UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED September 30, 2004

COMMISSION FILE NUMBER 1-13508

THE COLONIAL BANCGROUP, INC.

(Exact name of registrant as specified in its charter)

DELAWARE **(State or other jurisdiction of** **incorporation or organization)**	**63-0661573** **(I.R.S. Employer Identification No.)**

One Commerce Street

Montgomery, Alabama 36104

(Address of principal executive offices)

(334) 240-5000

(Registrant s telephone number)

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 the filing requirements for at least the past 90 days. YES x NO ¨

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). YES x NO ¨

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

Class	Outstanding at October 31, 2004
Common Stock, $2.50 Par Value	133,741,565

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CAUTIONARY STATEMENT PURSUANT TO SAFE HARBOR PROVISIONS

OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995:

This report contains forward-looking statements within the meaning of the federal securities laws. The forward-looking statements in this report are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by the statements. Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include, among other things, the following possibilities: (i) an inability of the company to realize elements of its strategic plans for 2004 and beyond; (ii) increases in competitive pressure in the banking industry or other factors that may reduce non-interest income; (iii) economic conditions affecting real estate values and transactions in BancGroup s market and/or general economic conditions, either nationally or regionally, that are less favorable than expected; (iv) expected cost savings from recent and future acquisitions are not fully realized; (v) adverse changes in the interest rate environment which may reduce or expand margins or adversely affect critical estimates as applied and projected returns on investments; (vi) management s assumptions and estimates underlying critical accounting policies prove to be inadequate or materially incorrect or are not borne out by subsequent events; and (vii) changes which may occur in the regulatory environment. When used in this report, the words believes, estimates, plans, expects, should, may, might, outlook, anticipates, and similar expressions as they relate to BancGroup (including i subsidiaries) or its management are intended to identify forward-looking statements. Forward-looking statements speak only as to the date they are made. BancGroup does not undertake to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CONDITION

(Unaudited)

(Dollars in thousands except share data)

	September 30, 2004	December 31, 2003
ASSETS		
Cash and due from banks	$ 335,836	$ 329,152
Interest bearing deposits in banks	11,308	16,565
Federal funds sold and securities purchased under agreements to resell	262,415	
Securities available for sale	3,520,259	3,100,321
Investment securities (market value of $7,180 and $11,006, respectively)	6,759	10,387
Loans held for sale	508,317	378,324
Total loans, net of unearned income:		
Mortgage warehouse loans	1,050,990	982,488
All other loans	11,511,363	10,606,407
Less: Allowance for loan losses	(147,058)	(138,549)
Loans, net	12,415,295	11,450,346
Premises and equipment, net	268,249	246,170
Goodwill	349,030	253,476
Other intangibles, net	43,530	28,714
Bank owned life insurance	212,290	182,857
Accrued interest and other assets	258,011	276,990
TOTAL ASSETS	$ 18,191,299	$ 16,273,302
LIABILITIES		
Deposits:		
Noninterest bearing demand deposits	$ 2,364,758	$ 2,021,901
Interest bearing demand deposits	4,213,962	3,314,328
Savings deposits	562,333	531,419
Time deposits	4,041,032	3,900,944
Total deposits	11,182,085	9,768,592
FHLB short-term borrowings	978,330	1,162,240
Other short-term borrowings	2,260,891	2,149,400

Subordinated debt	278,225	278,428
Junior subordinated debt	315,552	299,917
FHLB long-term debt	1,434,966	1,064,969
Other long-term debt	300,000	300,000
Accrued expenses and other liabilities	67,463	71,451
Total liabilities	16,817,512	15,094,997
Commitments and contingencies (Notes B and H)		
SHAREHOLDERS EQUITY		
Common stock, $2.50 par value; 200,000,000 shares authorized; 133,617,232 and 126,974,668 shares issued and outstanding at September 30, 2004 and December 31, 2003, respectively	334,043	317,437
Additional paid in capital	333,791	237,134
Retained earnings	697,215	625,326
Unearned compensation	(648)	(1,134)
Accumulated other comprehensive income (loss), net of taxes	9,386	(458)
Total shareholders equity	1,373,787	1,178,305
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 18,191,299	$ 16,273,302

