

FLAG FINANCIAL CORP
Form S-4
June 24, 2005
Table of Contents

As filed with the Securities and Exchange Commission on June 24, 2005

Registration No. 333-

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-4

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

FLAG FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Georgia (State or other jurisdiction of incorporation or organization)	6021 (Primary Standard Industrial Classification Code Number) 3475 Piedmont Road, N.E., Suite 550 Atlanta, Georgia 30305 (404) 760-7700	58-2094179 (I.R.S. Employer Identification No.)
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(Address including zip code, and telephone number including area code, of registrant's principal executive offices)

J. Daniel Speight

Chief Financial Officer and Secretary

Flag Financial Corporation

3475 Piedmont Road, N.E., Suite 550

Atlanta, Georgia 30305

(404) 760-7700

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(Name, address including zip code, and telephone number, including area code, of agent for service)

Copies of all communications, including copies of all communications

sent to agent for service, should be sent to:

Larry W. Shackelford, Esq.	Thomas O. Powell, Esq.
Morris, Manning & Martin, LLP	Troutman Sanders LLP
1600 Atlanta Financial Center	Suite 5200
3343 Peachtree Road, N.E.	600 Peachtree Street, N.E.
Atlanta, Georgia 30326-1044	Atlanta, Georgia 30308-2216
(404) 233-7000	(404) 885-3294

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective and upon completion of the merger described in the joint proxy statement/prospectus.

If the securities being registered on this form are to be offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. 333-_____.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. 333-_____.

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee
Common Stock, \$1.00 par value	6,991,600	None	\$ 100,497,482	\$ 11,828.55

- (1) Based on the maximum number of shares of common stock of Flag Financial Corporation that will be issued in exchange for shares of common stock of First Capital Bancorp, Inc. pursuant to the merger described in the joint proxy statement/prospectus that is a part of this Registration Statement.
- (2) In accordance with Rule 457(f) under the Securities Act, the proposed maximum aggregate offering price was calculated based upon (i) \$119,646,473, the aggregate market value, established by the average of the high and low prices reported in the Over the Counter Bulletin Board as of June 22, 2005, of the maximum number of shares of common stock of First Capital Bancorp, Inc. to be received by the Registrant in the merger, less (ii) \$19,148,991, which is the approximate amount of cash to be paid by the Registrant in connection with the merger.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant files a further amendment which specifically states that this Registration Statement will thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement becomes effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

The information in this joint proxy statement/prospectus is not complete and may be changed. We may not issue the common stock to be issued in connection with the merger described in this joint proxy statement/prospectus until the registration statement filed with the Securities and Exchange Commission, of which this joint proxy statement/prospectus is a part, is declared effective. This joint proxy statement/prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer, solicitation or sale is not permitted or would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. Any representation to the contrary is a criminal offense.

SUBJECT TO COMPLETION, DATED JUNE 24, 2005

MERGER PROPOSED YOUR VOTE IS IMPORTANT

The Boards of Directors of Flag Financial Corporation (Flag) and First Capital Bancorp, Inc. (First Capital) have each agreed to a merger transaction that will result in First Capital merging with and into Flag. We expect the proposed merger will bring together two complementary institutions to create a company positioned for further growth. Furthermore, we believe the combined company will achieve stronger earnings growth and create more shareholder value than either could separately achieve.

Our combined company will provide additional commercial and retail banking services and products through the combination of our two banks, which will operate from 28 offices located in metro Atlanta and central and west Georgia. Based on our March 31, 2005 financial data, we believe the combined company will have assets of approximately \$1.6 billion.

Pursuant to our merger agreement, First Capital will merge with and into Flag, and Flag will be the surviving corporation. Each share of First Capital will be converted into 1.6 shares of Flag common stock, resulting in an issuance of approximately 6.8 million shares of Flag common stock on a fully diluted basis. Each share of Flag common stock will remain outstanding as a share of common stock of the combined company. Any non-institutional First Capital shareholder that would own more than 384,000 shares of Flag common stock following the merger will receive a cash payment, in lieu of shares of Flag common stock over the 384,000 share threshold, equal to the number of such excess shares multiplied by the average closing price of Flag 's common stock for the 20 trading days immediately following the public announcement of the merger, which we estimate will be approximately \$14.78 per share.

Your vote is important. We cannot complete the merger of Flag and First Capital unless shareholders of both companies approve the merger agreement. Each of Flag and First Capital will hold a special meeting of its shareholders to vote on the merger proposal. Whether or not you plan to attend your shareholders ' meeting, please take the time to vote by completing and mailing the enclosed proxy card to us. If you do not return your proxy card or otherwise vote, or do not instruct your broker how to vote any shares held for you in your broker 's name, the effect will be a vote against the merger.

The places, dates and times of the special meetings are as follows:

For Flag shareholders:
Flag Financial Corporation

3475 Piedmont Road, N.E., Suite 550

For First Capital shareholders:
First Capital Bancorp, Inc.

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Atlanta, Georgia 30305
, 2005

3320 Holcomb Bridge Road, N.W., Suite A Norcross, Georgia
30092

, 2005

a.m.

a.m.

This joint proxy statement/prospectus provides detailed information about the special meetings and our proposed merger. We urge you to read this joint proxy statement/prospectus and the documents incorporated by reference into this joint proxy statement/prospectus carefully and in their entirety. In particular, see Risk Factors Relating to the Merger on page 11 of this joint proxy statement/prospectus.

The common stock of Flag is currently listed on the Nasdaq National Market under the ticker symbol FLAG. The common stock of First Capital is quoted on the Over the Counter Bulletin Board under the ticker symbol FCBX.OB

We enthusiastically support this combination of our two companies and join with the members of our Boards of Directors in recommending that you vote in favor of the merger.

[Signature]

[Signature]

Joseph W. Evans, Chairman, President

and Chief Executive Officer

Flag Financial Corporation

David R. Hink, Chairman

First Capital Bancorp, Inc.

Neither the Securities and Exchange Commission nor any state securities regulator has approved or disapproved of the securities to be issued under this document or determined if this joint proxy statement/prospectus is truthful or complete. Any representation to the contrary is a criminal offense. The securities we are offering through this document are not savings or deposit accounts or other obligations of any bank or non-bank subsidiary of either of our companies, and they are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.

This joint proxy statement/prospectus is dated , 2005 and is first being mailed to shareholders of Flag and First Capital on or about , 2005.

Table of Contents

ADDITIONAL INFORMATION

This joint proxy statement/prospectus incorporates important business and financial information about Flag and First Capital from other documents that are not included in or delivered with this joint proxy statement/prospectus. See **Where You Can Find More Information** beginning on page 106. This information is available to you without charge upon your written or oral request. You can obtain the documents incorporated by reference in this joint proxy statement/prospectus through the Securities and Exchange Commission (SEC) website at www.sec.gov or by requesting them in writing or by telephone at the appropriate address below:

If you are a Flag Shareholder:

By Mail: Flag Financial Corporation
3475 Piedmont Road, N.E., Suite 550
Atlanta, Georgia 30305
Attention: Lisa G. Lane

Telephone: (404) 760-7700

If you are a First Capital Shareholder:

By Mail: First Capital Bancorp, Inc.
3320 Holcomb Bridge Road, N.W., Suite A
Norcross, Georgia 30092
Attention: H.N. Padget, Jr.

Telephone: (770) 921-6400

In order to receive timely delivery of the documents in advance of the special meetings of shareholders, you must request such information no later than _____, 2005.

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Each shareholder, whether or not he or she plans to attend the special meeting, is requested to sign, date and return the enclosed proxy without delay in the enclosed postage-paid envelope. Any proxy given by a shareholder may be revoked by filing with First Capital's Secretary a written revocation or a duly executed proxy bearing a later date. Any shareholder present at the special meeting may revoke his or her proxy and vote personally on each matter brought before the special meeting. However, if you are a shareholder whose shares are not registered in your own name, you will need additional documentation from the record holder of such shares to vote personally at the special meeting.

By Order of the Board of Directors,

H. N. Padget, Jr.

President and Chief Executive Officer

June , 2005

Norcross, Georgia

IMPORTANT: Please read the attached joint proxy statement/prospectus and then promptly complete, execute and return the enclosed proxy card in the accompanying postage-paid envelope. You can save First Capital the expense of further proxy solicitation by returning your proxy card promptly.

By Order of the Board of Directors,

Joseph W. Evans

Chairman, President and Chief Executive Officer

June , 2005

Atlanta, Georgia

IMPORTANT: Please read the attached joint proxy statement/prospectus and then promptly complete, execute and return the enclosed proxy card in the accompanying postage-paid envelope. You can save Flag the expense of further proxy solicitation by returning your proxy card promptly.

Table of Contents

TABLE OF CONTENTS

<u>QUESTIONS AND ANSWERS ABOUT VOTING PROCEDURES FOR THE SPECIAL MEETINGS</u>	1
<u>SUMMARY</u>	2
<u>THE COMPANIES</u>	2
<u>THE MERGER</u>	2
<u>REASONS FOR THE MERGER</u>	3
<u>REGULATORY MATTERS</u>	3
<u>FLAG SHAREHOLDERS MEETING</u>	4
<u>FLAG'S RECORD DATE AND VOTING</u>	4
<u>FLAG'S BOARD RECOMMENDS SHAREHOLDER APPROVAL</u>	4
<u>FIRST CAPITAL SHAREHOLDERS MEETING</u>	4
<u>FIRST CAPITAL'S RECORD DATE AND VOTING</u>	4
<u>FIRST CAPITAL'S BOARD RECOMMENDS SHAREHOLDER APPROVAL</u>	4
<u>INTERESTS OF DIRECTORS AND OFFICERS OF FLAG AND FIRST CAPITAL THAT DIFFER FROM YOUR INTERESTS</u>	5
<u>FEDERAL INCOME TAX CONSEQUENCES</u>	6
<u>COMPARATIVE RIGHTS OF SHAREHOLDERS</u>	6
<u>CONDITIONS OF THE MERGER</u>	6
<u>TERMINATION OF THE MERGER AGREEMENT</u>	7
<u>DISSENTERS' APPRAISAL RIGHTS</u>	7
<u>ACCOUNTING TREATMENT</u>	7
<u>FLAG'S DIVIDENDS FOLLOWING THE MERGER</u>	8
<u>FLAG FINANCIAL CORPORATION SELECTED CONSOLIDATED HISTORICAL FINANCIAL DATA</u>	10
<u>RISK FACTORS RELATING TO THE MERGER</u>	11
<u>A WARNING ABOUT FORWARD-LOOKING STATEMENTS</u>	14
<u>THE SPECIAL MEETINGS</u>	15
<u>GENERAL</u>	15
<u>MEETING DATES, TIMES AND PLACES AND RECORD DATES</u>	15
<u>MATTERS TO BE CONSIDERED</u>	15
<u>VOTE REQUIRED</u>	16
<u>VOTING OF PROXIES</u>	16
<u>REVOCAILITY OF PROXIES</u>	17
<u>SOLICITATION OF PROXIES</u>	17
<u>RECOMMENDATION OF THE BOARDS OF DIRECTORS</u>	18
<u>BACKGROUND OF AND REASONS FOR THE MERGER</u>	19
<u>BACKGROUND OF THE MERGER</u>	19
<u>FIRST CAPITAL'S REASON FOR THE MERGER</u>	21
<u>FLAG'S REASON FOR THE MERGER</u>	21
<u>OPINION OF FIRST CAPITAL'S FINANCIAL ADVISOR</u>	22
<u>OPINION OF FLAG'S FINANCIAL ADVISOR</u>	28
<u>TERMS OF THE MERGER</u>	38
<u>GENERAL</u>	38
<u>CONVERSION OF STOCK; TREATMENT OF OPTIONS</u>	38
<u>RAISING OF ADDITIONAL CAPITAL</u>	39

