(5,819)
Net interest income	5,656	4,428
Provision for loan losses	(2,271)	(1,919)
Other income	991	1,573
Other expense	(5,956)	(5,986)
Pretax loss	(1,580)	(1,904)
Income tax benefit	-	(728)
Net loss	<u>\$ (1,580)</u>	<u>\$ (1,176)</u>

Our net interest income for the three months ended March 31, 2010 was \$5,656,868, which is an increase of \$1,228,791, or 27.8%, as compared to the same period for 2009. Between the fourth quarter of 2007 and the first quarter of 2009 we experienced compression in our net interest margin due to a falling interest rate environment and stiff competition for deposits. Since the first quarter of 2009, however, we have seen improvement in our net interest margin, due to a combination of our loan yields increasing and deposits repricing to lower rates. Our quarterly net interest margins for the last two years are as follows:

<u>Period</u>	<u>Net interest margin</u>
March, 2010	3.01%
December, 2009	2.88%
September, 2009	2.83%
June, 2009	2.61%
March, 2009	2.32%
December, 2008	2.88%
September, 2008	3.08%
June, 2008	3.17%

Provision and Allowance for Loan Losses

The allowance for loan losses is established through charges to earnings in the form of a provision for loan losses. When a loan or portion of a loan is determined to be uncollectible, the amount deemed uncollectible is charged against the allowance and subsequent recoveries, if any, are credited to the allowance.

The allowance is an amount that we believe will be adequate to absorb estimated losses relating to specifically identified loans, as well as probable credit losses inherent in the balance of the loan portfolio, based on a periodic evaluation. While we use the best information available to make our evaluation, future adjustments to the allowance may be necessary if there are any significant changes in economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review our allowance for loan losses, and may require us to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

We determine the allowance for loan loss by first dividing the loan portfolio into two major categories: (1) satisfactory and past due loans plus loans classified substandard, but not impaired and (2) impaired loans. For purposes of evaluation, satisfactory and past due loans are further segmented into the following categories: 1-4 family residential construction, other construction, farmland, 1-4 residential - revolving, 1-4 residential - 1st liens, 1-4 residential – Jr. liens, multifamily, owner-occupied non-farm non-residential, other non-farm non-residential, commercial and industrial, consumer installment, and other. A percentage allocation is also assigned to the loans classified as substandard and doubtful that are not impaired or are under \$200,000 and impaired. We apply our historical trend loss factors to each category and adjust these percentages for qualitative or environmental factors, as discussed below. Because of the deterioration in the economy and real estate markets over the past several years, we use a two-year internal trending analysis in calculating our general reserve, versus the three-year internal and peer-based averages we had relied on in the past. Loan loss reserves are calculated primarily based upon this historical loss experience by segment and adjusted for qualitative factors including changes in the nature and volume of the loan portfolio, overall portfolio quality, changes in levels of non-performing loans, significant shifts in real estate values, changes in levels of collateralization, trends in staff lending experience and turnover, loan concentrations and current economic conditions that may affect the borrower's ability to pay. For example, because of the recent increase in the level of our non-performing loans and general decline in real estate values we have increased the qualitative economic and environmental factors in our satisfactory and past due loan calculation.

A loan is generally classified as impaired, based on current information and events, if it is probable that we will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Impaired loans are measured 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. A substantial portion of our impaired loans are collateral dependent, which in the past was included in our allowance for loan losses. New appraisals continue to show declining real estate values as compared to previous levels thus we have experienced losses upon disposal of these assets. The process of updating appraisals on collateral dependent troubled debt restructurings ("TDRs") and nonaccrual loans previously included in our calculations have confirmed losses and accelerated charge-offs into 2009 through subsequent events. Significant individual credits classified as substandard within our credit grading system that are determined to be impaired require both individual analysis and specific allocation. Loans in the substandard category are characterized by deterioration in quality exhibited by any number of well-defined weaknesses requiring corrective action, such as declining or negative earnings trends and declining or inadequate liquidity. Impaired loans with balances in excess of \$200,000 are evaluated individually, while impaired loans with balances of \$200,000 or less are evaluated as a group. No additional funds are committed to be advanced in connection with impaired loans.

