

COLONIAL BANCGROUP INC

Form 424B3

April 19, 2007

Table of Contents

**Filed Pursuant to Rule 424(b)(3)
Registration File No. 333-141731**

Commercial Bankshares, Inc.

1550 S.W. 57th Avenue

Miami, Florida 33144

April 18, 2007

Dear Shareholder:

You are cordially invited to attend a special meeting of Shareholders of Commercial Bankshares, Inc. (Commercial), which will be held on May 21, 2007, at 11:00 a.m. local time. The special meeting will be held at Commercial's executive offices located at 1550 S.W. 57th Avenue, Miami, Florida.

At the special meeting, you will be asked to consider and vote on approval of an Agreement and Plan of Merger (the Merger), dated as of January 23, 2007, between Commercial and The Colonial BancGroup, Inc. (BancGroup). The agreement provides for us to merge with BancGroup. In the Merger, you will receive either 2.0214 shares of BancGroup common stock or \$49.00 cash in exchange for each share of Commercial common stock that you own. You will be allowed to make an election as to how much stock and how much cash you receive. However, under the terms of our agreement with BancGroup, it will not have to pay to Commercial's shareholders more than an aggregate of \$152,433,659 in cash and more than an aggregate of 6,288,355 shares of BancGroup common stock assuming 6,221,782 shares of Commercial common stock are outstanding at the time of the completion of the Merger. Therefore, if Commercial shareholders in the aggregate elect to receive too much cash or too much stock, the form of consideration that was excessively elected will be reduced, and will instead be paid in the form of consideration that was under-elected on a pro rata basis. Shareholders who do not make an election will be deemed to have elected to receive \$24.50 in cash and 1.0107 shares of BancGroup common stock for each of their shares of Commercial common stock, but are also subject to pro-ration if an excess election occurs. Your election form will be sent to you in a few business days in a separate package. Please take the time to complete and return the proxy card included in this package.

Please see the attached Proxy Statement-Prospectus for a detailed description of the terms of the Merger. Please refer to page 30 of the Proxy Statement-Prospectus for a more complete description of the consideration you will receive at the completion of the Merger.

Your board of directors has unanimously approved the agreement as being in the best interests of the Commercial shareholders and recommends that you vote in favor of the approval of the agreement.

Additional information regarding the special meeting, the Merger Agreement, the Merger, Commercial and BancGroup is set forth in the attached Proxy Statement-Prospectus. This document also serves as the prospectus for the shares of BancGroup common stock to be issued in connection with the Merger. BancGroup's common stock is traded on the New York Stock Exchange under the symbol CNB. WE ENCOURAGE YOU TO READ THE ENTIRE PROXY STATEMENT-PROSPECTUS CAREFULLY. IN PARTICULAR, YOU SHOULD CAREFULLY CONSIDER THE DISCUSSION IN THE SECTION ENTITLED COLONIAL BANCGROUP RISK FACTORS, BEGINNING ON PAGE 11 OF THE PROXY STATEMENT-PROSPECTUS.

The affirmative vote of the holders of a majority of the outstanding shares of Commercial common stock is required to approve the agreement. Accordingly, your vote is important no matter how large or small your holdings may be. Whether or not you plan to attend the special meeting, you are urged to complete, sign and promptly return the enclosed proxy card to assure that your shares will be voted at the special meeting. If you attend the special meeting, you may vote in person if you wish, and your proxy will not be used.

If you wish to make an election as to the form of consideration that you will receive, you must also complete the election form, which will be mailed to you within the next five business days, and return it to BancGroup's transfer agent by 5:00 p.m. on May 18, 2007. If the transfer agent has not received your completed election form by this time, then you will be deemed to have elected to receive \$24.50 and 1.0107 shares of BancGroup common stock for each of your shares of Commercial common stock (subject to pro-ration if there is an excess election of either

cash or BancGroup common stock).

Sincerely,

Joseph W. Armaly
Chairman and CEO

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or passed upon the adequacy of this Proxy Statement-Prospectus. Any representation to the contrary is a criminal offense. These securities are not savings or deposit accounts, and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.

This Proxy Statement-Prospectus is dated April 18, 2007 and is first being mailed to the shareholders of Commercial on or about April 18, 2007.

Table of Contents

1550 S.W. 57th Avenue

Miami, Florida 33144

COMMERCIAL BANKSHARES, INC.

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

To Be Held on May 21, 2007, at 11:00 a.m.

NOTICE IS HEREBY GIVEN that the special meeting of shareholders of Commercial Bankshares, Inc. (Commercial) will be held at the executive offices of Commercial located at 1550 S.W. 57th Avenue, Miami, Florida, on May 21, 2007, at 11:00 a.m., local time, for the following purposes:

1. *Merger.* To consider and vote upon the authorization, adoption and approval of the Agreement and Plan of Merger, dated January 23, 2007, by and between The Colonial BancGroup, Inc. (BancGroup) and Commercial. BancGroup will be the surviving corporation in the Merger. At the time of the Merger, each share of your Commercial common stock will be converted into the right to receive a number of shares of BancGroup common stock and/or cash as determined in accordance with the terms of the Agreement and Plan of Merger, as described more fully in the accompanying Proxy Statement-Prospectus. The Agreement is attached to the Proxy Statement-Prospectus as Appendix A.

2. *Other Matters.* To transact such other business as may properly come before the Special Meeting or any adjournments or postponements thereof.

We have fixed the close of business on March 23, 2007, as the record date for the determination of shareholders entitled to notice of and to vote at the special meeting. Only our holders of record at the close of business on that date will be entitled to notice of and to vote at the special meeting or any adjournments or postponements thereof.

You are cordially invited to attend the special meeting, but whether or not you plan to attend, please complete and sign the enclosed form of proxy and mail it promptly in the enclosed envelope. The proxy may be revoked at any time by filing a written revocation with our president, by executing a later dated proxy and delivering it to our president, or by attending the special meeting and voting in person.