See Notes to the Unaudited Condensed Consolidated Financial Statements

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THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in thousands except per share amounts)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2004	**2003**	**2004**	**2003**
INTEREST INCOME:				
Interest and fees on loans	$ 500,068	$ 505,831	$ 175,699	$ 168,313
Interest and dividends on securities	112,506	79,617	39,406	26,896
Other interest	1,297	545	806	133
Total interest income	613,871	585,993	215,911	195,342
INTEREST EXPENSE:				
Interest on deposits	101,693	107,419	35,891	32,058
Interest on short-term borrowings	25,902	30,454	10,642	9,813
Interest on long-term debt	59,699	72,293	19,543	23,895
Total interest expense	187,294	210,166	66,076	65,766
NET INTEREST INCOME	426,577	375,827	149,835	129,576
Provision for loan losses	21,606	28,176	7,153	9,306
Net Interest Income After Provision for Loan Losses	404,971	347,651	142,682	120,270
NONINTEREST INCOME:				
Service charges on deposit accounts	44,247	39,377	15,033	14,304
Financial planning services	10,137	11,525	3,030	3,764
Electronic banking	9,149	7,632	3,157	2,489
Mortgage banking	6,525	14,990	2,162	4,274
Securities gains, net	7,417	3,859	367	142
Other income	26,532	22,713	9,311	8,796
Total noninterest income	104,007	100,096	33,060	33,769
NONINTEREST EXPENSE:				
Salaries and employee benefits	160,492	145,625	55,509	50,295
Occupancy expense of bank premises, net	37,634	32,996	13,305	11,344
Furniture and equipment expenses	28,599	27,564	9,857	9,248
Amortization of intangible assets	4,438	3,257	1,925	1,085
Merger related expenses	1,934	185	662	
Loss on early extinguishment of debt	6,183			
Other expenses	75,575	68,136	25,283	23,261

Total noninterest expense	314,855	277,763	106,541	95,233
INCOME BEFORE INCOME TAXES	194,123	169,984	69,201	58,806
Applicable income taxes	66,002	57,795	23,528	19,994
NET INCOME	$ 128,121	$ 112,189	$ 45,673	$ 38,812
EARNINGS PER SHARE:				
Basic	$ 0.98	$ 0.90	$ 0.34	$ 0.31
Diluted	$ 0.98	$ 0.90	$ 0.34	$ 0.31
AVERAGE NUMBER OF SHARES OUTSTANDING:				
Basic	130,267	124,050	133,568	124,354
Diluted	131,405	124,826	134,730	124,997
DIVIDENDS DECLARED PER SHARE	$ 0.435	$ 0.42	$ 0.145	$ 0.14

See Notes to the Unaudited Condensed Consolidated Financial Statements

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THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2004	**2003**	**2004**	**2003**
	(Dollars in thousands)			
NET INCOME	$128,121	$112,189	$ 45,673	$38,812
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAXES:				
Unrealized gains (losses) on securities available for sale arising during the period, net of taxes	14,739	(24,224)	62,184	(33,583)
Less: reclassification adjustment for net gains included in net income, net of taxes	(4,895)	(2,547)	(242)	(93)
COMPREHENSIVE INCOME	$137,965	$ 85,418	$107,615	$ 5,136

See Notes to the Unaudited Condensed Consolidated Financial Statements

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THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

(Unaudited)

(Dollars in thousands except share amounts)

	Common Stock						
	Shares	Amount	Additional Paid In Capital	Retained Earnings	Unearned Compensation	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity
Balance, December 31, 2003	126,974,668	$ 317,437	$ 237,134	$ 625,326	$ (1,134)	$ (458)	$ 1,178,305
Shares issued under company plans	612,130	1,530	4,188		486		6,204
Issuance of shares for business combination	6,030,434	15,076	92,469				107,545
Net income				128,121			128,121
Cash dividends ($.435 per share)				(56,232)			(56,232)
Change in unrealized gain (loss) on securities available for sale, net of taxes						9,844	9,844
Balance, September 30, 2004	133,617,232	$ 334,043	$ 333,791	$ 697,215	$ (648)	$ 9,386	$ 1,373,787

See Notes to the Unaudited Condensed Consolidated Financial Statements

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THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

(Unaudited)