Table of Contents

<u>EFFECTIVE TIME OF THE MERGER</u>	39
<u>EXCHANGE OF CERTIFICATES</u>	40
<u>IMPORTANT FEDERAL INCOME TAX CONSEQUENCES</u>	40
<u>MANAGEMENT AND OPERATIONS AFTER THE MERGER</u>	42
<u>INTERESTS OF EMPLOYEES AND DIRECTORS OF FLAG AND FIRST CAPITAL IN THE MERGER</u>	42
<u>CONDITIONS TO CONSUMMATION</u>	45
<u>REGULATORY MATTERS</u>	47
<u>AMENDMENT, WAIVER AND TERMINATION</u>	47
<u>CONDUCT OF BUSINESS PENDING THE MERGER</u>	48
<u>EXPENSES AND FEES</u>	50
<u>ACCOUNTING TREATMENT</u>	50
<u>RESALES OF FLAG COMMON STOCK</u>	50
<u>DISSENTERS' APPRAISAL RIGHTS</u>	51
<u>UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION</u>	53
<u>NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION</u>	57
<u>INFORMATION ABOUT FLAG</u>	58
<u>GENERAL</u>	58
<u>FLAG BANK</u>	58
<u>INFORMATION ABOUT FIRST CAPITAL</u>	58
<u>GENERAL</u>	58
<u>FIRST CAPITAL BANK</u>	59
<u>EMPLOYEES</u>	62
<u>MARKET AREA AND COMPETITION</u>	62
<u>SUPERVISION AND REGULATION</u>	62
<u>PROPERTIES</u>	70
<u>MARKET PRICE AND DIVIDENDS</u>	70
<u>FIRST CAPITAL MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	71
<u>MANAGEMENT OF FIRST CAPITAL</u>	90
<u>BOARD OF DIRECTORS</u>	90
<u>OTHER EXECUTIVE OFFICERS AND SIGNIFICANT EMPLOYEES</u>	91
<u>EXECUTIVE COMPENSATION</u>	92
<u>OPTION GRANTS IN LAST FISCAL YEAR</u>	93
<u>EMPLOYMENT AGREEMENTS</u>	93
<u>SUPPLEMENTAL RETIREMENT PLAN</u>	95
<u>LIFE INSURANCE BENEFITS</u>	95
<u>DIRECTOR FEES</u>	95
<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u>	96
<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT OF FIRST CAPITAL</u>	97
<u>COMPARATIVE RIGHTS OF FIRST CAPITAL SHAREHOLDERS AND FLAG SHAREHOLDERS</u>	98
<u>AUTHORIZED CAPITAL STOCK</u>	98
<u>AMENDMENTS TO ARTICLES OF INCORPORATION AND BYLAWS</u>	99

Table of Contents

<u>BOARD OF DIRECTORS AND ABSENCE OF CUMULATIVE VOTING</u>	100
<u>REMOVAL OF DIRECTORS</u>	100
<u>INDEMNIFICATION OF DIRECTORS AND OFFICERS</u>	101
<u>SPECIAL MEETINGS OF SHAREHOLDERS</u>	102
<u>MERGERS, SHARE EXCHANGES AND SALES OF ASSETS</u>	103
<u>SHAREHOLDER RIGHTS TO EXAMINE BOOKS AND RECORDS</u>	104
<u>DIVIDENDS</u>	104
<u>EXPERTS</u>	105
<u>LEGAL MATTERS</u>	105
<u>SHAREHOLDER PROPOSALS AND OTHER MATTERS</u>	105
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	106
<u>FINANCIAL STATEMENTS OF FIRST CAPITAL BANCORP, INC. AND SUBSIDIARIES</u>	F-1
<u>MERGER AGREEMENT</u>	APPENDIX A
<u>OPINION OF BURKE CAPITAL GROUP, L.L.C.</u>	APPENDIX B
<u>OPINION OF SANDLER O NEILL & PARTNERS, L.P.</u>	APPENDIX C
<u>DISSENTERS RIGHTS PROVISIONS OF THE GEORGIA BUSINESS CORPORATION CODE</u>	APPENDIX D

No dealer, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this joint proxy statement/prospectus, and, if given or made, such other information or representations must not be relied upon as having been authorized by Flag or First Capital. Neither the delivery of this joint proxy statement/prospectus nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of Flag or First Capital since the date hereof or that information contained herein is correct as of any time subsequent to any of the dates as of which information is furnished herein or the date hereof.

Table of Contents

**QUESTIONS AND ANSWERS ABOUT VOTING PROCEDURES
FOR THE SPECIAL MEETINGS**

Q: What should I do now?

A: After you have carefully read this joint proxy statement/prospectus, indicate on your proxy card how you want to vote, and sign and mail it in the enclosed postage-paid envelope as soon as possible so that your shares will be represented at your special meeting. If you sign and send in a proxy card but do not indicate how you want to vote, your proxy will be voted in favor of the proposal to approve and adopt the merger agreement.

Q: Why is my vote important?

A: In the case of First Capital, the merger agreement must be approved by the holders of a majority of the outstanding shares entitled to vote at the First Capital special meeting. Accordingly, if a First Capital shareholder fails to vote on the merger, it will have the same effect as a vote against the merger. In the case of Flag, the merger agreement must be approved by a majority of the votes cast at the Flag special meeting, provided that a quorum is present. Unless the holders of more than 50% of the outstanding shares return their proxy cards or appear in person at the Flag special meeting, a quorum will not be present and the merger agreement will not be approved.

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

A: No. Your broker will vote your shares only if you provide instructions on how to vote. Following the directions your broker provides, you should instruct your broker how to vote your shares. If you do not provide instructions to your broker, your shares will not be voted.

Q: Can I change my vote after I have submitted my proxy?

A: Yes. There are three ways you can change your vote. First, you may send a written notice to the person to whom you submitted your proxy stating that you would like to revoke your proxy. Second, you may complete and submit a later dated proxy with new voting instructions. The latest vote actually received by your company prior to your shareholders meeting will be your vote. Any earlier votes will be revoked. Third, you may attend your shareholders meeting and vote in person. Any earlier votes delivered by proxy will be revoked. Simply attending your meeting without voting, however, will not revoke your proxy. If you have instructed a broker to vote your shares, you must follow the directions you will receive from your broker to change or revoke your proxy.

Q: Should I send in my stock certificates now?

A: No. You should not send in your stock certificates at this time. Flag shareholders will not exchange their certificates in the merger. The certificates currently representing the shares of Flag common stock will represent an equal number of shares of Flag common stock after the merger.

First Capital shareholders will exchange their First Capital common stock certificates for Flag common stock certificates after we complete the merger. Instructions for exchanging First Capital common stock certificates will be sent to you promptly after the merger is completed.

Q: Whom should I call with questions about the merger?

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A: First Capital shareholders should call H.N. Padget, Jr. at (770) 921-6400. Flag shareholders should call J. Daniel Speight at (404) 760-7700.

Table of Contents

SUMMARY

This summary highlights selected information from this joint proxy statement/prospectus. It may not contain all of the information that is important to you. To better understand the merger and its potential impact on you, we urge you to read this entire joint proxy statement/prospectus and the documents incorporated by reference into this joint proxy statement/prospectus carefully. See [Where You Can Find More Information](#) on page . Each item in this summary includes a page reference directing you to a more complete discussion of the item.

The Companies (page 58)

Flag Financial Corporation

3475 Piedmont Road, N.E., Suite 550

Atlanta, Georgia 30305

(404) 760-7700

Flag Financial Corporation was organized in 1993 and is headquartered in Atlanta, Georgia. As of March 31, 2005, Flag had approximately \$840.4 million in assets. Its state bank subsidiary, Flag Bank, operates 23 locations in the following cities and counties in Georgia: Atlanta (Fulton County, DeKalb County and Cobb County), Unadilla (Dooly County), Vienna (Dooly County), Montezuma (Macon County), Buena Vista (Marion County), LaGrange (Troup County), Hogansville (Troup County), Jonesboro (Clayton County), Duluth (Gwinnett County), Columbus (Muscogee County), Macon (Bibb County), Newnan (Coweta County) and Warner Robins (Houston County). The bank offers a broad range of banking products and services, including residential mortgage loans, consumer loans, commercial loans, commercial real estate loans, residential construction loans, securities investments and other services.

First Capital Bancorp, Inc.

3320 Holcomb Bridge Road, N.W., Suite A

Norcross, Georgia 30092

(770) 921-6400

First Capital Bancorp, Inc. was organized in 1997 and is headquartered in Norcross, Georgia. As of March 31, 2005, First Capital had approximately \$675.0 million in assets. Its state bank subsidiary, First Capital Bank, operates five locations in Norcross, Alpharetta, Duluth and Cumming, Georgia. The bank is a full service commercial bank that offers a broad range of banking products and services, including commercial, real estate, residential mortgage, SBA and consumer loans, cash management and other services. In addition, First Capital operates Capital Financial Software, LLC, which markets and sells a proprietary software package used by bankruptcy trustees to monitor and track the disposition of Chapter 7 bankruptcy cases.

The Merger (page 38)

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We are proposing a merger between Flag and First Capital whereby First Capital will merge with and into Flag. Flag will be the surviving company after the merger. The merger will combine our businesses under a single holding company named Flag Financial Corporation. As a result of the merger, Flag will acquire ownership of First Capital Bank, and it will be immediately merged with and into Flag Bank, which will continue as Flag's sole banking subsidiary. First Capital's other subsidiary, Capital Financial Software, also will become a subsidiary of Flag Bank after the merger. Flag will also assume First Capital's trust subsidiary, First Capital Statutory Trust I, which was created in connection with First Capital's issuance of trust preferred securities.

After the merger, Flag's board of directors will have 12 members, nine from Flag and three from First Capital. The directors from Flag will be William H. Anderson, II, H. Speer Burdette, III, Stephen W. Doughty, Joseph W. Evans, Quill O. Healey, John D. Houser, James W. Johnson, J. Daniel Speight, and J. Thomas Wiley, Jr.

Table of Contents

The directors from First Capital will be H.N. Padget, Jr. and two other directors of First Capital in office immediately prior to the effective time of the merger. Mr. Evans will serve as the chairman of the board, president and chief executive officer, and Messrs. Doughty, Speight and Wiley will serve as vice chairmen. Mr. Padget will serve as the executive vice president of Flag and president of Flag Bank.

Upon the completion of the merger, each share of First Capital common stock will be converted into 1.6 shares of Flag common stock. The exchange ratio is fixed. Any non-institutional First Capital shareholder that would own more than 384,000 shares of Flag common stock following the merger will receive a cash payment, in lieu of shares of Flag common stock over the 384,000 share threshold, equal to the number of such excess shares multiplied by the average closing price of Flag's common stock for the 20 trading days immediately following the public announcement of the merger, which we estimate will be approximately \$14.78 per share. William R. Blanton, the vice chairman, chief financial officer and chief operating officer of First Capital, will be entitled to a cash payment of approximately \$19.1 million as a result. See [Interests of Directors and Officers of Flag and First Capital that Differ from Your Interests](#) below. After the merger, the market price of the Flag common stock that First Capital shareholders will receive as a result of the merger may be significantly higher or lower than its current value or its value on the date of the special meetings.

Cash payments will be made instead of issuing fractional shares. For example, if you hold 11 shares of First Capital common stock, you will receive 17 shares of Flag common stock ($11 \times 1.6 = 17.6$), plus a cash payment equal to the value of 0.60 of a share of Flag common stock at the time of the merger based on the average of the closing price of Flag Common Stock for the 20 trading days immediately prior to the effective date of the merger.

After the merger, Flag's existing shareholders will own approximately 55.6% of the total shares outstanding, and First Capital's shareholders will own approximately 44.4% of Flag's outstanding shares.