Generally, for larger collateral-dependent loans, current market appraisals are ordered to estimate the current fair value of the collateral. During our most recent regulatory examination, we had appraisals prepared and reviewed on a large number of our residential and commercial collateral-dependent loans. However, in situations where a current market appraisal is not available, management uses the best available information (including recent appraisals for similar properties, communications with qualified real estate professionals, information contained in reputable trade publications and other observable market data) to estimate the current fair value. In these situations, valuations based on our internal calculations have generally been consistent with the valuations determined by appraisals on similar properties and as such, management believes the internal valuations can be reasonably relied upon for valuation purposes. The estimated costs to sell the subject property, if any, are then deducted from the estimated fair value to arrive at the “net realizable value” of the loan and to determine the specific reserve on each impaired loan reviewed.

Our analysis of impaired loans and their underlying collateral values has revealed the continued deterioration in the level of property values, as well as reduced borrower ability to make regularly scheduled payments. Loans in our residential land development and construction portfolios are secured by unimproved and improved land, residential lots, and single-family and multi-family homes. Generally, current lot sales by the developers and/or borrowers are taking place at a greatly reduced pace and at reduced prices. As home sales volumes have declined, income of residential developers, contractors and other real estate-dependent borrowers has also been reduced. This difficult operating environment, along with the additional loan carrying time, has caused some borrowers to exhaust payment sources. Within the last several months, several of our clients have reached the point where payment sources have been exhausted.

The general reserve estimate is then added to the specific allocations made to determine the amount of the total allowance for loan losses. The allocation of the allowance to the respective loan categories is an approximation and not necessarily indicative of future losses. The entire allowance is available to absorb losses occurring in the loan portfolio. We regularly monitor trends with respect to non-accrual, restructured and potential problems loans. We have been in the current economic cycle for an extended period thus allowing for current negative environmental factors and market-driven trends inherent in the economy to be reflected in our historical net charge off ratio. In management’s opinion, the loan loss allowance is considered adequate at March 31, 2010.

When a loan first shows signs of weakness we will, if warranted, place the loan on non-accrual status pending a more complete investigation of the underlying credit quality of the loan and its collateral. After this investigation, which may include steps such as obtaining an updated appraisal and a review of the financial condition of the guarantor(s), we will charge-off the portions of the loans that we deem uncollectible or confirmed through updated appraisals on collateral dependent loans.

The following table summarizes the allocation of the allowance for loan losses to types of loans as of the indicated dates. The allowance for loan loss allocation is based on a subjective judgment and estimates and therefore is not necessarily indicative of the specific amounts or loan categories in which charge-offs may ultimately occur. In addition, there will be allowance amounts that are allocated based on evaluation of individual loans considered to be impaired by management.

	<u>March 31, 2010</u>		<u>December 31, 2009</u>	
	<u>Amount</u>	<u>Percentage of loans in each category</u>	<u>Amount</u>	<u>Percentage of loans in each category</u>
	<u>(Dollars in Thousands)</u>			
Commercial and industrial	\$ 1,474	7.41%	\$ 1,281	7.19%
Real estate -- construction	4,919	23.54%	4,700	24.13%
Real estate -- mortgage	6,498	65.83%	6,460	65.11%
Installment loans to individuals	437	3.22%	438	3.57%
	<u>\$ 13,328</u>	<u>100%</u>	<u>\$ 12,879</u>	<u>100%</u>

Information with respect to non-accrual, past due and restructured loans at March 31, 2010 and December 31, 2009 is as follows:

	March 31, 2010	December 31, 2009
	(Dollars in Thousands)	
<u>Non-accrual loans</u>		
Commercial and industrial	\$ 3,727	\$ 3,690
Real estate - construction	16,841	17,003
Real estate - mortgage	23,986	27,734
Installment loans to individual	366	293
Total non-accrual loans	<u>\$ 44,920</u>	<u>\$ 48,720</u>
<u>Loans contractually past due ninety days or more as to interest or principal payments and still accruing</u>		
	\$ -	\$ -
<u>Loans, the terms of which have been renegotiated to provide a reduction or deferral of interest or principal because of deterioration in the financial position of the borrower</u>		
Commercial and industrial	\$ 137	\$ 89
Real estate - construction	-	-
Real estate - mortgage	159	464
Installment loans to individual	-	-
Total restructured loans	<u>\$ 552</u>	<u>\$ 553</u>
<u>Loans now current about which there are serious doubts as to the ability of the borrower to comply with present loan repayment terms (potential problem loans)</u>		
Commercial and industrial	\$ -	\$ -
Real estate - construction	-	-
Real estate - mortgage	-	-
Installment loans to individual	-	-
Total potential problem loans	<u>\$ -</u>	<u>\$ -</u>
Interest income that would have been recorded on non-accrual loans under original terms	\$ 554	
Interest income that was recorded on non-accrual loans	201	
Reduction in interest income	<u>\$ 353</u>	