	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
	(Dollars in thousands)	
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 32,807	$ 125,883
Cash flows from investing activities:		
Proceeds from maturities and calls of securities available for sale	311,859	1,084,832
Proceeds from sales of securities available for sale	1,143,993	740,176
Purchase of securities available for sale	(1,781,531)	(2,113,723)
Proceeds from maturities of investment securities	3,661	9,095
Net (increase) decrease in loans	(485,711)	268,904
Net cash received in bank acquisitions	31,312	
Capital expenditures	(34,191)	(28,815)
Purchase of bank owned life insurance		(80,000)
Proceeds from sale of other real estate owned	19,595	15,600
Proceeds from sale of fixed assets	1,808	4,684
Other, net	3,110	(6,090)
NET CASH USED IN INVESTING ACTIVITIES	(786,095)	(105,337)
Cash flows from financing activities:		
Net increase (decrease) in demand, savings, and time deposits	866,560	(14,507)
Net increase (decrease) in federal funds purchased, repurchase agreements and other short-term borrowings	398,731	(376,043)
Proceeds from issuance of long-term debt	500,000	453,093
Repayment of long-term debt	(696,909)	(86,046)
Proceeds from issuance of common stock	4,980	2,717
Dividends paid ($0.435 and $0.42 per share for 2004 and 2003, respectively)	(56,232)	(52,062)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	1,017,130	(72,848)
Net increase (decrease) in cash and cash equivalents	263,842	(52,302)
Cash and cash equivalents at beginning of year	345,717	419,421
Cash and cash equivalents at September 30	$ 609,559	$ 367,119
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 191,641	$ 220,143
Income taxes	58,000	52,000
Non-cash investing activities:		
Transfer of loans to other real estate	$ 11,532	$ 14,297
Recognition of the equity investments in the special purpose trusts		8,598

Non-cash financing activities:		
Conversion of subordinated debentures to stock	$	$ 3,023
Assets (non-cash) acquired in business combinations	724,216	
Liabilities assumed in business combinations	647,983	
Removal of the special purpose trusts preferred securities		296,827
Recognition of the junior subordinated debts in the special purpose trusts		305,425

See Notes to the Unaudited Condensed Consolidated Financial Statements

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THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note A: Accounting Policies

The Colonial BancGroup, Inc. and its subsidiaries (variously referred to herein as BancGroup , Colonial , or the Company) have not changed their accounting and reporting policies from those stated in the 2003 Annual Report on Form 10-K. These unaudited interim financial statements should be read in conjunction with the audited financial statements and footnotes included in BancGroup s 2003 Annual Report on Form 10-K.

In the opinion of BancGroup, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly BancGroup s financial position as of September 30, 2004 and the results of operations and cash flows for the interim periods ended September 30, 2004 and 2003. All 2004 interim amounts are subject to year-end audit, and the results of operations for the interim periods herein are not necessarily indicative of the results of operations to be expected for the year.

Certain reclassifications have been made to the 2003 financial statements to conform to 2004 presentations.

Note B: Contingencies

BancGroup and its subsidiaries are from time to time defendants in legal actions and assertions from normal business activities. Management does not anticipate that the ultimate liability arising from such matters outstanding at September 30, 2004 will have a materially adverse effect on BancGroup s financial condition and results of operations as reported in its financial statements.

Note C: Recent Accounting Pronouncements

In December 2003, the FASB issued a revision of SFAS No. 132, *Employer s Disclosures about Pensions and Other Postretirement Benefits*. Most of the provisions of the revised statement were effective for fiscal years ending after December 15, 2003. The Statement requires more detailed disclosures in annual financial statements about plan assets, investment strategies, benefit obligations, cash flows, and the assumptions used in accounting for the plans. For interim periods, the Statement requires disclosure of the total amount of the net periodic benefit cost recognized for each period for which an income statement is presented, showing separately the components of the net periodic benefit cost. The Statement also requires interim disclosure of the total amount of employer contributions paid, or expected to be paid, during the current fiscal year, if significantly different from amounts previously disclosed in the most recent annual financial statement. The interim period disclosure requirements are effective for interim periods beginning after December 15, 2003. See Note K for disclosures related to the Company s defined benefit pension plan.