Reasons for the Merger (page 21)

We are proposing to merge our two companies because we believe that:

the complementary, rather than competitive, geographical scope of our banks will allow us to continue to increase our banking presence in the metropolitan Atlanta market;

we will be better positioned to compete and grow in a consolidating financial services industry as a result of a larger capital base, additional leadership and greater financial resources;

we should be able to obtain greater efficiencies and attain a higher level of financial performance than our two companies could achieve separately;

the management and core competencies of the two companies are complimentary, as both are focused on banking the real estate sector and owner managed businesses and on various deposit gathering strategies; and

the increase in our shareholder base may, over time, increase the liquidity and marketability of our shares.

Regulatory Matters (page 47)

We cannot complete our merger unless we obtain the approval of applicable bank regulatory authorities, including the Federal Reserve Bank of Atlanta (the Federal Reserve) and the Georgia Department of Banking and Finance (the Georgia Department). We are in the process of preparing and filing applications for approval of the merger with the Federal Reserve and the Georgia Department. In connection with the applications, we propose to issue and sell up to \$25,000,000 in trust preferred securities through a newly formed trust subsidiary

Table of Contents

of Flag in an offering to accredited investors that is exempt from the registration requirements of the Securities Act of 1933. The offering of the trust preferred securities by Flag will be subject to the prior approval of the Federal Reserve and the Georgia Department. After the consummation of the merger, we propose to merge Flag Bank and First Capital Bank, with Flag Bank remaining as the surviving banking corporation. We cannot complete the proposed bank merger unless we obtain the approval of applicable bank regulatory authorities, including the Federal Deposit Insurance Corporation (the FDIC) and the Georgia Department. We are in the process of preparing and filing applications for approval of the bank merger with the FDIC and the Georgia Department.

Flag Shareholders Meeting (page 15)

Flag will hold its special shareholders meeting on _____, 2005 at _____ a.m. local time at its offices located at 3475 Piedmont Road, N.E., Suite 550, Atlanta, Georgia 30305.

Flag s Record Date and Voting (page 15)

If you owned shares of Flag stock at the close of business on _____, 2005, the record date, you are entitled to vote on the merger agreement, as well as any other matters considered at the meeting. On the record date, there were _____ shares of Flag stock outstanding. You will have one vote at the meeting for each share of Flag stock you owned on the record date. The affirmative vote of at least a majority of all of the votes cast at the special meeting is required to approve the merger agreement. As of the record date, Flag s current directors, executive officers and their affiliates beneficially owned approximately _____ % of the outstanding shares of Flag common stock. Each of Flag s directors and executive officers has agreed, subject to several conditions, to vote his or her shares of Flag common stock in favor of the merger agreement.

Flag s Board Recommends Shareholder Approval (page 18)

Flag s board of directors believes that the merger is in the best interest of Flag and its shareholders and recommends that the shareholders vote **FOR** approval of the merger agreement.

First Capital Shareholders Meeting (page 15)

First Capital will hold its special shareholders meeting on _____, 2005 at _____ a.m. local time at its office located at 3320 Holcomb Bridge Road, N.W., Suite A, Norcross, Georgia 30092.

First Capital s Record Date and Voting (page 15)

If you owned shares of First Capital stock at the close of business on June _____, 2005, the record date, you are entitled to vote on the merger agreement as well as any other matters considered at the meeting. On the record date, there were _____ shares of First Capital stock

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outstanding. You will have one vote at the meeting for each share of First Capital stock you owned on the record date. The affirmative vote of at least a majority of all of the votes entitled to be cast at the special meeting is required to approve the merger agreement. As of the record date, First Capital's directors and executive officers and their affiliates beneficially owned approximately % of the outstanding shares of First Capital common stock. Each of First Capital's directors and executive officers has agreed, subject to several conditions, to vote his or her shares of First Capital common stock in favor of the merger agreement.

First Capital's Board Recommends Shareholder Approval (page 18)

First Capital's board of directors believes that the merger is in the best interest of First Capital and its shareholders and recommends that the shareholders vote **FOR** approval of the merger agreement.

Table of Contents

Interests of Directors and Officers of Flag and First Capital that Differ from Your Interests (page 42)

When considering the recommendations of the Flag and First Capital boards of directors, you should be aware that some directors and officers have interests in the merger that differ from the interests of other shareholders, including the following:

in connection with the merger, Flag will pay cash to any non-institutional First Capital shareholder that would own more than 384,000 shares of Flag common stock following the merger will receive a cash payment, in lieu of shares of Flag common stock over the 384,000 share threshold, equal to the number of such excess shares multiplied by the average closing price of Flag's common stock for the 20 trading days immediately following the public announcement of the merger, which we estimate will be approximately \$14.78 per share. William R. Blanton, the vice chairman, chief financial officer and chief operating officer of First Capital, will receive a cash payment of approximately \$19.1 million as a result of this provision;

William R. Blanton has entered into a non-compete and consulting agreement with Flag pursuant to which he has agreed to be subject to non-compete covenants and to provide consulting services to Flag for a term of 21 months following the merger in exchange for a payment of \$900,000, and Flag has agreed to reimburse Mr. Blanton for up to \$20,000 in legal expenses incurred by him in connection with the non-compete and consulting agreement;

following the merger, Flag will employ H. N. Padget, Jr. as executive vice president of Flag and president of Flag Bank. We expect Mr. Padget will receive an annual base salary equal to \$180,000 and incentive compensation based on factors to be determined by the board of directors. Mr. Padget's employment agreement will have an initial term of one year, which will automatically renew each day after the effective date such that the term remains a 12-month term until either party gives notice of termination, except in the event of Mr. Padget's death;

following the merger, Flag will employ Steven G. Deaton as executive vice president of Flag Bank. We expect Mr. Deaton will receive an annual base salary equal to \$160,000 and incentive compensation based on factors to be determined by the board of directors. Mr. Deaton's employment agreement will have an initial term of one year, which will automatically renew each day after the effective date such that the term remains a 12-month term until either party gives notice of termination, except in the event of Mr. Deaton's death;

the initial board of directors of the combined company will include three current First Capital directors to be selected by the board of directors of First Capital and approved by Flag, one of whom will be H.N. Padget, Jr.;

following the merger, Flag will transfer to William R. Blanton the software development and deposit and loan production program of First Capital called Good Shepherds, which is targeted towards churches and other faith-based organizations, and First Capital and Flag have agreed, at Mr. Blanton's expense, to permit continued development of the software until the completion of the merger. In consideration of the transfer, Mr. Blanton will pay Flag cash equal to an 8% premium on the principal balance of the deposits developed by the Good Shepherds program as of May 26, 2005, and the principal balance of the loans developed by the Good Shepherds program, plus all accrued interest and other charges;

in connection with the merger agreement, Flag has agreed to provide generally to officers and employees of First Capital, who after the merger become employees of Flag or its subsidiaries, employee benefits under employee benefit plans, on terms and conditions substantially similar to those currently provided to similarly situated Flag officers and employees;

Table of Contents

in the event Messrs. Padgett and Deaton or any of the directors of First Capital are terminated, resign or are removed following the merger, they will receive retirement benefits under the supplemental retirement agreements as if they had been continuously employed until age 65 and their beneficiaries will receive the death benefit set forth in the split dollar agreements as if they had died while serving on the board of directors or while employed by First Capital or First Capital Bank, as applicable; and

following the merger, Flag will generally indemnify and provide liability insurance to the current directors and officers of First Capital.

The board of directors of each of Flag and First Capital were aware of these and other interests and considered them before approving and adopting the merger agreement.

Federal Income Tax Consequences (page 40)

First Capital's shareholders generally will not recognize gain or loss for federal income tax purposes on the receipt of shares of Flag common stock in the merger in exchange for the shares of First Capital stock surrendered. First Capital shareholders will be taxed, however, on any cash that they receive instead of any shares of Flag stock, including cash in lieu of fractional shares of Flag stock. Flag shareholders also generally will have no tax consequences as a result of the merger. However, First Capital and Flag shareholders who properly exercise their rights to dissent from the merger will generally be taxed on all or a portion of the cash they receive. Tax matters are complicated, and the tax consequences of the merger vary among shareholders. We urge you to contact your own tax advisor to fully understand how the merger will affect you.

Comparative Rights of Shareholders (page 98)

Both Flag and First Capital are incorporated under the laws of the State of Georgia and are subject to the laws set forth in the Georgia Business Corporation Code. Upon consummation of the merger, the shareholders of First Capital will become shareholders of Flag and the articles of incorporation and bylaws of Flag will govern their rights. Flag's articles of incorporation and bylaws differ somewhat from those of First Capital.

Conditions of the Merger (page 45)

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

Flag and First Capital shareholders must approve the merger agreement;

we must receive all required regulatory approvals, and any waiting periods required by law must have passed (see Regulatory Matters above);

we must receive a legal opinion from counsel confirming the tax-free nature of the merger;

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each party's representations, warranties, agreements and covenants, which are contained in the merger agreement, must be accurate in all material respects and must have been duly performed and complied with in all material respects;

each party must have delivered officers' certificates and its counsel's legal opinions to the other;

H. N. Padget, Jr. must have entered into an employment agreement with Flag, and must have terminated his existing employment agreement with First Capital;

each of the executive officers and directors of Flag and First Capital must have entered into a support agreement pursuant to which they agree to vote their shares in favor of the merger;

Flag must have received from each affiliate of First Capital an agreement stating, among other things, that he or she will comply with federal securities laws when transferring any shares of Flag common stock received in the merger (see Terms of the Merger Resales of Flag Common Stock);

Table of Contents

the registration statement registering the shares of Flag common stock to be received by First Capital shareholders, of which this joint proxy statement/prospectus is a part, must have been declared effective by the Securities and Exchange Commission, and all necessary approvals under federal and state securities laws relating to the issuance or trading of the shares of Flag common stock issuable pursuant to the merger must have been received;

William R. Blanton shall have entered into a non-compete and consulting agreement with Flag pursuant to which he agrees to be subject to non-compete covenants and to provide consulting services to Flag for a term of 21 months. In addition, Mr. Blanton shall have terminated, effective as of and subject to the closing of the merger, any existing employment with First Capital and its subsidiaries;

Flag's board of directors must have elected the three directors from First Capital as the members of Flag's board of directors effective as of the effective time of the merger; and

shares of Flag common stock issuable pursuant to the merger must be approved for listing on the Nasdaq National Market or other market on which its common stock is then listed.

Unless prohibited by law, either Flag or First Capital can elect to waive a condition that has not been satisfied and complete the merger. 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 47)

Notwithstanding the approval of the merger by Flag and First Capital shareholders, we can agree at any time to terminate the merger agreement before completing the merger.

Either Flag or First Capital can also terminate the merger agreement:

if the merger is not approved by the other party's shareholders;

if the other party materially violates any of its representations or warranties under the merger agreement and fails to cure the violation;

if we do not complete the merger by March 31, 2006; or

if any governmental body whose approval is necessary to complete the merger makes a final decision not to approve the merger.

Prior to the shareholder approval of the merger, either Flag or First Capital can terminate the merger, subject to a termination fee of \$2,000,000, in order to enter into a definitive agreement with respect to a superior acquisition proposal, if such party's board of directors determines in good faith that to do so would be consistent with its fiduciary duty to the shareholders.

Dissenters Appraisal Rights (page 51)

Georgia law permits First Capital's shareholders to dissent from approving the merger agreement and to have the fair value of their First Capital shares paid to them in cash. To do this, First Capital's shareholders must follow specific procedures, including filing a written notice with First Capital prior to First Capital's shareholder vote on the merger agreement. If you follow the required procedures, your only right will be to receive the fair value of your common stock in cash.

Accounting Treatment (page 50)

The merger will be accounted for using the purchase method of accounting, with First Capital being treated as the acquired entity for accounting purposes. Under the purchase method of accounting, the assets and liabilities of First Capital as of the effective time will be recorded at their respective fair values and added to those of Flag.