BY ORDER OF THE BOARD OF DIRECTORS

Bruce P. Steinberger
President and Corporate Secretary

Table of Contents**TABLE OF CONTENTS**

	Page
<u>QUESTIONS AND ANSWERS ABOUT THE MERGER</u>	iii
<u>SUMMARY</u>	1
<u>COLONIAL BANCGROUP RISK FACTORS</u>	11
<u>A WARNING ABOUT FORWARD-LOOKING STATEMENTS</u>	14
<u>THE SPECIAL MEETING</u>	15
<u>General</u>	15
<u>Record Date: Shares Entitled to Vote: Vote Required</u>	15
<u>Solicitation, Voting and Revocation of Proxies</u>	16
<u>Effect of Merger on Outstanding BancGroup Common Stock</u>	16
<u>PROPOSAL 1: THE MERGER</u>	17
<u>General</u>	17
<u>Background of the Merger</u>	17
<u>Commercial s Reasons for the Merger</u>	20
<u>Fairness Opinion of Hovde Financial, Inc.</u>	21
<u>Recommendation of the Board of Directors of Commercial</u>	28
<u>BancGroup s Reasons for the Merger</u>	28
<u>Interests of Certain Persons in the Merger</u>	28
<u>Effective Date, Conversion of Commercial Common Stock</u>	30
<u>Election of Consideration</u>	30
<u>Surrender of Commercial Common Stock Certificates</u>	32
<u>Treatment of Commercial Options</u>	32
<u>Certain Federal Income Tax Consequences</u>	33
<u>Other Possible Consequences</u>	34
<u>Conditions to Consummation of the Merger</u>	34
<u>Amendment or Termination of Merger Agreement</u>	35
<u>Commitment with Respect to Other Offers</u>	35
<u>Regulatory Approvals</u>	36
<u>Conduct of Business Pending the Merger</u>	38
<u>Indemnification</u>	39
<u>Appraisal Rights</u>	39
<u>Delisting and Deregistration of Commercial Common Stock after the Merger</u>	40
<u>Resale of BancGroup Common Stock Issued in the Merger</u>	40
<u>Accounting Treatment</u>	40
<u>NYSE Listing of BancGroup Common Stock Issued in the Merger</u>	40
<u>COMPARATIVE MARKET PRICES AND DIVIDENDS</u>	41
<u>BANCGROUP CAPITAL STOCK AND LONG TERM DEBT</u>	43
<u>BancGroup Common Stock</u>	43
<u>Preferred Stock</u>	43
<u>Preference Stock</u>	44
<u>BancGroup Debt</u>	44
<u>Change in Control</u>	46
<u>COMPARATIVE RIGHTS OF SHAREHOLDERS</u>	48
<u>Director Elections</u>	48
<u>Removal of Directors</u>	48
<u>Voting</u>	48
<u>Preemptive Rights</u>	48
<u>Directors Liability</u>	49
<u>Indemnification</u>	49
<u>Special Meetings of Shareholders: Action Without a Meeting</u>	50

Table of Contents

	Page
<u>Mergers, Share Exchanges and Sales of Assets</u>	50
<u>Amendment of Certificate of Incorporation and Bylaws</u>	51
<u>Rights of Dissenting Shareholders</u>	51
<u>Preferred Stock</u>	52
<u>Control Share Acquisitions</u>	52
<u>Transactions with Interested Persons</u>	52
<u>Effect of the Merger on Commercial Shareholders</u>	53
<u>BANCGROUP</u>	54
<u>General</u>	54
<u>Security Ownership of Management and Management Information</u>	54
<u>COMMERCIAL</u>	55
<u>General</u>	55
<u>Security Ownership of Certain Beneficial Owners</u>	55
<u>Transactions with Related Persons</u>	57
<u>Interested Transactions</u>	57
<u>ADJOURNMENT OF SPECIAL MEETING</u>	57
<u>OTHER MATTERS</u>	57
<u>SHAREHOLDER PROPOSALS AND COMMUNICATIONS</u>	58
<u>Date for Submission of Shareholder Proposals</u>	58
<u>Shareholder Communications with Commercial</u>	58
<u>Other Matters that may Properly Come Before the Meeting</u>	58
<u>LEGAL MATTERS</u>	58
<u>EXPERTS</u>	59
<u>WHERE YOU CAN FIND MORE INFORMATION AND INFORMATION INCORPORATED BY REFERENCE</u>	59
<u>APPENDIX A Agreement and Plan of Merger</u>	A-1
<u>APPENDIX B Fairness Opinion of Hovde Financial, Inc., dated January 22, 2007</u>	B-1

This prospectus incorporates important business and financial information about BancGroup and Commercial that is not included in or delivered with the prospectus. You may request this information at no cost by writing or telephoning BancGroup or Commercial at the following:

David B. Byrne, Jr.

Corporate Secretary and General Counsel

The Colonial BancGroup, Inc.

100 Colonial Bank Boulevard

Montgomery, Alabama 36117

(334) 676-5000

Bruce P. Steinberger

President and Corporate Secretary

Commercial Bankshares, Inc.

1550 S.W. 57th Avenue

P.O. Box 490420

Miami, Florida 33144

(305) 267-1200

In order to obtain information prior to the special meeting, you must make your request by May 11, 2007.

Table of Contents

QUESTIONS AND ANSWERS ABOUT THE MERGER

Q: Who is Commercial Bankshares?

A: Commercial is a Florida corporation and registered bank holding company under the Federal Reserve Act, as amended. Commercial's principal asset is all of the capital stock of Commercial Bank of Florida. At December 31, 2006, the Commercial Bank of Florida had 14 banking offices located in Miami-Dade and Broward Counties, Florida. At December 31, 2006, Commercial had total assets of \$1.04 billion and shareholders' equity of \$90.2 million.

Q: Who is Colonial BancGroup?

A: Colonial BancGroup is a Delaware corporation organized in 1974 as a bank holding company under the Bank Holding Act of 1956, as amended. Through its wholly-owned subsidiary, Colonial Bank, N.A., Colonial BancGroup conducts a general commercial banking business in the states of Alabama, Florida, Georgia, Nevada and Texas. At December 31, 2006, Colonial BancGroup had assets of \$22.8 billion.

As of December 31, 2006, Colonial Bank, N.A. had a total of 305 branches, with 92 branches in Alabama, 166 branches in Florida, 18 branches in Georgia, 15 branches in Nevada and 14 branches in Texas. Colonial Bank, N.A. conducts a general commercial banking business in its respective service areas. Colonial Bank, N.A. offers a variety of demand, savings and time deposit products as well as extensions of credit through personal, commercial and mortgage loans within each of its market areas. Colonial Bank, N.A. also provides additional services to its markets through cash management services, electronic banking services, credit card and merchant services and financial planning services. Information about Colonial BancGroup, and its subsidiary bank, Colonial Bank, N.A., is available at its website at www.colonialbank.com. Colonial BancGroup common stock is traded on the New York Stock Exchange under the symbol CNB.

Q: What is being voted on at the Commercial Bankshares special meeting?

A: Shareholders of Commercial are being asked to approve the merger between Commercial and Colonial pursuant to the terms of the merger agreement between such parties dated as of January 23, 2007. Under the merger agreement, Commercial will merge into Colonial BancGroup. When the merger becomes effective, Commercial will cease to exist as a separate entity and you, as a shareholder of Commercial, will be entitled to receive either 2.0214 shares of Colonial BancGroup common stock or \$49.00 cash for each share of Commercial common stock that you own (or some combination thereof). Under the terms of the merger agreement, Colonial BancGroup is not obligated to pay more than \$152,433,659 in cash and 6,288,355 shares of stock for the outstanding shares of Commercial common stock (assuming 6,221,782 shares of Commercial common stock are outstanding at the time of the completion of the merger). If Commercial shareholders elect to receive more cash than Colonial BancGroup is required to pay, then Commercial shareholders electing cash will have the amount of cash they will receive reduced and the amount of stock they will receive increased on a pro rata basis. Alternatively, if Commercial shareholders elect to receive more stock than Colonial BancGroup is required to pay, then Commercial shareholders electing stock will have the amount of stock they will receive reduced and the amount of cash they will receive increased on a pro rata basis.