The economic downturn, and particularly the weak real estate markets, have led to increased delinquencies and charge-offs. The weakened real estate market affects several segments of borrowers: 1) builders and acquisition / development customers who are not able to sell their inventory and thus cannot generate cash flow to make loan payments; 2) owners of commercial property who are unable to lease or rent their properties and thus suffer from a lack of cash flow and 3) consumers who have lost equity in their residences related to foreclosures and are unable to access this liquidity source or refinance into lower rate mortgages. Increased unemployment rates in our market areas have increased our non-performing loans because borrowers no longer have the necessary cash flow to pay their loan obligations. Current economic forecasts indicate a weak recovery for 2010 thus no substantial improvement in non-accrual, past due and potential problem loans is expected for the foreseeable future.

Loans greater than 90 days past due are automatically placed on non-accrual status. Additionally, we may place loans that are not greater than 90 days past due on non-accrual status if we determine that the full collection of principal and interest comes into doubt. In making that determination we consider all of the relevant facts and circumstances and take into consideration the judgment of responsible lending officers, our loan committee and the regulatory agencies that review the loans as part of their regular examination process. If we determine that a larger allowance to loan losses is necessary then we will make an increase to the allowance through a provision.

At March 31, 2010, we had \$44,919,889 of non-accrual loans, which is a decrease of \$3,800,488 from December 31, 2009. The decrease is primarily the result of loans being charged-off or collateral related to these loans being foreclosed upon and moving into other real estate. This process caused the level of our non-accrual real estate - mortgage and real estate - construction loans to decrease by approximately \$3.8 million and \$163,000, respectively, while our installment and commercial and industrial loans increased by \$73,000 and \$37,000 respectively during the first three months of 2010. At March 31, 2010, no accrued interest on non-accrual loans had been recognized.

Our non-accrual loans by geographic market are shown in the following table as of March 31, 2010 and December 31, 2009.

	March 31, 2010	December 31, 2009
	(Dollars in Thousands)	
Dalton	\$ 11,930	\$ 13,775
Bremen	7,735	8,050
Carrollton	7,666	8,553
Villa Rica	7,331	7,399
Other (8 markets)	10,258	10,943
Total	<u>\$ 44,920</u>	<u>48,720</u>

In the opinion of management, any loans classified by regulatory authorities as doubtful, substandard or special mention that have not been disclosed above do not (1) represent or result from trends or uncertainties which management reasonably expects will materially impact future operating results, liquidity, or capital resources, or (2) represent material credits about which management is aware of any information which causes management to have serious doubts as to the ability of such borrowers to comply with the loan repayment terms. In the event of non-performance by the borrower, these loans have collateral pledged which we believe would prevent the recognition of substantial losses. Any loans classified by regulatory authorities as loss have been charged off.

Restructured loans are loans for which the terms have been negotiated to provide a reduction or deferral of interest or principal because of deterioration in the financial position of the borrower. Restructured loans identified in the table above consist of four loan relationships that we are actively managing.

Potential problem loans are defined as loans about which we have serious doubts as to the ability of the borrower to comply with the present loan repayment terms and which may cause the loan to be placed on non-accrual status, to become past due more than ninety days, or to be restructured.