Table of Contents

Flag's Dividends Following the Merger (page 104)

First Capital has never paid a dividend on its common stock. Flag has historically paid quarterly dividends on its common stock. However, Flag's future dividend policy after the merger will depend on Flag's earnings, capital requirements, financial condition and other factors considered relevant by the board of directors of Flag.

Market Price of Flag and First Capital Common Stock

The common stock of Flag is traded on Nasdaq National Market under the symbol FLAG. The common stock of First Capital trades on the Over the Counter Bulletin Board under the symbol FCBX.OB. The market for First Capital's common stock must be characterized as a limited market due to its relatively low trading volume and little analyst coverage. Therefore, the closing sales prices provided herein reflect inter-dealer prices without retail mark-up, mark-down or commissions and may not necessarily represent actual transactions.

The following table sets forth the closing sales prices per share of Flag and First Capital common stock on May 26, 2005, the last trading day prior to the public announcement of the merger agreement, and on June 22, 2005, the latest practicable date prior to the mailing of this joint proxy statement/prospectus, as well the equivalent per share value of First Capital common stock on those dates.

	<u>Flag</u>	<u>First Capital</u>	<u>Equivalent Price of First Capital Common Stock(1)</u>
May 26, 2005	\$ 15.90	\$ 18.00	\$ 25.44
June 22, 2005	\$ 14.85	\$ 23.10	\$ 23.76

(1) The equivalent prices per share of First Capital common stock have been calculated by multiplying the exchange ratio by the closing price of Flag common stock on that date.

Flag common stock was held by approximately _____ shareholders as of the record date. First Capital common stock was held by approximately _____ shareholders as of the record date.

Because the exchange ratio is fixed and because the market price of Flag common stock is subject to fluctuation, the market value of the shares of Flag common stock that you may receive in the merger may increase or decrease prior to and following the merger. You are urged to obtain current market quotations for Flag common stock.

Table of Contents**Comparative Unaudited Per Share Data**

The following unaudited financial information presents certain comparative per share data (i) for Flag and First Capital on a historical basis, (ii) for Flag on a pro forma combined basis assuming the merger has been effective during the periods presented, and (iii) for First Capital on a pro forma equivalent basis. The pro forma combined information has been prepared giving effect to the merger under the purchase method of accounting with Flag treated as the acquirer.

The information shown below should be read in conjunction with (i) the consolidated financial statements of Flag and the related notes, incorporated by reference herein, (ii) the consolidated financial statements of First Capital and the related notes, appearing elsewhere in this joint proxy statement/prospectus, and (iii) the unaudited pro forma financial statements appearing elsewhere in this joint proxy statement/prospectus. See Where You Can Find More Information, Unaudited Pro Forma Condensed Combined Financial Information, and Financial Statements of First Capital Bancorp, Inc. and Subsidiaries. The following information is not necessarily indicative of the results of operations or combined financial position that would have resulted had the merger been consummated at the beginning of the periods presented, nor is it necessary indicative of the result of operations of future periods or future combined financial position.

	Three Months Ended	Year Ended
	March 31, 2005	December 31, 2004
Net Income Per Share Fully Diluted:		
Historical Flag (1)	0.20	0.82
Historical First Capital (2)	0.25	0.80
Pro Forma Combined	0.17	0.56
First Capital Pro Forma Equivalent (3)	0.27	0.90
Cash Dividends Declared Per Share:		
Historical Flag (1)	0.06	0.24
Historical First Capital (2)		
Pro Forma Combined	0.06	0.24
First Capital Pro Forma Equivalent (3)	0.10	0.38
	At Period Ended	
	March 31, 2005	December 31, 2004
Book Value Per Share		
Historical Flag (4)	8.24	8.14
Historical First Capital (4)	11.38	11.30
Pro Forma Combined	11.67	11.77
First Capital Pro Forma Equivalent (3)	18.67	18.84

- (1) Based on the weighted average shares of common stock outstanding during the indicated periods.
- (2) Based on the weighted average shares of common stock and dilutive common stock equivalents outstanding during the indicated periods.
- (3) First Capital Pro Forma Equivalent amounts represent pro forma combined information multiplied by the exchange ratio of 1.6 shares of Flag common stock for each share of First Capital common stock.
- (4) Based on shares of common stock outstanding at the indicated date.

Table of Contents**FLAG FINANCIAL CORPORATION****SELECTED CONSOLIDATED HISTORICAL FINANCIAL DATA**

Set forth below are highlights from Flag's consolidated financial data as of and for the years ended December 31, 2000 through 2004 and Flag's unaudited consolidated financial data as of and for the three months ended March 31, 2004 and 2005. This information should be read together with Flag's consolidated financial statements and related notes included in Flag's Annual Report on Form 10-K for the year ended December 31, 2004, which is incorporated by reference in this document and from which this information is derived.

(Dollars in thousands except per share data)	Three Months Ended March 31,		Year Ended December 31				
	(Unaudited)		2004	2003	2002	2001	2000
	2005	2004					
Net interest income	\$ 8,579	7,133	30,564	25,987	24,302	23,980	24,961
Provision for loan losses	375	720	1,845	1,321	4,549	2,488	3,597
Non-interest income	2,602	4,692	11,468	10,365	7,395	10,668	11,962
Non-interest expense	8,117	7,988	29,509	26,202	31,005	25,701	27,633
Earnings (loss) before income taxes	2,689	3,117	10,678	8,829	(3,857)	6,459	5,693
Income taxes	862	1,021	3,310	2,724	(2,028)	1,753	1,409
Extraordinary items					165	696	
Net earnings (loss) income	1,827	2,096	7,368	6,105	(1,994)	4,010	4,284
PER COMMON SHARE							
Basic earnings per common share	\$ 0.21	0.25	0.88	0.72	(0.24)	0.51	0.52
Diluted earnings per common share	0.20	0.23	0.82	0.67	(0.24)	0.51	0.52
Cash dividends declared	0.06	0.06	0.24	0.24	0.24	0.24	0.24
Book value	8.24	7.81	8.14	7.65	7.24	7.33	6.83
PERIOD END BALANCES							
Loans, net of unearned income	\$ 615,115	478,038	596,101	477,095	374,784	368,967	384,661
Earning assets	780,756	633,450	772,387	647,481	569,755	512,942	501,046
Assets	840,415	684,823	828,337	703,857	636,131	570,202	559,037
Deposits	713,360	548,467	706,847	570,570	509,731	440,582	461,438
Shareholders' equity	70,297	66,623	69,202	65,260	60,749	54,023	55,498
Common shares outstanding	8,528	8,528	8,503	8,528	8,394	7,370	8,123
AVERAGE BALANCES							
Loans, net of unearned income	\$ 603,412	485,528	541,502	417,395	366,571	378,867	405,101
Earning assets	772,409	652,312	690,187	587,484	511,737	508,752	510,898
Assets	830,013	706,763	743,082	645,430	560,984	560,816	566,355
Deposits	707,934	577,212	612,712	516,067	442,645	449,985	455,338
Shareholders' equity	69,657	66,093	65,854	63,299	58,865	56,294	53,853
Weighted average shares outstanding diluted	9,268	9,094	8,396	8,471	8,201	7,808	8,210
KEY PERFORMANCE RATIOS							
Return on average assets	0.88%	1.19%	0.99%	0.95%	(0.36)%	0.72%	0.77%
Return on average shareholders' equity	10.49%	12.68%	11.19%	9.64%	(3.39)%	7.12%	7.95%
Net interest margin	4.50%	4.40%	4.48%	4.50%	4.86%	4.83%	4.99%
Dividend payout ratio	27.97%	24.42%	27.38%	33.35%	N/A	46.27%	45.98%
Average equity to average assets	8.39%	9.35%	8.86%	9.81%	10.49%	10.04%	9.51%

Table of Contents

RISK FACTORS RELATING TO THE MERGER

If the merger is consummated and you are a First Capital shareholder, you will receive shares of Flag common stock in exchange for your shares of First Capital common stock. An investment in Flag common stock is subject to a number of risks and uncertainties, many of which also apply to your existing investment in First Capital common stock. Risks and uncertainties relating to general economic conditions are not summarized below. Those risks, among others, are highlighted on page 14 under the heading **A Warning About Forward-Looking Statements**.

However, there are a number of other risks and uncertainties relating to Flag and your decision on the merger that you should consider in addition to the risks and uncertainties associated with financial institutions generally. Many of these risks and uncertainties could affect Flag's future financial results and may cause Flag's future earnings and financial condition to be less favorable than Flag's expectations. This section summarizes those risks.

Your merger consideration is fixed despite any change in Flag's stock price.

Each share of First Capital common stock owned by you will be converted into the right to receive 1.6 shares of Flag common stock. The price of Flag common stock when the merger takes place may vary from its price at the date of this joint proxy statement/prospectus and at the date of First Capital's special meeting. Because the exchange ratio will not be adjusted to reflect any changes in the market value of Flag or First Capital common stock, the market value of the Flag common stock issued in the merger and the First Capital common stock surrendered in the merger may be higher or lower than the values of such shares on such earlier dates. Such variations in the price of Flag common stock may result from changes in the business, operations or prospects of Flag, regulatory considerations, general market and economic conditions and other factors. At the time of First Capital's special meeting, you will not know the exact value of the consideration you will receive when the merger is completed.

You will experience a reduction in percentage ownership and voting power with respect to your shares as a result of the merger.

Flag shareholders and First Capital shareholders will experience a substantial reduction in their respective percentage ownership interests and effective voting power relative to their respective percentage ownership interests in Flag and First Capital prior to the merger. If the merger is consummated, current Flag shareholders will own approximately 55.6% of Flag's outstanding common stock, on a fully diluted basis, and current First Capital shareholders will own approximately 44.4% of Flag's outstanding common stock, on a fully diluted basis. Accordingly, current First Capital shareholders will own less than a majority of the outstanding voting stock of the combined company and could, as a result, be outvoted by the current Flag shareholders if such current Flag shareholders voted together as a group. Therefore, neither group of shareholders will have the same control over the combined company as they currently have over their respective companies.

In the future, Flag may issue additional shares in public offerings, mergers and acquisitions or otherwise, all of which would further reduce your percentage ownership in Flag.

If Flag and First Capital do not successfully integrate, the combined company may not realize the expected benefits from the merger.

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Flag and First Capital expect that the combined company will be able to maintain most of First Capital's and Flag's key customers and personnel and integrate their systems and procedures with a minimal amount of cost and diversion of management time and attention. There is a risk that integrating the two companies may take a greater amount of resources and time than we expect.

Table of Contents

Integrating a merger of similar size companies is difficult. The integration process relies on the combination of the management teams of both Flag and First Capital into an effective unit, and the melding of two bank holding companies that have previously operated independently. Accordingly, we may not be able to integrate the operations of the two companies without encountering difficulties. Such difficulties could include interruptions and dislocations associated with integrating the operating cultures and business strategies of the two companies. Furthermore, one-fourth of Flag's board of directors after the merger will consist of former First Capital directors. Disagreements among the board members of the combined company may result concerning the allocation of resources to various lines of business, strategic considerations relating to the emphasis or elimination of business groups and other matters. Flag's board of directors may not be able to work together successfully following the merger. In addition, persuading employees that the business cultures of Flag and First Capital are compatible, maintaining employee morale and retaining key employees are additional challenges involved in integrating the two companies.

Upon the completion of the merger, we plan to merge Flag Bank and First Capital Bank, the respective bank subsidiaries of Flag and First Capital, with Flag Bank being the surviving banking corporation. The bank merger will be subject to the approval of regulatory authorities, including the FDIC and the Georgia Department. The failure to receive the required approval for the bank merger may impair our ability to achieve the benefits of the merger and the anticipated cost savings.

Flag's ability to achieve the benefits of the merger depends on successfully integrating the two companies. Accordingly, if we are unable to integrate the merger in a timely manner, fail to realize anticipated cost savings, or disrupt customer relationships, there is a risk that the anticipated benefits may not be realized or that they may be less than we expect.