Q: What should I do now?

A: Send in your proxy card. After reviewing this document, indicate on your proxy card how you want to vote, and sign, date, and mail it in the enclosed envelope as soon as possible to ensure that your shares will be represented at the special meeting.

If you sign, date, and send in your proxy and do not indicate how you want to vote, your proxy will be voted in favor of the merger agreement and the merger. If you do not sign and send in your proxy, and if you do not attend and cast your vote in person at the special meeting, it will have the effect of voting against the merger.

Table of Contents

Q: When will I receive my election form and what should I do when I receive it?

A: Send in your election form with your stock certificate(s). You should receive your election form in about five business days. You should complete, sign and date your election form and mail it in the envelope that will be provided. Your election form will be sent to Colonial BancGroup's transfer agent. It is not mandatory that you complete an election form, but if you do not complete and return it, your merger consideration for each of your shares of Commercial common stock will be \$24.50 in cash and 1.0107 shares of Colonial BancGroup common stock (subject to pro-ration if there is an excess election of either cash or Colonial BancGroup common stock). Even if you do not desire to make an election as to your desired form of consideration, we ask that you return your election form with your stock certificates as that will aid Colonial BancGroup's transfer agent in the exchange process. You may not make an election after, and any election you have made will be final, at 5:00 p.m. on the business day before the special meeting.

Q: If my shares are held in street name by my broker, will my broker vote my shares for me?

A: Yes, if you give your broker instructions on how to do so. Your broker will vote your shares of Commercial common stock only if you provide your broker with instructions on how to vote. You should instruct your broker how to vote your shares by following the directions your broker provides. If you do not provide instructions to your broker, your shares will not be voted and this will have the effect of voting against the merger agreement and the merger.

Q: If my shares are held in street name by my broker, will my broker complete my election form for me?

A: Yes, if you give your broker instructions on how to do so. Your broker will complete your election form only if you provide your broker with instructions on how to do so. You should instruct your broker how to complete your election form by following the directions your broker provides. If you do not provide instructions to your broker, your election form will not be completed and you will receive for each of your Commercial shares \$24.50 and 1.0107 shares of Colonial BancGroup common stock (subject to pro-ration if there is an excess election of either cash or Colonial BancGroup common stock).

Q: Can I change my mind and revoke my proxy?

A: Yes. You may revoke your proxy up to the time of the special meeting by taking any of the actions explained under "The Special Meeting Solicitation, Voting and Revocation of Proxies" on page 16 of this proxy statement-prospectus, including by giving a written notice of revocation, by signing and delivering a new later-dated proxy, or by attending the special meeting and voting in person.

Q: Can I change my election form?

A: Yes. You may change your election up to 5:00 p.m. on May 18, 2007 by following the instructions under "Proposal 1: The Merger Election of Consideration" on page 30 of this proxy statement-prospectus, including by giving a written notice of revocation or by signing and delivering a new later-dated election form. Extra copies of Election Forms may be obtained from Bruce P. Steinberger at (305) 267-1200.

Q: Can I vote my shares in person?

A: Yes. You may attend the special meeting and vote your shares in person rather than signing and mailing your proxy card.

Table of Contents

Q: Should I send in my stock certificates now?

A: Do not return your certificates with your proxy card. After you receive your election form, you should complete and sign it and send in your stock certificates with the election form by following the instructions contained in the election form. If you make no election, after the merger is completed, Colonial BancGroup or its transfer agent will send you written instructions explaining how you exchange your Commercial common stock certificates for certificates representing shares of Colonial BancGroup common stock.

Q: When do you expect the merger to be completed?

A: We expect the merger to be completed in the late second or early third quarter of 2007. However, the timing of the completion of the merger is dependent on the merger agreement being approved by our shareholders as well as the approval of certain bank regulatory agencies and the satisfaction of other conditions described in this proxy statement-prospectus.

Q: Whom can I call with questions?

A: If you want additional copies of this document, or if you want to ask any questions about the merger agreement or the merger, you should contact: Bruce P. Steinberger, President and Corporate Secretary of Commercial Bankshares, Inc., Telephone: (305) 267-1200.

Table of Contents

SUMMARY

This summary highlights selected information from this proxy statement/prospectus. It does not contain all of the information that will be important to you as you consider your vote. You should carefully read the entire document and the other documents to which we refer. These will give you a more detailed description of the transaction that we are proposing. For more information about Colonial BancGroup, see **Where You Can Find More Information and Information Incorporated by Reference** (page 59). Each item in this summary refers to the pages where that subject is discussed in greater detail elsewhere in the proxy statement-prospectus. In this section, the terms **we** and **us** refer to Commercial Bankshares.

The Companies

100 Colonial Bank Boulevard

Montgomery, Alabama 36117

(334) 676-5000

The Colonial BancGroup, Inc. is a \$22.8 billion financial services company providing diversified services including retail and commercial banking, wealth management services, mortgage banking and insurance through its branch network, private banking offices or officers, ATMs and the internet as well as other distribution channels to consumers and businesses. At December 31, 2006, BancGroup's branch network consisted of 305 offices in Florida, Alabama, Georgia, Nevada and Texas.

Commercial Bankshares, Inc.

1550 S.W. 57th Avenue

Miami, Florida 33144

(305) 267-1200

Commercial Bankshares is a bank holding company whose wholly-owned subsidiary, Commercial Bank of Florida, provides corporate and retail banking services principally in Miami-Dade and Broward Counties, Florida. As of December 31, 2006, Commercial Bankshares' total assets were about \$1.04 billion, deposits were about \$841 million and shareholders' equity was about \$90.2 million.

Effective Date of the Merger (page 30)

Assuming all other conditions stated in the merger agreement have been or will be satisfied or waived as of the closing, the merger shall become effective as of the date and time the certificate of merger is accepted for filing by the Secretary of State of the State of Delaware.

Table of Contents

The Merger (page 17 and Appendix A)

The merger agreement is the document that controls the anticipated merger between Commercial and BancGroup. We encourage you to read the entire merger agreement, which is attached as Appendix A.

The merger agreement provides for the following:

Commercial will merge into Colonial BancGroup. When the merger becomes effective, Commercial will cease to exist as a separate entity and you, as a shareholder of Commercial, will be entitled to receive either 2.0214 shares of Colonial BancGroup common stock or \$49.00 cash for each share of Commercial common stock that you own (or some combination thereof). Under the terms of the merger agreement, Colonial BancGroup is not obligated to pay more than \$152,433,659 in cash and 6,288,355 shares of common stock for the outstanding shares of Commercial common stock (assuming 6,221,782 shares of Commercial common stock are outstanding at the time of the completion of the merger). If Commercial shareholders elect to receive more cash than Colonial BancGroup is required to pay, then Commercial shareholders electing cash will have the amount of cash they will receive reduced and the amount of common stock they will receive increased on a pro rata basis. Alternatively, if Commercial shareholders elect to receive more common stock than Colonial BancGroup is required to pay, then Commercial shareholders electing such common stock will have the amount of common stock they will receive reduced and the amount of cash they will receive increased on a pro rata basis.