Information regarding certain loans and allowance for loan loss data through March 31, 2010 and 2009 is as follows:

	Three Months Ended March 31,	
	2010	2009
	(Dollars in Thousands)	
Average amount of loans outstanding	<u>\$ 604,332</u>	<u>\$ 676,446</u>
Balance of allowance for loan losses at beginning of period	<u>\$ 12,879</u>	<u>\$ 11,013</u>
Loans charged off		
Commercial and industrial	(98)	(105)
Real estate -- construction	(270)	(797)
Real estate -- mortgage	(1,364)	(409)
Installment loans to individuals	(149)	(149)
	<u>(1,881)</u>	<u>(1,460)</u>
Loans recovered		
Commercial and industrial	5	1
Real estate -- construction	17	5
Real estate -- mortgage	5	2
Installment loans to individuals	32	5
	<u>59</u>	<u>13</u>
Net charge-offs	<u>(1,822)</u>	<u>(1,447)</u>
Additions to allowance charged to operating expense during period	<u>2,271</u>	<u>1,919</u>
Balance of allowance for loan losses at end of period	<u>\$ 13,328</u>	<u>\$ 11,485</u>
Ratio of net loans charged off during the period to average loans outstanding	<u>.30%</u>	<u>.21%</u>

Foreclosed Assets

The following table summarizes the composition of our foreclosed assets as of March 31, 2010 and December 31, 2009.

	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
	<u>(Dollars in Thousands)</u>	
Raw land	\$ 7,513	\$ 6,618
Subdivision lots	2,506	1,794
1-4 family residential	5,863	4,560
Multifamily	1,679	-
Commercial real estate	1,340	704
Farmland	481	-
Other repossessed assets	30	65
Total	<u>\$ 19,412</u>	<u>\$ 13,741</u>

The following table summarizes the geographic distribution of our foreclosed assets as of March 31, 2010 and December 31, 2009.

	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
	<u>(Dollars in Thousands)</u>	
Villa Rica	\$ 6,446	\$ 5,885
Dalton	4,860	1,395
Carrollton	3,684	2,248
Jefferson	1,596	1,524
Other (8 markets)	2,826	2,689
Total	<u>\$ 19,412</u>	<u>\$ 13,741</u>

At December 31, 2009 we had foreclosed assets of \$13,740,602. In 2010 we transferred \$7,627,659 of loans into foreclosed assets (see the "Supplemental Disclosures" section of our Statement of Cash Flows for the three months ended March 31, 2010). We had \$29,112 of additional expense to complete pieces of real estate and wrote-down the carrying value by \$71,700. We subsequently sold for cash \$1,596,770 and internally financed \$222,266 of these assets incurring \$95,881 of loss on sale, as noted in the other expenses section of the Consolidated Statement of Operations. We continue to hold foreclosed assets valued at \$19,411,568. Our Carrollton and Villa Rica (Carroll County), Jefferson (Jackson County), and Dalton (Whitfield County), Georgia markets account for \$16,584,923, or 85.4% of our foreclosed assets. These properties are being actively marketed and maintained with the primary objective of liquidating the collateral at a level which most accurately approximates fair market value and allows recovery of as much of the unpaid principal balance as possible in a reasonable period of time. In determining the carrying amount at March 31, 2010 we have taken into account the recent trend of declining real estate values. Although this trend has not reversed, we believe that the pace of the decline is slowing. Based on our assumptions, we believe that the carrying value of our foreclosed assets at March 31, 2010 is reasonable. However, if our assumptions prove incorrect, we may have to take further write downs on our foreclosed properties. Because of the recent lack of stability in our markets, we believe that the range of possible outcomes relating to our foreclosed property is greater than usual.

Other Income and Expenses

Other income decreased by \$582,757 (or 37%) for the three months ended March 31, 2010 as compared to the same period in 2009. We had a \$484,273 (or 68%) decrease in the net gain on sale of securities available-for-sale for the first three months of 2010 as compared to the same period in 2009. We experienced a \$196,141 (or 60.35%) decrease in mortgage origination fees as compared to the same period in 2009 due to a continued decline in applications. Our other operating income modestly increased by \$49,713 (or 62.77%) during the first three months of 2010 when compared to the corresponding period in 2009 primarily from rental income on our foreclosed assets. We had a slight increase of \$38,944 (or 8.5%) in service charges on deposit accounts compared to the same period in 2009 mostly due to an increase in debit card fee income. For the first three months of 2010 as compared to the same period in 2009 we had a \$9,000 increase in the net gain on sale of premises and equipment.