In order to be successful, the combined company must retain the relationships of its directors and retain and motivate its key employees, and the failure to do so could seriously harm the combined company.

The combined company's future success depends, in large part, upon the continuing contributions of the directors of First Capital Bank and Flag Bank as well as their key management personnel. If we lose the services of one or more of these important individuals following the merger, Flag could be adversely affected. Flag's future success is also dependent upon its continuing ability to attract and retain other highly qualified personnel. Although each of H.N. Padget, Jr., who will serve as executive vice president of Flag and president of Flag Bank after the merger, Steven G. Deaton, who will serve as executive vice president of Flag Bank after the merger, and William R. Blanton, who will serve as a consultant after the merger, will be subject to their respective employment agreements and consulting agreement, we cannot be assured of their continued service. Because we will continue to be customer focused and relationship driven, our directors' and key employees' community involvement, diverse backgrounds and extensive local business relationships are important to our future success. The unexpected loss of services of one or more of our key employees or directors could have a material adverse effect on our operations and possibly result in reduced earnings and revenues.

The capital we intend to raise prior to completing the merger may not be adequate to support our future growth following the merger.

In connection with our applications to the Federal Reserve and the Georgia Department for approval of the merger, we have proposed to raise \$25 million in additional capital through the issuance of trust preferred securities and \$5 million in additional capital through a private offering of Flag common stock to accredited investors. While we believe that the capital to be raised will be sufficient to meet our immediate capital needs following the merger, such amounts may be inadequate to support our growth or to maintain our minimum capital requirements. Consequently, we may need to seek additional long- and short-term financing, including subsequent sales of our common stock and/or preferred stock, to support any additional needs. Such financing, if needed, may not be available or, if available, may not be on terms acceptable to us. In the event such financing is needed and is not available, we may be limited in our ability to grow in the future and our results of operations and financial condition may be adversely affected.

Table of Contents

Additional issuances of Flag common stock may dilute your ownership, and shareholders do not enjoy preemptive rights.

No holder of Flag common stock has preemptive rights with respect to the future issuance of shares of any class of Flag capital stock. We are authorized to issue up to 20,000,000 shares of common stock without the approval of shareholders, of which approximately 6,831,600 shares are expected to be issued upon completion of the merger, and of which approximately 15,377,686 shares are expected to be outstanding upon completion of the merger. Flag's directors could from time to time decide to issue additional shares of common stock in addition to the shares to be issued in the merger and the shares to be issued in this offering. The sale of additional shares of Flag common stock may be at prices lower than the price at which you purchase shares or on terms better than those of shares you purchase.

In addition, if the merger is completed, each existing option to purchase First Capital common stock will be converted into the right to purchase shares of Flag common stock. Holders of these options and Flag's original directors, officers and employees who hold options to purchase Flag common stock may exercise those options, which would result in the dilution of your proportionate interest in Flag. These individuals will have the opportunity to profit from any rise in the market value of the common stock or any increase in Flag's net worth. As of May 31, 2005, there were 555,672 options outstanding to purchase First Capital common stock, and as of May 31, 2005 there were 2,004,237 options and warrants outstanding to purchase Flag common stock outstanding. Based on the number of outstanding options and warrants as of May 31, 2005, following the completion of the merger, there will be 2,893,312 outstanding options and warrants to purchase Flag common stock, which will represent, post-merger, 15.8% of the outstanding common stock, options and warrants of Flag.

The exercise of options for the purchase of our common stock also could adversely affect the terms on which Flag can obtain additional capital. For instance, the holders of options may choose to exercise their options, when the securities underlying those options otherwise could be offered to others on terms and at prices more favorable to us than the terms and exercise prices provided for in the options.

Flag may not pay dividends in the future.

Flag has historically paid quarterly dividends of \$0.06 per share. However, no assurance can be provided that Flag will continue to pay dividends following the merger. After the merger, Flag's ability to pay dividends will depend largely on the ability of Flag Bank to pay dividends to Flag, which will be based primarily on Flag Bank's earnings, capital requirements and financial condition, among other factors. Bank holding companies and their bank subsidiaries are both subject to significant regulatory restrictions on the payment of cash dividends. Flag's dividend policy will depend on its earnings, capital requirements and financial condition, as well as other factors its board of directors considers relevant. See Comparative Rights of First Capital Shareholders and Flag Shareholders Dividends.

The merger agreement limits Flag's and First Capital's abilities to pursue alternatives to the merger.

The merger agreement contains no-solicitation provisions that, subject to specific exceptions, limit Flag's and First Capital's ability to discuss, facilitate or commit to competing third-party proposals to acquire all or a significant part of either Flag or First Capital. In addition, Flag or First Capital have agreed that if the merger agreement is terminated under certain circumstances, Flag or First Capital will pay the other a termination fee of \$2,000,000. These provisions might discourage a potential competing acquirer that might have an interest in acquiring all or a significant part of Flag or First Capital from considering or proposing an acquisition even if it were prepared to pay consideration with a higher per share price than that proposed in the merger, or might result in a potential competing acquirer proposing to pay a lower per share price to acquire Flag or First Capital than it might otherwise have proposed to pay.

Table of Contents

The merger is subject to certain closing conditions that, if not satisfied or waived, will result in the merger not being completed, which may cause the market price of Flag common stock or First Capital common stock to decline.

The merger is subject to customary conditions to closing, including the approval of regulatory authorities, including the Federal Reserve and the Georgia Department, and the receipt of required approvals of the shareholders of Flag and First Capital. If any condition to the merger is not satisfied or, if permissible, waived, the merger will not be consummated. In addition, Flag and First Capital may terminate the merger agreement in certain circumstances. If Flag and First Capital do not complete the merger, the market price of Flag or First Capital common stock may fluctuate to the extent that the current market prices of those shares reflect a market assumption that the mergers will be completed. Flag and First Capital will also be obligated to pay certain investment banking, financing, legal and accounting fees and related expenses in connection with the merger, whether or not the mergers are completed. In addition, Flag and First Capital have and will continue to divert significant management resources in an effort to complete the merger and are each subject to restrictions contained in the merger agreement on the conduct of its business. If the merger is not completed, Flag and First Capital will each have incurred significant costs, including the diversion of management resources, for which it will have received little or no benefit. Further, in specified circumstances, Flag and First Capital may be required to pay to the other a termination fee of \$2,000,000 if the merger agreement is terminated. For a detailed description of the circumstances in which such termination fee will be paid, see [Terms of the Merger Amendment, Waiver and Termination](#).

Directors and Officers of Flag and First Capital may have potential conflicts of interest in recommending that you vote in favor of the adoption of the merger agreement.

A number of directors and officers of Flag and First Capital, who recommend that you vote in favor of the adoption of the merger agreement, have employment, consulting or severance agreements, equity compensation and other benefit arrangements or other interests that provide them with interests in the merger that differ from yours. In addition, certain directors of First Capital will continue as directors of Flag while other directors will not, and in either case, Flag will indemnify and provide insurance for their services as directors of Flag and First Capital prior to the merger. You should be aware of these interests when you consider your board of directors' recommendation that you vote in favor of the merger. For a detailed description of the interests of Flag and First Capital's directors and officers in the merger, see [Terms of the Merger Interests of Employees and Directors of Flag and First Capital](#).

A WARNING ABOUT FORWARD-LOOKING STATEMENTS

We make forward-looking statements in this joint proxy statement/prospectus and the documents or information incorporated by reference in this joint statement/prospectus that are subject to risks and uncertainties. These forward-looking statements include information about possible or assumed future results of our operations or our performance after the merger. Also, when we use any of the words *believes*, *expects*, *anticipates* or similar expressions, we are making forward-looking statements. **Many possible events or factors could affect our future financial results and performance. This could cause our results or performance to differ materially from those expressed in our forward-looking statements. You should consider these important factors when you vote on the merger.** Factors that may cause actual results to differ materially from those contemplated by our forward-looking statements include the following:

our operating costs after the merger may be greater than expected, and our cost savings from the merger may be less than expected, or we may be unable to obtain those cost savings as soon as expected;

we may be unable to successfully integrate First Capital or we may have more trouble integrating acquired businesses than we expected;

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we could lose our key personnel, including the First Capital personnel we will employ as a result of the merger, or spend a greater amount of resources attracting, retaining and motivating them than we have in the past;

Table of Contents

competition among depository and other financial institutions may increase significantly;

changes in the interest rate environment may reduce operating margins;

general economic or business conditions, including acquisition and growth opportunities, may be worse than expected;

legislative or regulatory changes may adversely affect our businesses; and

the continuing war in Iraq, the military deployment in Afghanistan and the war on terrorism, as well as actions taken or to be taken by the United States and other governments as a result of future acts or threats of terrorism.

We have based our forward-looking statements on our current expectations about future events. Although we believe that the expectations reflected in our forward-looking statements are reasonable, we cannot guarantee you that these expectations actually will be achieved. We are under no duty to update any of the forward-looking statements after the date of this joint proxy statement/prospectus to conform those statements to actual results. In evaluating these statements, you should consider various factors, including the risks outlined in the section entitled "Risk Factors Relating to the Merger." You should also consider the cautionary statements contained in Flag's and First Capital's filings with the Securities and Exchange Commission.

THE SPECIAL MEETINGS

General

First Capital. With respect to First Capital shareholders, this document constitutes a proxy statement of First Capital and a prospectus of Flag and is being mailed by First Capital and Flag to First Capital shareholders of record on or about _____, 2005, together with the notice of the special meeting of shareholders of First Capital and a proxy solicited by First Capital's board of directors for use at the special meeting and at any adjournments or postponements of the meeting.

Flag. With respect to Flag shareholders, this document constitutes a proxy statement of Flag and is being mailed by Flag to Flag shareholders of record on or about _____, 2005, together with the notice of the special meeting of shareholders of Flag and a proxy solicited by Flag's board of directors for use at the special meeting and at any adjournments or postponements of the meeting.

Meeting Dates, Times and Places and Record Dates

First Capital. The First Capital special meeting will be held at its office located at 3320 Holcomb Bridge Road, N.W., Suite A, Norcross, Georgia, at _____ a.m., local time, on _____, 2005. Only holders of First Capital common stock of record at the close of business on June _____, 2005 will be entitled to receive notice of and to vote at the special meeting. As of the record date, there were _____ shares of First Capital common stock outstanding and entitled to vote, with each such share entitled to one vote.

Flag. The Flag special meeting will be held at its office located at 3475 Piedmont Road, N.E., Suite 550, Atlanta, Georgia, at _____ a.m., local time, on _____, 2005. Only holders of Flag common stock of record at the close of business on June _____, 2005 will be entitled to receive notice of and to vote at the special meeting. As of the record date, there were _____ shares of Flag common stock outstanding and entitled to vote, with each such share entitled to one vote.

Matters to be Considered

First Capital. At the First Capital special meeting, First Capital shareholders will be asked to approve the Agreement and Plan of Merger, dated as of May 26, 2005 by and between First Capital and Flag. Under the

Table of Contents

merger agreement, First Capital will merge with and into Flag and shares of First Capital common stock will be converted into the right to receive shares of Flag common stock. First Capital shareholders may also be asked to consider any other business that properly comes before the special meeting. Finally, First Capital shareholders may be asked to vote on a proposal to adjourn or postpone the special meeting, which could be used to allow more time for soliciting additional votes to approve the merger agreement. Each copy of this proxy statement/prospectus mailed to First Capital shareholders is accompanied by a proxy card for use at the special meeting.

Flag. At the Flag special meeting, Flag shareholders will be asked to approve the merger agreement. Flag shareholders may also be asked to consider any other business that properly comes before the special meeting. Finally, Flag shareholders may be asked to vote on a proposal to adjourn or postpone the special meeting, which could be used to allow more time for soliciting additional votes to approve the merger agreement. Each copy of this proxy statement mailed to Flag shareholders is accompanied by a proxy card for use at the special meeting.