In December 2003, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*. This SOP addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor s initial investment in loans or debt securities (loans) acquired in a transfer if those differences are attributable, at least in part, to credit quality. It applies to the purchase of an individual loan, a pool of loans, a group of loans, and loans acquired in a purchase business combination. This SOP limits the yield that may be accreted (accretable yield) to the excess of the investor s estimate of undiscounted expected principal, interest, and other cash flows (cash flows expected at acquisition to be collected) over the investor s initial investment in the loan. This SOP requires that the excess of contractual cash flows over cash flows expected to be collected (nonaccretable difference) not be recognized as an adjustment of yield, loss accrual, or valuation allowance. This SOP prohibits investors from displaying accretable yield and nonaccretable difference in the balance sheet. Subsequent increases in cash flows expected to be collected generally should be recognized prospectively through adjustment of the loan s yield over its remaining life. Subsequent decreases in cash flows expected to be collected should be recognized as a valuation allowance. This SOP prohibits carrying over or creation of

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THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS (Continued)

valuation allowances in the initial accounting of all loans acquired in a transfer that are within the scope of this SOP. This SOP is effective for loans acquired in fiscal years beginning after December 15, 2004. Management will assess the impact this SOP could have on future acquisitions, results of operations, financial position, and liquidity.

In March 2004, the SEC issued Staff Accounting Bulletin (SAB) 105, *Application of Accounting Principles to Loan Commitments*, which addresses certain issues regarding the accounting for and disclosure of loan commitments relating to the origination of mortgage loans that will be held for resale. Such commitments are considered derivatives under the provisions of SFAS No. 133, as amended by SFAS No. 149, and are therefore required to be recorded at fair value. SAB 105 stipulates that in recording these commitments no consideration should be given to any expected future cash flows related to the associated servicing of the future loan. SAB 105 further stipulates that no other internally-developed intangible assets, such as customer relationship intangibles, should be recorded as part of the loan commitment derivative. SAB 105 requires disclosure of accounting policies for loan commitment derivatives, including methods and assumptions used to estimate fair value and any associated economic hedging strategies. The provisions of SAB 105 were effective for loan commitment derivatives entered into after March 31, 2004. See Note I for further information about the Company s loan commitment derivatives. The adoption of SAB 105 did not have a material effect on BancGroup s financials.

In March 2004, the Emerging Issues Task Force (EITF) reached a final consensus on Issue No. 03-1, *The Meaning of Other-Than-Temporary and Its Application to Certain Investments*. The Issue applies to debt and equity securities within the scope of SFAS No. 115, certain debt and equity securities within the scope of SFAS No. 124, and equity securities that are not subject to the scope of SFAS No. 115 and not accounted for under the equity method of accounting (i.e., cost method investments). Issue 03-1 outlines a three-step model for assessing other-than-temporary impairment. The model involves first determining whether an investment is impaired, then evaluating whether the impairment is other-than-temporary, and if it is, recognizing an impairment loss equal to the difference between the investment s cost and its fair value. The model was to be applied prospectively to all current and future investments in interim or annual reporting periods beginning after June 15, 2004. However, in September 2004 the FASB staff issued FASB Staff Position (FSP) EITF Issue 03-1-1 which delayed the effective date for the measurement and recognition guidance contained in Issue 03-1. The guidance for analyzing securities for impairment will be effective with the final issuance of FSP EITF Issue 03-1-a. The disclosure guidance of Issue 03-1 remains effective and requires quantitative and qualitative disclosures for investments accounted for under SFAS No. 115 and SFAS No. 124 for the first annual reporting period ending after December 15, 2003. In addition, disclosures related to cost method investments are effective for annual reporting periods ending after June 15, 2004. Comparative information for the periods prior to the period of initial application is not required. See Note L for BancGroup s disclosures under Issue 03-1.

Note D: Business Combinations

BancGroup completed the acquisition of P.C.B. Bancorp, Inc. (PCB) along with its wholly owned subsidiary banks on May 18, 2004. As of the closing date PCB had approximately $494 million in loans, $547 million in deposits and $688 million in total assets. The results of operations for the acquisition are included in the consolidated financial statements since that date. PCB operated 16 full service branches in several counties in Florida. This acquisition was part of BancGroup s ongoing effort to expand operations in high growth regions.

Total consideration for the transaction was $143.2 million, consisting of 6,030,434 shares of BancGroup common stock valued at $104.1 million, $35.6 million in cash, and stock options valued at $3.5 million. This consideration along with other direct acquisition costs and liabilities incurred led to a total acquisition cost of

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THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS (Continued)

approximately $148.0 million. The value of the common stock issued was determined based on the average market price of BancGroup s common shares over the five day period before and after the terms of the acquisition were agreed to and announced. The fair value of the stock options was determined based on the Black-Scholes option pricing model. The transaction resulted in approximately $95.4 million of goodwill and $19.3 million of core deposit intangibles.