Other expenses decreased by \$29,550 (or .50%) for the three months ended March 31, 2010 as compared to the same period in 2009. Several categories of expenses showed appreciable decreases while other areas experienced noticeable increases as compared to the same period in the preceding year. Areas which had decreases include salaries and employee benefits which decreased \$698,289 (or 22.21%), other operating expenses which decreased by \$164,399 (or 12.63%), equipment and occupancy expenses which decreased by a \$73,140 (or 8.74%) and net loss on sale of foreclosed assets which had a small increase of \$3,714 (or 4.03%). The decrease in salaries and employee benefits expenses is due to three reduction-

in-force plans which eliminated 34 positions across the company and reduced salaries for several other positions towards the end of 2008 and in 2009. The number of full-time equivalent employees further decreased from 167 at December 31, 2009 to 158 on March 31, 2010. Our other operating expenses and equipment and occupancy expenses have also decreased as management has aggressively worked to eliminate all “non-essential” expenses during this continuing difficult economic period.

In contrast to the above noted decreases, we saw several areas move the opposite direction such as FDIC insurance premiums, which increased by \$427,317 (or 91.35%) for the three months ended March 31, 2010 as compared to the same period in 2009. This increase is mainly due to the large number of unaffiliated FDIC insurance depository institution failures and the corresponding increase in assessments along with an increase in the rates specific to our institution’s risk profile. Foreclosed asset expenses also increased by \$403,547 (or 282.3%) for the three months ended March 31, 2010 as compared to 2009. This category includes items such as property taxes, legal and utility expenses that we incur to gain possession and maintain our foreclosed properties.

For the three months ending March 31, 2010 we recorded no income tax expense or benefit as compared to a \$727,656 tax benefit for the same period in 2009. During the third and fourth quarter of 2009, due to our significant losses, management was unable to conclude that Bank would generate sufficient net income in the near term to realize the full value of our deferred tax assets. Therefore, as of December 31, 2009 we had established a \$16.3 million deferred tax asset valuation allowance. At March 31, 2010 our deferred tax asset valuation allowance balance was \$16.5 million. Any further losses will not have an associated tax benefit until we can show that it is more likely than not that we will realize those tax benefits.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

It is our objective to manage assets and liabilities to provide a satisfactory, consistent level of profitability within the framework of established cash, loan, investment, borrowing, and capital policies. Certain of our officers are charged with the responsibility for monitoring policies and procedures that are designed to ensure acceptable composition of the asset/liability mix.

Our asset/liability mix is monitored on a regular basis with a report reflecting the interest rate sensitive assets and interest rate sensitive liabilities being prepared and presented to the board of directors and management’s asset/liability committee on a quarterly basis. The objective is to monitor interest rate sensitive assets and liabilities so as to minimize the impact of substantial movements in interest rates on earnings. An asset or liability is considered to be interest rate sensitive if it will reprice or mature within the time period analyzed, usually one year or less. The interest rate-sensitivity gap is the difference between the interest-earning assets and interest-bearing liabilities scheduled to mature or reprice within such time period. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities. A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the interest rate sensitive assets. During a period of rising interest rates, a negative gap would tend to adversely affect net interest income, while a positive gap would tend to result in an increase in net interest income. Conversely, during a period of falling interest rates, a negative gap would tend to result in an increase in net interest income, while a positive gap would tend to adversely affect net interest income. If our assets and liabilities were equally flexible and moved concurrently, the impact of any increase or decrease in interest rates on net interest income would be minimal.

A simple interest rate “gap” analysis by itself may not be an accurate indicator of how net interest income will be affected by changes in interest rates. Accordingly, we also evaluate how the repayment of particular assets and liabilities is impacted by changes in interest rates. Income associated with interest-earning assets and costs associated with interest-bearing liabilities may not be affected uniformly by changes in interest rates. In addition, the magnitude and duration of changes in interest rates may have a significant impact on net interest income. For example, although certain assets and liabilities may have similar maturities or periods of repricing, they may react in different degrees to changes in market interest rates. Interest rates on certain types of assets and liabilities fluctuate in advance of changes in general market rates, while interest rates on other types may lag behind changes in general market rates. Prepayment and early withdrawal levels also could deviate significantly from those assumed in calculating the interest rate gap. The ability of many borrowers to service their debts also may decrease in the event of an interest rate increase.