As an example, if there are 6,221,782 shares of Commercial common stock outstanding at the time of the completion of the merger (in which case Colonial BancGroup is not obligated to pay more than \$152,433,659 of the total merger consideration in cash), and the Commercial shareholders make an aggregate cash election of \$200,000,000, then that would be \$47,566,341 more than Colonial BancGroup is required to pay in cash, and would represent approximately 970,742 shares of Commercial common stock. The electing shareholders who had elected cash would have their cash portion of the merger consideration reduced on a pro rata basis and would instead receive an aggregate of 1,962,257 shares of Colonial BancGroup common stock. On an individual basis, each electing shareholder who had elected some portion of his or her merger consideration to be paid in cash would in fact receive cash for 76.2% of the Commercial common stock that he or she had originally elected to be paid in cash and the remaining 23.8% of Commercial common stock that the electing shareholder had requested cash for would be paid in Colonial BancGroup common stock.

Colonial BancGroup will not issue fractional shares in the merger. If the number of shares you are to receive is not a whole number, you will receive \$49.00 cash times the fraction of your Commercial common stock that is not converted into Colonial BancGroup common stock.

Effect on Stock Options (page 32)

As of the date of this Proxy Statement-Prospectus, Commercial directors, executive officers and employees held outstanding options which entitle the holders thereof to acquire up to 424,759 shares of Commercial common stock.

Prior to the date of this Proxy Statement-Prospectus, holders who owned Commercial options granted under the Commercial Bankshares, Inc. 1994 Performance Stock Option Plan and 2004 Employee Stock Option Plans (collectively Employee Stock Option Plans) were permitted to exercise their vested and unvested options for Commercial common stock through March 14, 2007.

Each holder of Commercial options granted under the Employee Stock Option Plans was given the alternative to exercise his or her Commercial options for the right to receive a cash payment on the Effective Date. The amount of such cash payment is equal to the number of shares of Commercial common stock subject to each Commercial option multiplied by the difference of \$49.00 and the per share exercise price of such Commercial option, less any applicable withholding taxes. Each outside director and Joseph W. Armaly have

Table of Contents

agreed to elect the foregoing cashless exercise alternative with respect to all of their Commercial options. Stock options expiring on or about June 1, 2007 may be exercised by any holder thereof provided the merger has not closed prior to May 25, 2007.

Comparative Market Prices (page 41)

Colonial BancGroup's common stock is traded on the New York Stock Exchange under the symbol CNB. On January 22, 2007, the last trading day before we announced the signing of the merger agreement, the closing price of Colonial BancGroup's common stock was \$24.60.

Commercial's common stock is traded on the NASDAQ National Market System under the symbol CLBK. On January 22, 2007, the last trading day before we announced the signing of the merger agreement, the closing price of Commercial's common stock was \$37.50.

The following table summarizes the comparative values of the two stocks just before the merger agreement was signed and the Colonial BancGroup equivalent price per share of Commercial common stock.

BancGroup(1)	Commercial(1)	Equivalent price per Commercial share(2)
\$24.60	\$ 37.50	\$ 49.36

(1) Closing price on January 22, 2007.

(2) If the merger had closed on January 22, 2007, and if you had received the default election, then you would have received 1.0107 shares of Colonial BancGroup common stock and \$24.50 in cash for each share of Commercial common stock you owned on that date.

Fairness Opinion (page 21 and Appendix B)

In deciding to recommend the merger to shareholders, Commercial's Board of Directors considered the opinion of its financial advisor, Hovde Financial, Inc., that, based upon and subject to the assumptions made and matters set forth in the written opinion, as of January 22, 2007, the consideration to be received by the shareholders of Commercial in the merger is fair, from a financial point of view, to such shareholders. We have attached as Appendix B the written opinion of Hovde Financial, Inc., dated as of January 22, 2007. You should read it carefully to understand the assumptions made, matters considered and limitations of the review undertaken by Hovde Financial, Inc., in providing its opinion.

The Special Meeting (page 15)

We will hold a special meeting of the shareholders of Commercial at 11:00 a.m. local time, on May 21, 2007 at 1550 S.W. 57th Avenue, Miami, Florida. At the meeting, we will ask the shareholders to approve the merger agreement and to act on any other matters that may be put to a vote at the meeting.

Our Recommendation to our Shareholders (page 28)

Based on Commercial's reasons for the merger described herein, including the opinion of Hovde Financial, Inc. referred to above, your Board of Directors believes that the merger is fair to you and in your best interests, and unanimously recommends that you vote FOR the proposal to approve the merger agreement.

Record Date; Voting Power (page 15)

You may vote at the special meeting if you owned Commercial shares as of the close of business on March 23, 2007. You will have one vote for each share of common stock you owned on that date.

Table of Contents

Vote Required (page 15)

If a quorum is present at the special meeting, then the affirmative vote of a majority of the outstanding shares will be sufficient to approve the merger agreement. A quorum consists of a majority of the shares outstanding on the record date. On the record date, 6,221,782 shares of Commercial common stock were outstanding. The directors and executive officers of Commercial own an aggregate of 919,650 shares of Commercial common stock, representing approximately 14.8% of the outstanding shares. These individuals have agreed with Colonial BancGroup to vote their shares in favor of the merger agreement. Accordingly, if these individuals vote as they have agreed with Colonial BancGroup, then the merger agreement will be approved if holders of 2,191,242 of the remaining outstanding shares, representing 35.2% of the total outstanding, also vote to approve the merger agreement. As to other matters that may properly come before the special meeting, such matters shall be determined by a majority of the votes cast affirmatively or negatively, without regard to broker non-votes, as to that matter unless otherwise required by law.

Risk Factors (page 11)

In evaluating the merger and the merger agreement and before deciding how to vote your shares of Commercial common stock at the special meeting, you should read this proxy statement-prospectus carefully and especially consider certain factors, risks and uncertainties discussed in the section entitled Colonial BancGroup Risk Factors beginning on page 11 of this proxy statement-prospectus.

Election Form (page 30)

In a few days you should receive an election form. You may use this form to elect what percentage of cash or Colonial BancGroup common stock you wish to receive for your shares of Commercial common stock. If you do not return an election form by the deadline, then your merger consideration will be the default form of 1.0107 shares of Colonial BancGroup common stock and \$24.50 in cash for each of your shares of Commercial common stock (subject to pro-rata in the case of an over election of cash or common stock). The deadline by which election forms must be received by Colonial BancGroup's transfer agent, Computershare Investor Services, LLC, is 5:00 p.m. on the business day prior to the special meeting. If you choose to receive some portion of your merger consideration in cash, you will be taxed on any gain you realize on the cash that you receive (see Certain Federal Income Tax Consequences on page 33).

