

FLAG FINANCIAL CORP  
Form 10-Q  
November 08, 2006  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

For the Quarterly Period Ended September 30, 2006

OR

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

For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-24532

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**FLAG FINANCIAL CORPORATION**

*(Exact name of registrant as specified in its charter)*

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**Georgia**  
*(State of incorporation)*

**3475 Piedmont Road N.E. Suite 550**

**Atlanta, Georgia 30305**

*(Address of principal executive offices)*

**58-2094179**  
*(I.R.S. Employer Identification No.)*

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(404) 760-7700

*(Registrant's telephone number)*

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Indicate by check mark whether the registrant has (1) filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definitions of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Common stock, par value \$1 per share: 17,009,478 shares outstanding as of November 2, 2006

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**Flag Financial Corporation and Subsidiary**

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**Table of Contents****Part I. Financial Information****Item 1. Financial Statements****FLAG FINANCIAL CORPORATION AND SUBSIDIARY****CONSOLIDATED BALANCE SHEETS***(in thousands, except share data)*

	September 30, 2006 <i>(unaudited)</i>	December 31, 2005 <i>(audited)</i>	September 30, 2005 <i>(unaudited)</i>
<b>Assets</b>			
Cash and due from banks	\$ 41,636	\$ 45,506	\$ 16,101
Other interest-bearing deposits in banks	159	23,184	5,946
Federal funds sold		2,085	24,578
<b>Total cash and cash equivalents</b>	<b>41,795</b>	70,775	46,625
Other interest-bearing deposits	349	4,698	4,000
Investment securities available-for-sale	294,605	228,442	99,878
Other investments	17,245	18,762	12,332
Mortgage loans held-for-sale	7,710	11,665	10,401
Loans, net of allowance for loan losses of \$17,237, \$16,779 and \$9,511, respectively	1,249,140	1,205,046	691,488
Premises and equipment, net	14,668	13,985	13,458
Intangible assets	114,814	115,034	20,986
Other assets	35,816	34,454	19,957
<b>Total assets</b>	<b>\$ 1,776,142</b>	\$ 1,702,861	\$ 919,125
<b>Liabilities and Stockholders' Equity</b>			
<b>Deposits:</b>			
Noninterest-bearing deposits	\$ 197,047	\$ 172,725	\$ 57,372
Interest-bearing demand deposits	104,940	127,976	77,685
Money market	443,849	404,488	270,286
Savings	17,762	19,450	20,697
Time	586,986	559,313	358,766
<b>Total deposits</b>	<b>1,350,584</b>	1,283,952	784,806
Advances from Federal Home Loan Bank	130,291	143,469	25,000
Federal funds purchased and repurchase agreements	9,819	4,142	1,420
Junior subordinated debentures	46,785	46,791	24,743
Other liabilities	19,996	19,707	8,504
<b>Total liabilities</b>	<b>1,557,475</b>	1,498,061	844,473
<b>Preferred stock, 10,000,000 shares authorized, none issued and outstanding</b>			
<b>Common stock, \$1 par value, 40,000,000 shares authorized, 18,598,909, 18,425,034 and 10,097,272 shares issued at September 30, 2006, December 31, 2005 and September 30, 2005, respectively</b>			
	<b>18,599</b>	18,425	10,097
<b>Additional paid-in capital</b>	<b>150,145</b>	148,062	28,296

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Retained earnings	<b>64,579</b>	51,692	49,875
Accumulated other comprehensive (loss) income	<b>(134)</b>	125	(112)
Less: Treasury stock at cost; 1,589,431 shares at September 30, 2006, and 1,551,186 at December 31, 2005 and September 30, 2005	<b>(14,522)</b>	(13,504)	(13,504)
Total stockholders' equity	<b>218,667</b>	204,800	74,652
Total liabilities and stockholders' equity	<b>\$ 1,776,142</b>	\$ 1,702,861	\$ 919,125

See accompanying notes to unaudited consolidated financial statements.

**Table of Contents****FLAG FINANCIAL CORPORATION AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF EARNINGS***(in thousands, except per share data)*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
	<i>(unaudited)</i>			
<b>Interest income:</b>				
Interest and fees on loans	\$ 27,232	\$ 14,279	\$ 77,631	\$ 38,120
Interest on investment securities	4,209	1,339	11,968	3,719
Interest on federal funds sold and other interest-bearing deposits	118	315	993	945
<b>Total interest income</b>	<b>31,559</b>	<b>15,933</b>	<b>90,592</b>	<b>42,784</b>
<b>Interest expense:</b>				
Interest on deposits:				
Demand	271	209	834	682
Money market	4,797	2,130	13,034	5,281
Savings	33	35	100	98
Time	7,068	2,857	18,557	7,369
Interest on other borrowings	2,769	586	7,581	1,412
<b>Total interest expense</b>	<b>14,938</b>	<b>5,817</b>	<b>40,106</b>	<b>14,842</b>
Net interest income before provision for loan losses	16,621	10,116	50,486	27,942
<b>Provision for loan losses</b>		375	550	750
Net interest income after provision for loan losses	16,621	9,741	49,936	27,192
<b>Noninterest income:</b>				
Service charges on deposit accounts	798	855	2,315	2,428
Mortgage banking activities	770	890	2,468	2,157
Payroll services fees	673	542	2,089	1,622
Insurance commissions and brokerage fees	72	66	275	198
(Loss) gain on sales of other real estate owned	(4)	336	135	558
Gain on sales of investment securities available-for-sale				129
Other	482	345	1,876	1,136
<b>Total noninterest income</b>	<b>2,791</b>	<b>3,034</b>	<b>9,158</b>	<b>8,228</b>
<b>Noninterest expense:</b>				
Salaries and employee benefits	7,324	5,539	20,767	15,759
Occupancy	1,156	977	3,559	2,915
Professional fees	110	429	844	1,462
Postage, printing and supplies	505	257	1,380	734
Communications	678	539	2,175	1,648
Merger-related charges	359		359	
Other	1,740	1,114	5,039	2,876
<b>Total noninterest expense</b>	<b>11,872</b>	<b>8,855</b>	<b>34,123</b>	<b>25,394</b>

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Earnings before provision for income taxes	<b>7,540</b>	3,920	<b>24,971</b>	10,026
Provision for income taxes	<b>2,762</b>	1,283	<b>9,001</b>	3,256
<b>Net earnings</b>	<b>\$ 4,778</b>	\$ 2,637	<b>\$ 15,970</b>	\$ 6,770
Basic earnings per share	<b>\$ 0.28</b>	\$ 0.31	<b>\$ 0.94</b>	\$ 0.79
<b>Diluted earnings per share</b>	<b>\$ 0.27</b>	\$ 0.28	<b>\$ 0.90</b>	\$ 0.73

See accompanying notes to unaudited consolidated financial statements.

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**FLAG FINANCIAL CORPORATION AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

*(in thousands)*

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<b>Three Months Ended</b>		<b>Nine Months</b>	
<b>September 30,</b>		<b>Ended</b>	
<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>September 30,</b>
		<i>(unaudited)</i>	<b>2005</b>

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