The following table presents unaudited proforma results of operations for the nine and three months ended September 30, 2004 and 2003, as if the acquisition had occurred at January 1, 2003. Since no consideration is given to operational efficiencies and expanded products and services, the proforma summary information does not necessarily reflect the results of operations as they actually would have been, if the acquisition had occurred at January 1, 2003:

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2004	2003	2004	2003
	(unaudited) (In thousands, except per share amounts)			
Net Interest Income	$ 436,481	$ 395,815	$ 149,835	$ 136,211
Net Income	129,582	116,623	45,673	40,376
Basic EPS	0.95	0.90	0.34	0.31
Diluted EPS	0.94	0.89	0.34	0.31

In September 2004, BancGroup announced the signing of a definitive agreement to acquire Union Bank of Florida (Union). Union operates 18 full service branches in Miami-Dade, Broward, and Palm Beach Counties. At September 30, 2004, Union had total assets of $1 billion, loans of $639 million and deposits of $717 million. Total consideration for the transaction is approximately $233 million based on $20 per share of BancGroup stock. The aggregate consideration consists of approximately 75% cash and 25% stock, subject to the limitation that BancGroup will issue no less than 2.65 million and no more than 3.24 million shares in the transaction. The transaction is expected to be completed in the first quarter of 2005.

Note E: Earnings Per Share

The following table reflects a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation:

	Nine Months Ended September 30,			Three Months Ended September 30,		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
	(In thousands, except per share amounts)					
2004						
Basic EPS	$ 128,121	130,267	$ 0.98	$ 45,673	133,568	$ 0.34
Effect of dilutive instruments:						
Options		1,138			1,162	
Diluted EPS	$ 128,121	131,405	$ 0.98	$ 45,673	134,730	$ 0.34
2003						
Basic EPS	$ 112,189	124,050	$ 0.90	$ 38,812	124,354	$ 0.31
Effect of dilutive instruments:						
Options		423			643	
Convertible debentures	57	353				
Diluted EPS	$ 112,246	124,826	$ 0.90	$ 38,812	124,997	$ 0.31

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THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS (Continued)

Note F: Segment Information

Through its wholly owned subsidiary, Colonial Bank, BancGroup has one primary line of business, commercial banking. Colonial Bank is a national bank that provides general banking services in 289 branches. Corporate/other includes the activities of the holding company, its debt instruments and the results of certain non-banking entities.

The following tables reflect the approximate amounts of consolidated revenue and expense for the nine and three months ended September 30, 2004 and 2003 for each segment:

Segment Data

	Continuing Operations		
	Commercial Banking	Corporate/ Other*	Consolidated BancGroup
	(dollars in thousands)		
Nine Months Ended September 30, 2004			
Interest income	$613,871	$	$613,871
Interest expense	179,783	7,511	187,294
Provision for loan losses	21,606		21,606
Noninterest income	103,117	890	104,007
Noninterest expense	311,107	3,748	314,855
Income (loss) before income taxes	204,492	(10,369)	194,123
Income taxes	69,018	(3,016)	66,002
Net income (loss)	$135,474	$(7,353)	$128,121
Nine Months Ended September 30, 2003			
Interest income	$585,975	$ 18	$585,993
Interest expense	204,698	5,468	210,166
Provision for loan losses	28,176		28,176
Noninterest income	99,981	115	100,096
Noninterest expense	273,766	3,997	277,763

Income (loss) before income taxes	179,316	(9,332)	169,984
Income taxes	60,296	(2,501)	57,795
Net income (loss)	$119,020	$(6,831)	$112,189

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THE COLONIAL BANCGROUP, INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS (Continued)

	Continuing Operations		
	Commercial Banking	Corporate/ Other*	Consolidated BancGroup
	(dollars in thousands)		
Three Months Ended September 30, 2004			
Interest income	$215,918	$ (7)	$215,911
Interest expense	63,374	2,702	66,076
Provision for loan losses	7,153		7,153
Noninterest income	32,863	197	33,060
Noninterest expense	105,234	1,307	106,541