Colonial BancGroup is only obligated to pay a certain portion of the total consideration for the outstanding shares of Commercial common stock in cash and a certain portion in common stock. Based on the 6,221,782 shares of Commercial common stock that were outstanding as of the record date, Colonial BancGroup will pay approximately \$152,433,659 in cash and 6,288,355 shares of Colonial BancGroup common stock. If Commercial shareholders elect to receive too much cash, then all Commercial shareholders electing cash will have their cash election reduced and their common stock election increased on a pro rata basis. Alternatively, if Commercial shareholders elect to receive too much common stock, then all Commercial shareholders electing common stock will have their common stock election reduced and their cash election increased on a pro rata basis. If you have not received an election form within five business days of receiving this proxy statement-prospectus, or if you desire to receive another election form, please contact Bruce P. Steinberger at (305) 267-1200.

Exchange of Certificates (page 32)

Shortly after we complete the merger, Colonial BancGroup, or its transfer agent, will send you detailed instructions on how to exchange your shares. **UNLESS YOU HAVE COMPLETED AN ELECTION FORM AND INCLUDED YOUR COMMON STOCK CERTIFICATES WITH YOUR ELECTION FORM IN ACCORDANCE WITH THE ELECTION FORM INSTRUCTIONS, PLEASE DO NOT SEND US OR BANCGROUP ANY COMMON STOCK CERTIFICATES UNTIL YOU RECEIVE THOSE INSTRUCTIONS.**

Table of Contents

Conditions to Completion of the Merger (page 34)

The completion of the merger depends on meeting a number of conditions, including the following:

the shareholders of Commercial must approve the merger agreement;

all required regulatory approvals must be received, and any waiting periods must have passed;

there must be no governmental order blocking completion of the merger, and no proceedings by a government body trying to block the merger; and

the merger must be completed on or before October 31, 2007, or either party can terminate the merger agreement at will.

Unless prohibited by law, either Commercial or Colonial BancGroup could elect to waive a condition that has not been satisfied and complete the merger anyway. We cannot be certain whether or when any of these conditions will be satisfied, or waived where permissible, or that we will complete the merger.

Termination of the Merger Agreement (page 35)

Colonial BancGroup and Commercial can agree at any time to terminate the merger agreement before completing the merger, even if the shareholders of Commercial have already voted to approve it.

Either company can also terminate the merger agreement:

if the other party has materially breached the merger agreement and has not cured the breach;

if the merger has not been completed by October 31, 2007, (provided that the failure to complete has not been caused by the breach of the company electing to terminate); or

if Commercial enters into a binding agreement with any third party to merge with, or sell control to, that third party. In that event, Colonial BancGroup will have the right to receive a payment of \$12,500,000 from Commercial or its acquirer.

Federal Income Tax Consequences (page 33)

We expect that neither the two companies nor the Commercial shareholders will recognize any gain or loss for U.S. federal income tax purposes as a result of the merger, except in connection with any cash payment that a Commercial shareholder may receive as merger consideration or for a fractional share. Colonial BancGroup has received an opinion from PricewaterhouseCoopers LLP that this will be the case. The tax opinion is based upon customary assumptions contained therein, including the assumption that consideration other than Colonial BancGroup common stock (including cash in lieu of fractional shares, cash consideration in exchange for outstanding options and cash paid to Commercial shareholders that receive cash in the merger) will represent no more than 60% of the total fair market value of all consideration paid to Commercial shareholders in the transaction. The opinion will not bind the Internal Revenue Service, which could take a different view. We expect that any cash received will generally be treated as capital gain for federal income tax purposes.

Determining the actual tax consequences to you as an individual taxpayer can be complicated. For example, the opinion referred to above does not address any tax issues arising under state, local or foreign law. The overall tax treatment applicable to you will depend on your specific situation and many variables not within our control. You should consult your own tax advisor for a full understanding of the merger's tax consequences to you.

Accounting Treatment (page 40)

The merger will be accounted for as a purchase. The purchase price will be allocated to the fair value of the net tangible and identifiable intangible assets acquired, with any amounts in excess thereof being assigned to goodwill. Goodwill will be recognized unless and until it is deemed to be impaired, in which case the impairment will be measured and any such amount will be charged against current earnings.

Table of Contents

Interests of Persons Involved in the Merger that are Different from Yours (page 28)

Certain directors, executive officers and employees of Commercial have interests in the merger that are different from your interests. These differing interests include the following:

Directors, executive officers and employees of Commercial currently hold options to acquire 424,759 shares of Commercial common stock. As of the date of this Proxy Statement Prospectus, each holder of Commercial stock options has elected to exercise his or her Commercial stock options for the right to receive a cash payment on the Effective Date. The amount of such cash payment is equal to the aggregate of the number of shares of Commercial common stock subject to each Commercial stock option multiplied by the difference of \$49.00 and the per share exercise price of such Commercial stock option, less any applicable withholding taxes. However, if the merger has not closed prior to May 25, 2007, the holders of 39,345 stock options will have the right to exercise those options prior to expiration on or about June 1, 2007.

Commercial currently indemnifies its directors and certain officers, employees and agents against loss from claims arising out of their position with Commercial. For a period of six years after the merger, Colonial BancGroup will, subject to some limitations, continue to indemnify those persons against claims that arise from the period when they worked for, or served as directors of, Commercial or Commercial Bank of Florida.

Upon completion of the merger, Commercial employees will either become employees of Colonial BancGroup or one of its subsidiaries and become eligible for Colonial BancGroup's employee benefits, or they will be eligible to receive severance benefits under Colonial BancGroup's severance policy.

Pursuant to their employment agreements with Commercial Bankshares and/or Commercial Bank of Florida, which agreements shall become the obligation of Colonial BancGroup upon completion of the merger, Joseph W. Armaly, Chairman and CEO, Bruce P. Steinberger, President and Corporate Secretary and Barbara E. Reed, Executive Vice President and Chief Financial Officer, are expected to be paid \$3,030,014, \$1,177,291 and \$450,000, respectively, immediately after the completion of the merger.

Joseph W. Armaly has entered into a consulting agreement with Colonial Bank, N.A. that will become effective when and if the merger is completed. The agreement provides for a term of two years and an annual base consideration of approximately \$200,000. The agreement also provides that Mr. Armaly will not be considered an employee of Colonial Bank, but rather an independent contractor and outside consultant. The consulting agreement also contains covenants prohibiting Mr. Armaly from soliciting Colonial Bank's customers and employees or competing against Colonial Bank during the term of the consulting agreement.

Steven Capellan has entered into an employment agreement with Colonial Bank that will become effective at the completion of the merger. This employment agreement provides for 18 months of employment at 115% of his current level of salary and at least 100% of his current bonus. The employment agreement also provides for a stock option grant of 7,500 shares of BancGroup's common stock and a signing bonus of 15% of Mr. Capellan's base salary.

Commercial's directors have entered into affiliate agreements with Colonial BancGroup regarding various issues associated with the merger. These agreements provide that each director would, among other things:

agree to vote his shares for the merger;

Edgar Filing: COLONIAL BANCGROUP INC - Form 424B3

not distribute BancGroup common stock issued in connection with the merger except in accordance with certain rules of the Securities and Exchange Commission;

support the business of Colonial Bank, N.A. after the merger, and

Table of Contents

if not also an employee of Commercial, generally not compete with Colonial Bank, N.A. for a period of two years after the effective date of the merger.