Vote Required

First Capital. Under Georgia law, approval of the merger agreement requires the affirmative vote of the holders of at least a majority of all of the outstanding shares of First Capital common stock. On the record date, there were approximately outstanding shares of First Capital common stock, each of which is entitled to one vote at the special meeting. On that date, the directors and executive officers of First Capital and their affiliates beneficially owned a total of approximately % of the outstanding shares of First Capital common stock. Each of First Capital's directors and executive officers has agreed, subject to several conditions, to vote his or her shares of First Capital common stock in favor of the merger agreement. Accordingly, we believe it is highly likely that the merger agreement will be approved by First Capital's shareholders. As of the date of this joint proxy statement/prospectus, neither Flag nor any of its affiliates owned any outstanding shares of First Capital common stock. The presence, in person or by proxy, of shares of First Capital common stock representing a majority of First Capital's outstanding shares entitled to vote at the special meeting is necessary in order for there to be a quorum at the special meeting. A quorum must be present in order for the vote on the merger agreement to occur.

Flag. Approval of the merger agreement requires the affirmative vote of the holders of at least a majority of the votes cast at the special meeting. On the record date, there were approximately outstanding shares of Flag common stock, each of which is entitled to one vote at the special meeting. On that date, the directors and officers of Flag and their affiliates beneficially owned a total of approximately % of the outstanding shares of Flag common stock. Each of Flag's directors and executive officers has agreed, subject to several conditions, to vote his or her shares of Flag common stock in favor of the merger agreement. As of the date of this joint proxy statement/prospectus, neither First Capital nor any of its affiliates owned any outstanding shares of Flag common stock. The presence, in person or by proxy, of shares of Flag common stock representing a majority of Flag's outstanding shares entitled to vote at the special meeting is necessary in order for there to be a quorum at the special meeting. A quorum must be present in order for the vote on the merger agreement to occur.

Voting of Proxies

First Capital. Shares of common stock represented by properly executed proxies received at or prior to the First Capital special meeting will be voted at the special meeting in the manner specified by the holders of such shares. Properly executed proxies that do not contain voting instructions will be voted **FOR** approval of the merger agreement, and as determined by a majority of the proxies, as to any other matter that may come before the special meeting, including, among other things, a motion to adjourn or postpone the special meeting to another time for the purpose of soliciting additional proxies or otherwise. However, no proxy with instructions to vote against the merger will be voted in favor of any adjournment or postponement of the special meeting. Any shareholder present in person or by proxy (including broker non-votes, which generally occur when a broker who holds shares in street name for a customer does not have the authority to vote on certain non-routine matters because its customer has not provided any voting instructions with respect to the matter) at the special meeting who abstains from voting will be counted for purposes of determining whether a quorum exists.

Because approval of the merger agreement requires the affirmative vote of at least a majority of all the outstanding shares of First Capital common stock entitled to vote at the special meeting, abstentions

Table of Contents

and broker non-votes will have the same effect as negative votes. Accordingly, First Capital's board of directors urges its shareholders to complete, date and sign the accompanying proxy card and return it promptly in the enclosed, postage-paid envelope.

If any other matters are properly presented at the special meeting, the person or persons named in the proxy card enclosed with this joint proxy statement/prospectus and acting thereunder will have discretion to vote on such matters in accordance with their best judgment, unless the proxy indicates otherwise. First Capital has no knowledge of any matters to be presented at the special meeting, other than the matters described in this joint proxy statement/prospectus.

Flag. Shares of common stock represented by properly executed proxies received at or prior to the Flag special meeting will be voted at the special meeting in the manner specified by the holders of such shares. Properly executed proxies that do not contain voting instructions will be voted **FOR** approval of the merger agreement, and as determined by a majority of the proxies, as to any other matter that may come before the special meeting, including, among other things, a motion to adjourn or postpone the special meeting to another time for the purpose of soliciting additional proxies or otherwise. However, no proxy with instructions to vote against the merger will be voted in favor of any adjournment or postponement of the special meeting. Any shareholder present in person or by proxy (including broker non-votes) at the special meeting who abstains from voting will be counted for purposes of determining whether a quorum exists.

Because approval of the merger agreement requires the affirmative vote of at least a majority of the votes cast at the special meeting, abstentions and broker non-votes will have no effect on the outcome of the Flag shareholder vote. Flag's board of directors urges its shareholders to complete, date and sign the accompanying proxy card and return it promptly in the enclosed, postage-paid envelope.

If any other matters are properly presented at the special meeting, the person or persons named in the proxy card enclosed with this joint proxy statement/prospectus and acting thereunder will have discretion to vote on such matters in accordance with their best judgment, unless the proxy indicates otherwise. Flag has no knowledge of any matters to be presented at the special meeting, other than the matters described in this joint proxy statement/prospectus.

Revocability of Proxies

First Capital. The grant of a proxy on the enclosed proxy card does not preclude you from voting in person or otherwise revoking a proxy. You may revoke a proxy at any time prior to its exercise by delivering to the secretary of First Capital either a duly executed revocation or a proxy bearing a later date. In addition, you may revoke a proxy prior to its exercise by voting in person at the special meeting. All written notices of revocation and other communications with respect to the revocation of First Capital proxies should be addressed to First Capital Bancorp, Inc., 3320 Holcomb Bridge Road, N.W., Suite A, Norcross, Georgia 30092, Attention: Secretary. Attendance at the special meeting will not in and of itself constitute revocation of a proxy.

Flag. The grant of a proxy on the enclosed proxy card does not preclude you from voting in person or otherwise revoking a proxy. You may revoke a proxy at any time prior to its exercise by delivering to the secretary of Flag either a duly executed revocation or a proxy bearing a later date. In addition, you may revoke a proxy prior to its exercise by voting in person at the special meeting. All written notices of revocation and other communications with respect to the revocation of Flag proxies should be addressed to Flag Financial Corporation, 3475 Piedmont Road, N.E., Suite 550, Atlanta, Georgia 30305, Attention: Secretary. Attendance at the special meeting will not in and of itself constitute revocation of a proxy.

Solicitation of Proxies

First Capital. First Capital will pay all of the costs of soliciting proxies in connection with its special meeting, except that Flag will pay the costs of filing the registration statement with the SEC, of which this joint

Table of Contents

proxy statement/prospectus is a part, and one-half of the costs of printing the registration statement and this joint proxy statement/prospectus. Solicitation of proxies may be made in person or by mail, telephone or facsimile, or other form of communication by directors, officers and employees of First Capital who will not be specially compensated for such solicitation. Nominees, fiduciaries and other custodians will be requested to forward solicitation materials to beneficial owners and to secure their voting instructions, if necessary, and will be reimbursed for the expenses incurred in sending proxy materials to beneficial owners.

Flag. Flag will pay all of the costs of soliciting proxies in connection with its special meeting and one-half of the costs of printing the registration statement and this joint proxy statement/prospectus. Solicitation of proxies may be made in person or by mail, telephone or facsimile, or other form of communication by directors, officers and employees of Flag who will not be specially compensated for such solicitation. Nominees, fiduciaries and other custodians will be requested to forward solicitation materials to beneficial owners and to secure their voting instructions, if necessary, and will be reimbursed for the expenses incurred in sending proxy materials to beneficial owners.

Recommendations of the Boards of Directors

First Capital. First Capital's board of directors (except for Mr. Blanton who abstained due to a conflict of interest) has approved the merger agreement and the transactions contemplated thereby, believes that the merger is in the best interests of First Capital and its shareholders, and recommends that First Capital shareholders vote **FOR** approval of the merger agreement.

In the course of reaching its decision to approve the merger agreement and the transactions contemplated in the merger agreement, First Capital's board of directors, among other things, consulted with its legal advisors, Troutman Sanders LLP, regarding the legal terms of the merger agreement and with its financial advisor, Burke Capital Group, L.L.C. (Burke Capital), as to the fairness, from a financial point of view, of the consideration to be received by the holders of First Capital common stock in the merger. For a discussion of the factors considered by First Capital's board of directors in reaching its conclusion, see Background of and Reasons for the Merger First Capital's Reasons for the Merger.

First Capital shareholders should note that First Capital's directors have certain interests in, and may derive benefits as a result of, the merger that are in addition to their interests as shareholders of First Capital. Specifically, William R. Blanton, First Capital's vice chairman, chief financial officer and chief operating officer, as a non-institutional shareholder, will be entitled to receive a cash payment of approximately \$19.1 million, in lieu of approximately 1,295,602 shares of Flag common stock he would otherwise be entitled to receive as merger consideration. Given that the merger consideration Mr. Blanton will receive is different from other First Capital shareholders, Mr. Blanton abstained from voting to approve the merger and recommending it to shareholders as a result of his conflict of interest. See Terms of the Merger Interests of Employees and Directors of Flag and First Capital in the Merger.

Flag. Flag's board of directors has approved the merger agreement and the transactions contemplated thereby, believes that the merger is in the best interests of Flag and its shareholders, and recommends that Flag shareholders vote **FOR** approval of the merger agreement.

In the course of reaching its decision to approve the merger agreement and the transactions contemplated in the merger agreement, Flag's board of directors, among other things, consulted with its legal advisors, Morris, Manning & Martin, LLP, regarding the legal terms of the merger agreement and with its financial advisor, Sandler O'Neill & Partners, L.P. (Sandler O'Neill), as to the fairness, from a financial point of view, of the consideration to be paid by Flag to the holders of First Capital common stock in the merger. For a discussion of the factors considered by Flag's board of directors in reaching its conclusion, see Background of and Reasons for the Merger Flag's Reasons for the Merger.

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Flag shareholders should note that Flag's directors have certain interests in, and may derive benefits as a result of, the merger that are in addition to their interests as shareholders of Flag. See Terms of the Merger Interests of Employees and Directors of Flag and First Capital in the Merger.

Table of Contents

BACKGROUND OF AND REASONS FOR THE MERGER

Background of the Merger

Over the last five years, a consolidation in the banking industry has occurred. This consolidation has been fueled by, among other things, national and state banking-related legislation that has enabled certain financial institutions to benefit from the economies of scale and greater efficiencies available to combined entities. Financial institutions have increasingly sought suitable combinations as a means of obtaining such benefits.

Senior management of both Flag and First Capital have regularly reviewed with their respective boards of directors the possible benefits of strategic business combinations with other financial institutions. In each case, these reviews have been considered in light of each institution's ongoing evaluation of its available strategies to increase shareholder value and strengthen its franchise in order to better compete in the consolidating market for financial services and products. In addition, both Flag's and First Capital's senior management teams reviewed market conditions with their counterparts at other financial institutions.

In late November 2004, representatives from Burke Capital met with First Capital's board of directors and informed the directors that a regional bank holding company had expressed initial interest in acquiring First Capital. After the presentation by Burke Capital, the First Capital board discussed pursuing a possible transaction and how that would fit with First Capital's long-term strategic plans. After discussion, the First Capital board decided to further pursue a potential transaction in order to maximize shareholder value and engaged Burke Capital to assist them in analyzing and evaluating any proposed transaction. Between December 2004 and early February 2005, senior management of First Capital and representatives of Burke Capital had ongoing discussions with the other interested party regarding a proposed transaction.

In early February 2005, Joseph W. Evans, chairman, president and chief executive officer of Flag, contacted William R. Blanton, vice chairman, chief financial officer and chief operating officer of First Capital to inquire whether First Capital would consider a potential transaction with Flag. Mr. Blanton suggested that Mr. Evans contact H.N. Padget, Jr., president and chief executive officer of First Capital, to discuss Mr. Evans' ideas for combining the two companies. On February 14, 2005, Mr. Padget met with Mr. Evans and J. Thomas Wiley, Jr., vice chairman and chief banking officer of Flag, at Flag's offices to discuss the possibility of a strategic merger. Mr. Padget and Mr. Wiley met again the following day to continue the discussions and to discuss Flag's long-term strategic plans.