The table that follows summarizes our interest sensitive assets and liabilities as of March 31, 2010. Adjustable rate loans are included in the period in which their interest rates are scheduled to adjust. Fixed rate loans are included in the periods in which they are anticipated to be repaid based on scheduled maturities and anticipated prepayments. Investment securities are included in their period of maturity. Certificates of deposit are presented according to contractual maturity.

Analysis of Interest Sensitivity
As of March 31, 2010
(Dollars in Thousands)

	<u>0 – 3</u> <u>Months</u>	<u>3-12</u> <u>Months</u>	<u>Over 1</u> <u>Year</u>	<u>Total</u>
Interest-earning assets:				
Interest-bearing deposits in banks	121,104	-	-	121,104
Securities	-	-	48,163	48,163
Restricted equity securities	2,694	-	-	2,694
Federal funds sold	-	-	-	-
Loans ⁽¹⁾	155,498	127,191	264,896	547,585
Total interest-earning assets	<u>279,296</u>	<u>127,191</u>	<u>313,059</u>	<u>719,546</u>
Interest-bearing liabilities:				
Interest-bearing demand deposits	89,357	-	-	89,357
Savings and money markets	158,199	-	-	158,199
Time deposits	94,715	270,085	116,797	481,597
Federal Home loan Bank borrowings	-	-	22,000	22,000
Total interest-bearing liabilities	<u>342,271</u>	<u>270,085</u>	<u>138,797</u>	<u>751,153</u>
Interest rate sensitivity gap	<u>(62,975)</u>	<u>(142,894)</u>	<u>174,262</u>	<u>(31,607)</u>
Cumulative interest rate sensitivity gap	<u>(62,975)</u>	<u>(205,869)</u>	<u>(31,607)</u>	
Interest rate sensitivity gap ratio	<u>.82</u>	<u>0.47</u>	<u>2.26</u>	
Cumulative interest rate sensitivity gap ratio	<u>.82</u>	<u>0.66</u>	<u>0.96</u>	

(1) Excludes non-accrual loans totaling approximately \$44,920,000 and deferred fees of approximately \$84,000.

At March 31, 2010 our cumulative one-year interest rate sensitivity gap ratio was .66. Our targeted ratio is 0.8 to 1.2. This indicates that the interest-earning assets will reprice during this period at a rate slower than the interest-bearing liabilities. Our experience, however, has been that not all liabilities shown as being subject to repricing will in fact reprice with changes in market rates. We have a base of core deposits consisting of interest-bearing checking accounts and savings accounts whose average balances and rates paid thereon will not fluctuate with changes in the levels of market interest rates.

Item 4. Controls and Procedures

Our management carried out an evaluation, under the supervision and with the participation of our Interim Chief Executive Officer and Chief Financial Officer, of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the quarterly period covered by this Form 10-Q and based on this evaluation, our Interim Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective. There were no changes in our internal control over financial reporting during the first quarter of 2010 that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are not a party to any material legal proceedings other than ordinary routine litigation that is incidental to our business.

Item 1A. Risk Factors

None.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Other Information

None.

Item 5. Exhibits

The following exhibits are included with this report:

- | | |
|------|--|
| 31.1 | Certificate of Interim CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certificate of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32 | Certificate of Interim CEO and CFO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

SIGNATURES

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

FGBC BANCSHARES, INC.

Date: May 14, 2010

/s/ W. Brett Morgan
W. Brett Morgan
Interim Principal Executive Officer

Date: May 14, 2010

/s/ Teresa L. Martin
Teresa L. Martin
Chief Financial Officer

Exhibit 31.1

Certification

I, W. Brett Morgan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of FGBC Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designated such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principals;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 14, 2010

/s/ W. Brett Morgan
W. Brett Morgan
Interim Principal Executive Officer

Exhibit 31.2

Certification

I, Teresa L. Martin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of FGBC Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designated such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principals;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 14, 2010

/s/ Teresa L. Martin
Teresa L. Martin
Chief Financial Officer

Exhibit 32

**Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of FGBC Bancshares, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), W. Brett Morgan, Interim Chief Executive Officer of the Company, and Teresa L. Martin, CFO of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) To my knowledge, the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ W. Brett Morgan
W. Brett Morgan
Interim Chief Executive Officer

Date: May 14, 2010

/s/ Teresa L. Martin
Teresa L. Martin
Chief Financial Officer

Date: May 14, 2010