Dissenters Rights (page 39)

In connection with the merger, Commercial shareholders are not entitled to exercise dissenters rights of appraisal under Florida law.

Where You Can Find More Information (page 59)

This document incorporates important business and financial information about Colonial BancGroup and Commercial from documents that are not included in or delivered with this document. You can obtain documents regarding BancGroup incorporated by reference in this document (other than certain exhibits to those documents) by requesting them in writing or by telephone from Colonial BancGroup by contacting David B. Byrne, Jr., Corporate Secretary and General Counsel, 100 Colonial Bank Blvd., Montgomery, Alabama 36117, telephone: (334) 676-5000. You can obtain documents regarding Commercial by requesting them in writing or by telephone from Commercial by contacting Bruce P. Steinberger, President and Corporate Secretary, 1550 S.W. 57th Avenue, Miami, Florida 33144, telephone: (305) 267-1200. You will not be charged for any of these documents. **If you would like to request a document, please do so by May 11, 2007, in order to receive it before the special meeting.** You may also find documents regarding BancGroup and Commercial filed or furnished at the Security and Exchange Commission's website at www.sec.gov.

Recent Developments Colonial BancGroup

During the second quarter of 2007, Colonial BancGroup intends to issue debt securities which are intended to qualify as regulatory capital and utilize a portion of the proceeds in the Merger. While Colonial BancGroup has initiated the issuance process and does not anticipate any significant difficulties in issuing such securities, the actual form of the debt securities has not been finalized.

Precautionary Language Regarding the Merger Agreement

The merger agreement has been included to provide you with information regarding its terms. It is not intended to provide any other factual information about either Colonial BancGroup or Commercial. Such information can be found elsewhere in this proxy statement-prospectus and in the other public filings that Colonial BancGroup and Commercial make with the Securities and Exchange Commission, which are available without charge at www.sec.gov.

The merger agreement contains representations and warranties that its parties made to each other. The assertions embodied in those representations and warranties are qualified by information in confidential disclosure schedules that the parties have exchanged in connection with signing the merger agreement. While Colonial BancGroup and Commercial do not believe that such schedules contain information that the securities laws require to be publicly disclosed, other than information that has already been so disclosed, the disclosure schedules do contain information that modifies, qualifies and creates exceptions to the representations and warranties set forth in the attached merger agreement. Accordingly, you should not rely on the representations and warranties as characterizations of the actual state of facts, since they may be materially modified by the underlying disclosure schedules. These disclosure schedules contain information that has been included in Colonial BancGroup's and Commercial's general prior public disclosures, as well as potential additional non-public information. Moreover, information concerning the subject matter of the representations and warranties may have changed since the date of the merger agreement, which subsequent information may or may not be fully reflected in Colonial BancGroup's and Commercial's public disclosures.

Table of Contents**Selected Financial Data Colonial BancGroup***Selected Financial Data*

The following table sets forth selected financial data for the last five years:

	2006	2005	2004	2003	2002
	(In thousands, except per share amounts)				
Statement of Income:					
Interest income	\$ 1,455,585	\$ 1,162,055	\$ 848,017	\$ 780,808	\$ 783,431
Interest expense	700,318	452,833	280,769	285,660	328,222
Net interest income	755,267	709,222	567,248	495,148	455,209
Provision for loan losses	22,142	26,838	26,994	37,378	35,980
Net interest income after provision for loan losses	733,125	682,384	540,254	457,770	419,229
Noninterest income	189,222	175,976	153,201	138,627	131,769
Noninterest expense	519,601	515,255	431,649	376,001	318,287
Income from continuing operations before income taxes	402,746	343,105	261,806	220,396	232,711
Applicable income taxes	136,933	114,603	88,929	74,785	80,377
Income from continuing operations	265,813	228,502	172,877	145,611	152,334
Discontinued Operations:(1)					
Loss from discontinued operations, net of income taxes of (\$445) for the year ended December 31, 2002					(846)
Net Income	\$ 265,813	\$ 228,502	\$ 172,877	\$ 145,611	\$ 151,488
Earnings Per Common Share:					
Income from continuing operations:					
Basic	\$ 1.73	\$ 1.53	\$ 1.32	\$ 1.17	\$ 1.27
Diluted	1.72	1.52	1.31	1.16	1.26
Net income:					
Basic	\$ 1.73	\$ 1.53	\$ 1.32	\$ 1.17	\$ 1.27
Diluted	1.72	1.52	1.31	1.16	1.26
Average shares outstanding:					
Basic	153,598	149,053	131,144	124,615	119,583
Diluted	154,810	150,790	132,315	125,289	120,648
Cash dividends per common share	\$ 0.68	\$ 0.61	\$ 0.58	\$ 0.56	\$ 0.52

- (1) During 2000, the Colonial BancGroup exited the mortgage servicing business. The financial results for this line of business have been separately reported as Discontinued Operations for all periods presented.

Table of Contents

	2006	2005	2004	2003	2002
	(In thousands, except Selected Financial Measures)				
Statement of Condition data at year end:					
Total assets	\$ 22,784,249	\$ 21,426,197	\$ 18,896,610	\$ 16,267,979	\$ 15,814,857
Total loans, net of unearned income:					
Mortgage warehouse loans	281,693	483,701	1,114,923	982,488	1,671,149
Loans, excluding mortgage warehouse loans	15,197,196	14,416,163	11,742,888	10,606,407	10,021,281
Loans held for sale	1,474,000	1,097,892	678,496	378,324	347,101
Non-time deposits	9,092,663	9,012,943	7,546,038	6,017,435	5,041,262
Total deposits	16,091,054	15,483,449	11,863,695	9,918,434	9,410,554
Long-term debt	2,522,273	2,338,831	2,260,957	2,442,235	2,114,624
Shareholders' equity	2,057,335	1,932,691	1,398,291	1,185,452	1,082,899
Average balances:					
Total assets	22,237,690	20,682,310	17,433,571	15,842,491	13,812,032
Interest-earning assets	20,409,906	18,943,511	16,173,539	14,736,974	12,909,926
Total loans, net of unearned income:					
Mortgage warehouse loans	348,024	728,057	1,033,238	1,457,716	1,093,061
Loans, excluding mortgage warehouse loans	14,991,675	13,411,323	11,115,275	10,093,214	9,427,710
Loans held for sale	1,374,115	823,177	497,315	373,226	89,566
Non-time deposits	9,080,151	8,543,542	6,847,334	5,419,445	4,426,020
Total deposits	15,788,319	13,987,525	10,862,040	9,418,926	8,734,296
Shareholders' equity	1,992,772	1,779,081	1,285,772	1,125,296	975,352
Selected Financial Measures:					
Net income to:					
Average assets	1.20%	1.10%	0.99%	0.92%	1.10%
Average shareholders' equity	13.34	12.84	13.45	12.94	15.53
Noninterest income/average assets	0.85	0.85	0.88	0.88	0.95
Noninterest expense/average assets	2.34	2.49	2.48	2.37	2.30
Efficiency ratio	54.94	58.11	59.76	59.11	53.96
Dividend payout ratio	39.53	40.13	44.27	48.28	41.27
Shareholders' equity to assets	9.03	9.02	7.40	7.29	6.85
Tangible capital ratio	6.26	5.97	5.43	5.65	5.31
Book value per share	\$ 13.46	\$ 12.53	\$ 10.45	\$ 9.34	\$ 8.75
Tangible book value per share	\$ 9.05	\$ 8.02	\$ 7.50	\$ 7.11	\$ 6.68
Risk-based capital:					
Tier 1	9.09%	9.15%	8.80%	9.41%	7.85%
Total	11.77	12.17	11.39	12.55	11.01
Tier 1 leverage	7.81	7.77	7.16	7.54	6.98
Total nonperforming assets to net loans, other real estate and repossessions					
	0.16	0.21	0.29	0.65	0.78
Net charge-offs to average loans					
	0.12	0.14	0.19	0.31	0.29
Allowance for loan losses to total loans (net of unearned income)					
	1.13	1.15	1.16	1.20	1.16
Allowance for loan losses to nonperforming loans					
	1247	662	548	240	191
Non-GAAP Measures:(1)					
Noninterest income/average assets(2)	0.82	0.85	0.84	0.89	0.78
Noninterest expense/average assets(3)	2.34	2.45	2.43	2.37	2.30
Efficiency ratio(4)	55.39	57.06	59.32	58.92	56.30