Following the meetings with Messrs. Evans and Wiley, on February 16, 2005, Mr. Padget brought the First Capital board up to date on his discussions with Flag and the continued discussions with the other interested party. The executive committee of First Capital authorized continued discussions with both interested parties regarding a proposed transaction. On the same day, representatives from Sandler O'Neill met with Flag's executives to discuss the structure and pro forma financial impact of a potential transaction between Flag and First Capital.

On February 17, 2005, the Flag board of directors met by conference call to receive a report from Mr. Evans regarding the meetings with First Capital's representatives and to discuss the possibility of a merger with First Capital. During this call, the board authorized Flag's executive management to enter into a non-binding letter of intent with First Capital regarding a merger with First Capital. From this time until March 16, 2005, Mr. Padget and David R. Hink, chairman of First Capital, had meetings with Mr. Wiley and J. Daniel Speight, vice chairman and chief financial officer of Flag, regarding the structure of any transaction between First Capital and Flag and how such transaction would impact Flag's long-term strategic plans. During this time, senior management of First Capital and representatives of Burke Capital also continued discussions with representatives of the other party interested in acquiring First Capital. At the March 16, 2005 meeting of the First Capital board of directors, the First Capital directors were informed of the status of the discussions with the interested parties and authorized management of First Capital

to continue negotiations with both parties.

Table of Contents

On March 24, 2005, Messrs. Padget and Hink and representatives of Burke Capital met with Messrs. Evans and Wiley and representatives of Sandler O'Neill, Flag's financial advisor, to discuss the proposed transaction. At this meeting, Flag presented its proposed terms for a merger between the two companies. Following this meeting, the terms proposed by Flag were forwarded to Mr. Blanton for his review.

On March 25, 2005, Flag's board of directors conducted another conference call to discuss the status of negotiations with respect to the merger.

On March 29, 2005, Messrs. Blanton, Hink and Padget met with representatives of Burke Capital to discuss the terms proposed by Flag. Following these discussions, they requested that Burke Capital, on behalf of First Capital, continue to negotiate with representatives of Flag and Sandler O'Neill on the proposed terms. Thereafter, representatives of Burke Capital and Sandler O'Neill, as well as senior management of both Flag and First Capital, met on a number of occasions to discuss various issues with respect to the proposed merger. These discussions focused on the key terms of any transaction between the parties, including financial terms, transaction structure, management and succession plans and potential integration, transition and regulatory issues. Based on these discussions, on April 1, 2005, Flag delivered to First Capital a non-binding letter of intent regarding the proposed merger.

The executive committee of First Capital's board of directors met on April 5, 2005 to discuss the letter of intent delivered by Flag. At this meeting, representatives of Burke Capital informed the committee that they had shared Flag's proposed terms with the other party interested in pursuing a transaction with First Capital and had been informed by that interested party that they would be unable to match the terms proposed by Flag. Following a lengthy discussion on Flag's proposed terms, the First Capital executive committee authorized Mr. Padget to execute the letter of intent and also authorized management of First Capital to direct Troutman Sanders LLP, as First Capital's legal counsel, to assist management in preparing a definitive merger agreement between First Capital and Flag and further directed management to conduct a due diligence review of Flag's operations.

Between April 1, 2005 and May 25, 2005, representatives of Flag, First Capital, Troutman Sanders, Morris Manning & Martin, LLP, Flag's legal counsel, as well as representatives of Burke Capital and Sandler O'Neill, negotiated the terms of the definitive merger agreement between the parties, and Flag and First Capital also conducted due diligence on their respective operations. In addition, during this time, senior management of Flag and First Capital communicated on a regular basis regarding the potential merger, including the post-closing operations of the combined companies.

On April 27, 2005, representatives of Sandler O'Neill reviewed the terms and financial impact of the merger with the Flag board of directors. After the presentation, the board of directors engaged in a lengthy discussion of the proposed transaction and determined to continue to pursue the potential transaction. On May 17, 2005, the Flag board met again after the Flag annual meeting of shareholders to discuss the merger with First Capital. At this meeting, representatives from Sandler O'Neill presented its oral opinion that the merger consideration in the contemplated transaction with First Capital was fair to Flag from a financial point of view, as of that date and subject to certain assumptions and limitations. Also during this meeting, a representative from Morris, Manning & Martin, LLP, legal counsel to Flag, led the board of directors through a discussion of the terms of the transaction. Following the presentation and discussion, the Flag board of directors approved the merger agreement and recommended its approval by the shareholders of Flag.

On May 25, 2005, the First Capital board of directors met with representatives of Troutman Sanders to discuss the terms of the proposed merger agreement. At this meeting, representatives of Burke Capital provided the board with their analysis of the merger consideration to be paid to the First Capital shareholders. Following a discussion of the terms of the merger agreement, the fairness of the merger consideration to First Capital's shareholders and the other factors discussed below under the heading "First Capital's Reasons for the Merger," the First Capital board concluded, by majority vote, with the exception of Mr. Blanton who abstained from voting as a result of his conflict of interest in the proposed transaction (see "Terms of the Merger Interests of Employees and Directors of Flag and First Capital in the Merger"), that the merger was fair to the First Capital shareholders and in the best interest of First Capital, approved the merger agreement and recommended its approval by the shareholders

of First Capital.

Table of Contents

On May 26, 2005, Flag and First Capital executed the merger agreement and issued a joint press release announcing the proposed merger of the two companies.

First Capital's Reasons for the Merger

First Capital's board of directors believes that the merger is fair to, and in the best interest of, First Capital and its shareholders. In reaching its decision to approve the merger agreement, First Capital's board of directors consulted with its management, as well as with its financial and legal advisors, and considered a variety of factors, including the following:

an analysis of the business, operations, financial condition, earnings and prospects of Flag, including the information obtained in First Capital's due diligence review of Flag;

the competitive and regulatory environment for financial institutions generally;

the strategic opportunities presented by a merger between First Capital and Flag based on the belief that the combined organization, with assets greater than \$1.6 billion, would be more attractive to potential customers, employees, purchasers and sellers;

the merger will enable First Capital shareholders (other than shares in excess of 384,000 shares held by any non-institutional shareholder) to exchange their shares of First Capital common stock, in a tax-free transaction, for registered shares of common stock of a public company listed on the Nasdaq National Market;

the belief that the merger will provide greater liquidity for First Capital shareholders by providing a larger public market for their stock, a greater number of shareholders and a larger number of outstanding shares;

the belief that the merger between First Capital and Flag would provide shareholders of First Capital greater benefits than could be obtained through internal growth or the acquisition of another bank;

First Capital will have three of its current directors join the board of directors of Flag;

the belief that the combined entity will provide greater diversification of assets and a deeper pool of experienced management; and

the opinion of Burke Capital that the merger consideration provided in the merger agreement was fair to the shareholders of First Capital, from a financial point of view.

The discussion of the information and factors considered by First Capital's board of directors is not intended to be exhaustive but includes all of the material factors the board considered. In reaching its determination to approve and recommend the merger, First Capital's board of directors did not assign any relative or specific weights to the foregoing factors, and individual directors may have given differing weights to different factors.

Flag's Reasons for the Merger

Flag's board of directors believes that the merger is fair to, and in the best interest of, Flag and its shareholders. In reaching its decision to approve the merger agreement, Flag's board of directors consulted with its management, as well as with its financial and legal advisors, and considered a variety of factors, including the following:

the analysis of the business, operations, financial condition, earnings and prospects of First Capital, including the information obtained in Flag's due diligence review of First Capital;

the strategic opportunities presented by a merger between Flag and First Capital;

the complementary nature of Flag's and First Capital's businesses, management and employee cultures and the geographic locations of their respective banks;

the expectation that the rate of earnings growth of the combined company would be greater than Flag could achieve separately;

Table of Contents

the belief that Flag and First Capital share a common vision about the importance of delivering financial performance and shareholder value and that the management and employees of Flag and First Capital possess complementary skills and expertise;

the belief that the risk of successfully combining and integrating Flag and First Capital would be less than the execution risks of other possible strategic alternatives that would be expected to provide benefits to Flag shareholders comparable to those we expect our shareholders to derive from a merger with First Capital;

the opinion of Sandler O'Neill that the merger consideration set forth in the merger agreement was fair to Flag from a financial point of view; and

the fact that, after the merger, First Capital Bank and Flag Bank, on a combined basis, would be one of the largest community banks in the metropolitan Atlanta market.

The discussion of the information and factors considered by Flag's board of directors is not intended to be exhaustive but includes all of the material factors the board considered. In reaching the determination to approve and recommend the merger, Flag's board of directors did not assign any relative or specific weights to the foregoing factors, and individual directors may have given differing weights to different factors.

Opinion of First Capital's Financial Advisor

First Capital retained Burke Capital to act as its financial advisor in connection with a possible business combination. Burke Capital is a nationally recognized investment banking firm whose principal business specialty is financial institutions. In the ordinary course of its investment banking business, Burke Capital is regularly engaged in the valuation of financial institutions and their securities in connection with mergers and acquisitions and other corporate transactions.

Burke Capital acted as financial advisor to First Capital in connection with the proposed merger with Flag and participated in certain of the negotiations leading to the merger agreement. In connection with Burke Capital's engagement, First Capital asked Burke Capital to evaluate the fairness of the merger consideration to First Capital's shareholders from a financial point of view. At the May 25, 2005 meeting of First Capital's board to evaluate the merger, Burke Capital delivered to the board its written opinion that, based upon and subject to various matters set forth in its opinion, the merger consideration was fair to First Capital's shareholders from a financial point of view. At this meeting, the First Capital board voted to approve the merger and subsequently executed the merger agreement on May 26, 2005.

The full text of Burke Capital's written opinion is attached as Appendix B to this joint proxy statement/prospectus. The opinion outlines matters considered and qualifications and limitations on the review undertaken by Burke Capital in rendering its opinion. The description of the opinion set forth below is qualified in its entirety by reference to the opinion. We urge you to read the entire opinion carefully in connection with your consideration of the proposed merger.

Burke Capital's opinion speaks only as of the date of the opinion. The opinion was directed to the First Capital Board and is directed only to the fairness of the merger consideration to First Capital shareholders from a financial point of view. It does not address the underlying business decision of First Capital to engage in the merger or any other aspect of the merger and is not a recommendation to any First Capital shareholder as to how such shareholder should vote at the shareholder meeting with respect to the merger, or any other matter.

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In connection with rendering its May 25, 2005 opinion, Burke Capital reviewed and considered, among other things:

the merger agreement and certain of the schedules thereto;

certain publicly available financial statements and other historical financial information of First Capital that it deemed relevant;

Table of Contents

certain publicly available financial statements and other historical financial information of Flag that it deemed relevant;

projected earnings estimates for First Capital for 2005 prepared by and reviewed with senior management of First Capital and the views of senior management regarding First Capital's business, financial condition, results of operations and future prospects;

the pro forma financial impact of the merger on Flag's ability to complete a transaction from a regulatory standpoint, based on assumptions determined by senior management of First Capital and Burke Capital;

the financial terms of other recent business combinations in the commercial banking industry, to the extent publicly available;

the current market environment generally and the banking environment in particular; and

such other information, financial studies, analyses and investigations and financial, economic and market criteria as it considered relevant.

First Capital's board of directors did not limit the investigations made or the procedures followed by Burke Capital in giving its opinion.