- (1) Colonial BancGroup management believes that these non-GAAP measures provide information that is useful to investors in understanding the performance of Colonial BancGroup's underlying operations and performance trends. Specifically, these measures permit evaluation and comparison of results for ongoing business operations, and it is on this basis that Colonial BancGroup management internally assesses Colonial BancGroup's performance.
- (2) Excluded from noninterest income are securities and derivatives gains (losses), net of \$4.8 million, (\$24.7) million, \$7.5 million, \$4.8 million and \$5.7 million for 2006, 2005, 2004, 2003 and 2002, respectively; gain on

Table of Contents

- sale of Goldleaf of \$2.8 million for 2006; gain on sale of branches of \$37.0 million for 2005; and changes in fair value of swap derivatives of (\$12.1) million, (\$0.4) million, (\$6.9) million and \$18.9 million for 2005, 2004, 2003 and 2002, respectively.
- (3) Excluded from noninterest expense are net losses related to the early extinguishment of debt of \$9.6 million and \$7.4 million for the years ended 2005 and 2004, respectively.
- (4) Noninterest income excludes gains (losses) on the sale of securities, derivatives, branches and Goldleaf as detailed in note (2) above. Noninterest expense excludes net losses related to the early extinguishment of debt as detailed in note (3) above.

Per Share Data

The table below presents on a per share basis the book value, cash dividends and income from continuing operations of Colonial BancGroup and Commercial on a historical basis and on a pro forma equivalent basis assuming consummation of the merger.

	Year Ended December 31, 2006
Colonial BancGroup Historical:	
Net income:	
Basic	\$ 1.73
Diluted	1.72
Book value at end of period	13.46
Dividends per share	0.68
Commercial Historical:	
Net income:	
Basic	2.08
Diluted	2.00
Book value at end of period	14.89
Dividends per share	0.81
Colonial BancGroup Pro Forma Combined:(a)	
Net income:	
Basic	1.71
Diluted	1.69
Book value at end of period	13.90
Colonial BancGroup Pro Forma Combined Per Equivalent Commercial Share:(a)	
Net income:(b)	
Basic	1.73
Diluted	1.71
Book value at end of period(b)	14.05
Dividends per share(c)	0.69

- (a) The pro forma per share data of Colonial BancGroup and the equivalent pro forma per share data of Commercial have been presented using the assumption that the consideration paid by Colonial BancGroup consisted of 50% cash and 50% common stock.
- (b) Pro forma equivalent per share amounts are calculated by multiplying the pro forma combined total income per share and the pro forma combined total book value per share of Colonial BancGroup by the exchange ratio so that the per share amounts are equated to the respective values for one share of Commercial. For these pro forma equivalent share amounts, a 1.0107 Colonial BancGroup common stock exchange ratio is utilized.
- (c) Pro forma equivalent dividends per share are shown at Colonial BancGroup's common stock dividend per share rate multiplied by the 1.0107 exchange ratio per share of Commercial common stock. Colonial BancGroup presently contemplates that dividends will be declared in the future. However, the payment of cash dividends is subject to Colonial BancGroup's actual results of operations as well as certain other internal and external factors. Accordingly, there is no assurance that cash dividends will either be declared and paid in the future, or, if declared and paid, that such dividends will approximate the pro forma amounts indicated.

Table of Contents

COLONIAL BANCGROUP RISK FACTORS

The business of Colonial BancGroup is subject to a variety of risks and uncertainties that could effect its future operations and the value of its common stock. These risks include, but are not limited to the following:

Industry Factors

As a financial services company, Colonial BancGroup's earnings are significantly affected by general business and economic conditions.

Colonial BancGroup's business and earnings are impacted by general business and economic conditions in the United States and abroad. These conditions include short-term and long-term interest rates, inflation, money supply, fluctuations in both debt and equity capital markets, the strength of the U.S. economy and the local economies in which it operates. For example, an economic downturn, increase in unemployment, or other events that negatively impact household and/or corporate incomes could decrease the demand for Colonial BancGroup's loan and non-loan products and services and increase the number of customers who fail to pay interest or principal on their loans.

Colonial BancGroup's earnings are significantly affected by the fiscal and monetary policies of the federal government and its agencies.

The Board of Governors of the Federal Reserve System regulates the supply of money and credit in the United States. Its policies determine in large part Colonial BancGroup's cost of funds for lending and investing and the return it earns on those loans and investments, both of which impact its net interest margin, and can materially affect the value of financial instruments it holds, such as debt securities. Federal Reserve System policies also can affect Colonial BancGroup's borrowers, potentially increasing the risk that they may fail to repay their loans. Changes in Federal Reserve Board policies are beyond Colonial BancGroup's control and difficult to predict or anticipate.

The financial services industry is highly competitive.

Colonial BancGroup operates in a highly competitive industry which could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Banks, securities firms and insurance companies can now merge by creating a financial services company called a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. A number of foreign banks have acquired financial services companies in the United States, further increasing competition in the U.S. market. Also, technology has lowered barriers to entry and made it possible for nonbanks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Many of Colonial BancGroup's competitors have fewer regulatory constraints and some have lower cost structures.

Colonial BancGroup is heavily regulated by federal agencies.

Colonial BancGroup, its subsidiary bank and certain nonbank subsidiaries are heavily regulated by federal agencies. This regulation is to protect depositors, federal deposit insurance funds and the banking system as a whole, not security holders. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect us in substantial and unpredictable ways including limiting the types of financial services and products Colonial Bank may offer and/or increasing the ability of nonbanks to offer competing financial services and products. Also, any failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies and damage to Colonial BancGroup's reputation. For more information, refer to discussions of regulatory considerations contained in Item 1 *Business* and Note 16, *Regulatory Matters and Restrictions* to the financial statements contained in Colonial BancGroup's Annual Report on Form 10-K for the year ended December 31, 2006.

Table of Contents

Company Factors

Maintaining or increasing Colonial BancGroup's market share depends on market acceptance and regulatory approval of new products and services.

Colonial BancGroup's success depends, in part, on its ability to adapt its products and services to evolving industry standards. There is increasing pressure on financial services companies to provide products and services at lower prices. This can reduce Colonial Bank's net interest margin and revenues from its fee-based products and services. In addition, the widespread adoption of new technologies, including internet-based services, could require Colonial BancGroup to make substantial expenditures to modify or adapt its existing products and services. Colonial BancGroup might not successfully introduce new products and services, achieve market acceptance of its products and services, and/or develop and maintain loyal customers.

Colonial BancGroup relies on dividends from its subsidiaries for most of its revenue.

Colonial BancGroup is a separate and distinct legal entity from its subsidiaries. It receives substantially all of its revenue from dividends from its subsidiaries. These dividends are the principal source of funds to pay dividends on the holding company's common stock and interest and principal on its debt. Various federal and/or state laws and regulations limit the amount of dividends that Colonial BancGroup's bank and certain of its nonbank subsidiaries may pay to the holding company. Also, the holding company's right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors. For more information, refer to *Payment of Dividends and Other Restrictions* in Item 1 and Note 16, *Regulatory Matters and Restrictions* in the Annual Report on Form 10-K for the year ended December 31, 2006.

Colonial BancGroup's accounting policies and methods determine how it reports its financial condition and results of operations, and such policies may require management to make estimates about matters that are inherently uncertain.

Colonial BancGroup's accounting policies and methods are fundamental to how it records and reports its financial condition and results of operations. Management must exercise judgment in selecting and applying many of these accounting policies and methods so that not only do they comply with accounting principles generally accepted in the United States but also that they reflect management's judgment as to the most appropriate manner in which to record and report Colonial BancGroup's financial condition and results of operations. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which might be reasonable under the circumstances yet might result in Colonial BancGroup reporting materially different amounts than would have been reported under a different alternative. A description of Colonial BancGroup's significant accounting policies may be found at Note 1, *Summary of Significant Accounting and Reporting Policies*, to the Consolidated Financial Statements contained in Colonial BancGroup's Annual Report on Form 10-K for the year ended December 31, 2006.

Colonial BancGroup has identified five accounting policies as being critical to the presentation of its financial condition and results of operations because they require management to make particularly subjective and/or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts would be reported under different conditions or using different assumptions. These critical accounting policies relate to: (1) allowance for loan losses, (2) purchase accounting and goodwill, (3) income taxes, (4) consolidations and (5) stock-based compensation. For more information, refer to *Critical Accounting Policies* in the Management's Discussion and Analysis contained in Colonial BancGroup's Annual Report on Form 10-K for the year ended December 31, 2006.

Colonial BancGroup has an active acquisition program.

Colonial BancGroup regularly explores opportunities to acquire financial institutions and other financial services providers. Colonial BancGroup cannot predict the number, size or timing of future acquisitions. Colonial

Table of Contents

BancGroup's management typically do not comment publicly on a possible acquisition or business combination until there is a signed definitive agreement for the transaction.

Colonial BancGroup's ability to successfully complete an acquisition generally is subject to regulatory approval, and it cannot be certain when or if, or on what terms and conditions, any required regulatory approvals will be granted. Colonial BancGroup might be required to divest banks or branches as a condition to receiving regulatory approval.

Difficulty in integrating an acquired company may cause Colonial BancGroup not to realize expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from the acquisition. Specifically, the integration process could result in higher than expected deposit attrition (run-off), loss of key employees, the disruption of Colonial BancGroup's business or the business of the acquired company, or otherwise adversely affect its ability to maintain relationships with customers and employees or achieve the anticipated benefits of the acquisition. Also, the negative impact of any divestitures required by regulatory authorities in connection with acquisitions or business combinations may be greater than expected.

Colonial BancGroup's mix of products and customers subject us to potential concentration risk.

Colonial Bank offers a defined group of products, both retail and commercial, to its customers throughout the branch network. As a result of the products offered and customers served, BancGroup is subject to concentration risk. See *Concentration* discussion within the *Risk Management* section of Management's Discussion and Analysis in Colonial BancGroup's Annual Report on Form 10-K for the year ended December 31, 2006 for further discussion.

Colonial BancGroup's stock price can be volatile.

Colonial BancGroup's stock price can fluctuate widely in response to a variety of factors including:

actual or anticipated variations in its quarterly operating results;

recommendations by securities analysts;

new technology used, or services offered, by its competitors;

significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or its competitors;

failure to integrate its acquisitions or realize anticipated benefits from its acquisitions;

operating and stock price performance of other companies that investors deem comparable to it;

news reports relating to trends, concerns and other issues in the financial services industry;

changes in government regulations; and

geopolitical conditions such as acts or threats of terrorism or military conflicts.

Edgar Filing: COLONIAL BANCGROUP INC - Form 424B3

General market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, also could cause Colonial BancGroup's stock price to decrease regardless of its operating results.

Table of Contents

A WARNING ABOUT FORWARD-LOOKING STATEMENTS

Commercial and Colonial BancGroup make forward-looking statements in this document and in Colonial BancGroup's and Commercial's public documents. When Commercial or Colonial BancGroup use words such as anticipate, believe, estimate, may, intend, expect, will, show or other similar expressions, Commercial or Colonial BancGroup refer to events or conditions that are subject to risks and uncertainties. When considering those forward-looking statements, you should keep in mind the risks, uncertainties and other cautionary statements made in this Proxy Statement-Prospectus. You should not place undue reliance on any forward-looking statement, which speaks only as of the date made. In addition to the risks identified below, you should refer to Commercial's and Colonial BancGroup's public documents for specific risks which could cause actual results to be significantly different from those expressed or implied by those forward-looking statements. Some factors which may affect the accuracy of the forward-looking statements apply generally to the financial services industries, while other factors apply directly to Commercial or Colonial BancGroup. Any number of important factors which could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to:

expected cost savings from reorganization into Colonial BancGroup are not fully realized;

deposit attrition, customer loss, or revenue loss following the reorganization into Colonial BancGroup are greater than expected;

the inability of Colonial BancGroup to realize elements of its strategic plan for 2007 and beyond;

deposit attrition, customer loss, or revenue loss in the ordinary course of business;

increases in competitive pressure in the banking industry;

changes in the interest rate environment which adversely affect margins or critical estimates as applied and projected return on investments;

general economic conditions, either nationally or regionally, that are less favorable than expected, resulting in, among other things, a deterioration in credit quality;

management's assumptions and estimates underlying critical acco