In performing its reviews and analyses and in rendering its opinion, Burke Capital assumed and relied upon the accuracy and completeness of all the financial information, analyses and other information that was publicly available or otherwise furnished to, reviewed by or discussed with it and further relied on the assurances of management of First Capital and Flag that they were not aware of any facts or circumstances that would make such information inaccurate or misleading. Burke Capital was not asked to and did not independently verify the accuracy or completeness of such information and it did not assume responsibility or liability for the accuracy or completeness of any of such information. Burke Capital did not make an independent evaluation or appraisal of the assets, the collateral securing assets or the liabilities, contingent or otherwise, of First Capital or Flag or any of their respective subsidiaries, or the ability to collect any such assets, nor was it furnished with any such evaluations or appraisals. Burke Capital is not an expert in the evaluation of allowances for loan losses, and it did not make an independent evaluation of the adequacy of the allowance for loan losses of First Capital or Flag, nor did it review any individual credit files relating to First Capital or Flag. Burke Capital assumed that the respective allowances for loan losses for both First Capital and Flag were adequate to cover such losses and will be adequate on a pro forma basis for the combined entity. In addition, Burke Capital did not conduct any physical inspection of the properties or facilities of First Capital or Flag. Burke Capital is not an accounting firm and it relied on the reports of the independent accountants of First Capital and the Directors of Flag for the accuracy and completeness of the financial statements furnished to it.

Burke Capital's opinion was necessarily based upon market, economic and other conditions as they existed on, and could be evaluated as of, the date of its opinion. Burke Capital assumed, in all respects material to its analysis, that all of the representations and warranties contained in the merger agreement and all related agreements are true and correct, that each party to such agreements will perform all of the covenants required to be performed by such party under such agreements and that the conditions precedent in the merger agreement are not waived. Burke Capital also assumed that there has been no material change in First Capital's and Flag's assets, financial condition, results of operations, business or prospects since the date of the last financial statements made available to them, that First Capital and Flag will remain as going concerns for all periods relevant to its analyses.

In rendering its May 25, 2005 opinion, Burke Capital performed a variety of financial analyses. The following is a summary of the material analyses performed by Burke Capital, but is not a complete description of all the analyses underlying Burke Capital's opinion. The summary includes information presented in tabular format. In order to fully understand the financial analyses, these tables must be read together with the accompanying text. The tables alone do not constitute a complete description of the financial analyses. The preparation of a fairness opinion is a complex process involving subjective judgments as to the most appropriate

Table of Contents

and relevant methods of financial analysis and the application of those methods to the particular circumstances. The process, therefore, is not necessarily susceptible to a partial analysis or summary description. Burke Capital believes that its analyses must be considered as a whole and that selecting portions of the factors and analyses considered without considering all factors and analyses, or attempting to ascribe relative weights to some or all such factors and analyses, could create an incomplete view of the evaluation process underlying its opinion. Also, no company included in Burke Capital's comparative analyses described below is identical to First Capital or Flag and no transaction is identical to the merger. Accordingly, an analysis of comparable companies or transactions involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies and other factors that could affect the public trading values or merger transaction values, as the case may be, of First Capital or Flag and the companies to which they are being compared.

The earnings projections used and relied upon by Burke Capital in its analyses were based upon internal projections of First Capital. With respect to all such financial projections and estimates, First Capital's management confirmed to Burke Capital that they reflected the best currently available estimates and judgments of management of the future financial performance of First Capital and Burke Capital assumed for purposes of its analyses that such performance would be achieved. Burke Capital expressed no opinion as to such financial projections or the assumptions on which they were based. The financial projections furnished to Burke Capital by First Capital were prepared for internal purposes only and not with a view towards public disclosure. These projections, as well as the other estimates used by Burke Capital in its analyses, were based on numerous variables and assumptions that are inherently uncertain and, accordingly, actual results could vary materially from those set forth in such projections.

In performing its analyses, Burke Capital also made numerous assumptions with respect to industry performance, business and economic conditions and various other matters, many of which cannot be predicted and are beyond the control of First Capital, Flag and Burke Capital. The analyses performed by Burke Capital are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by such analyses. Burke Capital prepared its analyses solely for purposes of rendering its opinion and provided such analyses to the First Capital board at the May 25, 2005 meeting. Estimates on the values of companies do not purport to be appraisals or necessarily reflect the prices at which companies or their securities may actually be sold. Such estimates are inherently subject to uncertainty, and actual values may be materially different. Accordingly, Burke Capital's analyses do not necessarily reflect the value of First Capital's common stock or Flag's common stock or the prices at which First Capital or Flag's common stock may be sold at any time.

Summary of Proposal. Burke Capital reviewed the financial terms of the proposed transaction whereby the holders of First Capital stock shall be entitled to elect to receive, in exchange for their shares of First Capital common stock, 1.6 shares of Flag common stock. Non-institutional shareholders of First Capital common stock who own more than 384,000 shares will receive cash for those excess shares. Based upon the terms of the merger agreement and Flag's closing stock price of \$15.76 on May 25, 2005, Burke Capital calculated a transaction value of \$134,878,343 or \$25.22 per share of First Capital common stock. Utilizing First Capital's publicly available financial statements as of March 31, 2005, Burke Capital calculated the following ratios:

Deal Value Considerations:		Deal Multiples / Premiums:	
Offer Price / Common Share	\$ 25.22	Transaction Value / LTM Net Income	34.81x
Flag Closing Market Price as of May 25, 2005	\$ 15.76	Transaction Value / Book Value	2.34x
Aggregate Value For Common Shares		Transaction Value / Tangible Book Value	
	\$ 128,084,697		2.73x
Aggregate Value for Outstanding Options / Warrants	\$ 6,793,646	Core Deposit Premium	23.25%
Total Transaction Value	\$ 134,878,343	Premium to Closing Market Price	35.00%

* Deal multiples based on March 31, 2005 unaudited financial results.

Table of Contents

Burke Capital calculated 5,348,919 fully diluted shares of First Capital common stock outstanding, which was determined using the treasury stock method at the offer price per share. The fully diluted share count is based upon First Capital's 5,079,501 outstanding common shares and 555,672 outstanding options to purchase common shares at a weighted average strike price of \$12.99.

Comparable Company Analysis. Burke Capital used publicly available information to compare selected financial information for First Capital and a group of selected financial institutions. The group consisted of First Capital and 24 financial institutions, which Burke Capital refers to as the First Capital Peer Group. The First Capital Peer Group consisted of selected Georgia publicly traded banks with assets between \$250 million and \$1.5 billion. The First Capital Peer Group was comprised of the following institutions:

Bank Holding Company	City	Ticker Symbol	Bank Holding Company	City	Ticker Symbol
ABC Bancorp	Moultrie	ABCB	Habersham Bancorp	Cornelia	HABC
Appalachian Bancshares, Inc.	Ellijay	APAB	Integrity Bancshares, Inc.	Alpharetta	ITYC
CCF Holding Company	Jonesboro	CCFH	NSB Holdings, Inc.	Macon	NSBG
Citizens Bancshares Corporation	Atlanta	CZBS	PAB Bankshares, Inc.	Valdosta	PAB
Colony Bankcorp, Inc.	Fitzgerald	CBAN	Savannah Bancorp, Inc.	Savannah	SAVB
Crescent Banking Company	Jasper	CSNT	Security Bank Corporation	Macon	SBKC
Fidelity Southern Corporation	Atlanta	LION	SouthCrest Financial Group, Inc.	Fayetteville	SCSG
FLAG Financial Corporation	Atlanta	FLAG	Southeastern Banking Corporation	Darien	SEBC
GB&T Bancshares, Inc.	Gainesville	GBTB	Southern Community Bancshares, Inc.	Fayetteville	SNCB
Georgia Bancshares, Inc.	Peachtree City	GABA	Southwest Georgia Financial Corporation	Moultrie	SGB
Georgia Bank Financial Corporation	Augusta	GBFP	Summit Bank Corporation	Atlanta	SBGA
Georgia-Carolina Bancshares, Inc.	Augusta	GECR	WGNB Corp.	Carrollton	WGNB

The analysis calculated the median performance of the First Capital Peer Group, based upon the latest publicly available financial data, to First Capital's March 31, 2005 financial results. The table below sets forth the comparative data.

	Revenues		Earnings			Capital Implications		Asset Quality		
	Net Interest Margin	Noninterest Income/Average Assets	Efficiency	ROAA	ROAE	Pre-Provision, Pre-Tax ROAA	Equity / Assets	Asset Utilization	NPAs/ Total Assets	Reserves / Loans
Peer Group Median	4.15%	0.94%	62.66%	0.90%	11.23%	1.82%	8.26%	93.38%	0.44%	1.30%
First Capital	3.55%	0.23%	66.35%	0.61%	7.73%	1.23%	8.55%	95.95%	0.17%	1.24%

The analysis showed that First Capital's performance is within the range of its peer group.

Analysis of Selected Merger Transactions. Burke Capital compared selected pricing multiples and ratios implied by the merger consideration to corresponding merger and acquisition pricing multiples and ratios observed in transactions Burke Capital deemed relevant to the merger. Burke Capital reviewed selected Southeastern bank and thrift merger and acquisition transactions since January 1, 2002 and U.S. bank and thrift

merger and acquisition transactions since January 1, 2003 in which the seller had assets between \$500 million

Table of Contents

and \$1 billion. Burke Capital's review showed that the merger consideration represented per share values within the range of the corresponding mean and median values for the selected Southeastern and U.S. merger and acquisition transactions.

Southeastern Merger Transactions. In order to address the specific valuation considerations within the Southeastern markets, Burke Capital selected a group of comparable Southeastern merger and acquisition transactions and compared the pricing multiples to the multiples implied by the merger consideration. Specifically, Burke Capital selected bank and thrift merger and acquisition transactions according to the following criteria:

merger and acquisition transactions announced after January 1, 2002;

all stock and partial cash transactions;

seller located in the Southeast;

seller assets between \$500 million and \$1 billion;

seller ROAA between 0.40% and 1.00%; and

seller located in an MSA market.

Burke Capital selected seven transactions fitting the criteria listed above as being comparable to the proposed merger. The seven comparable transactions selected consisted of the following:

<u>Buyer</u>	<u>State</u>	<u>Seller</u>	<u>State</u>
Peoples Holding Co.	MS	Heritage Financial Holding Corp.	AL
South Financial Group Inc.	SC	Florida Banks Inc.	FL
South Financial Group Inc.	SC	CNB Florida Bancshares Inc.	FL
Colonial BancGroup, Inc.	AL	P.C.B. Bancorp Inc.	FL
Alabama National Bancorp.	AL	Indian River Banking Co.	FL
South Financial Group Inc.	SC	MountainBank Financial Corp.	NC
Synovus Financial Corp.	GA	Community Financial Group Inc.	TN

Burke Capital calculated the multiples of transaction value at announcement to the last 12 months' earnings, book value, tangible book value and book premium to core deposits for each of the seven selected and acquired institutions. Burke Capital then computed high, low, mean, median and quartile multiples and premiums for the transactions. These multiples and premiums were applied to First Capital's publicly available financial statements as of and for the period ended March 31, 2005 and were used to impute a transaction price. As illustrated in the following table, Burke Capital derived an imputed range of values per share of First Capital's common stock of \$18.25 to \$30.58 based upon the median and mean multiples of the selected Southeastern transactions.

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	Median Multiple	Implied Value/Share	Mean Multiple	Implied Value/Share	Flag's Offer Price for First Capital
Transaction Value / LTM E.P.S.	24.62x	\$ 18.25	25.81x	\$ 19.07	34.73x
Transaction Value / Book Value	2.86x	\$ 30.58	2.75x	\$ 29.48	2.33x
Transaction Value / Tangible Book Value	2.91x	\$ 26.78	2.96x	\$ 27.27	2.73x
Book Premium / Core Deposits	19.48%	\$ 23.04	20.42%	\$ 23.60	23.16%
	Median Value	\$ 24.91		\$ 25.44	
	Mean Value	\$ 24.66		\$ 24.85	\$25.22
	Implied Range	\$ 18.25	<=>	\$ 30.58	

The analysis showed that the merger consideration per share of \$25.22 is within the range of values imputed by the mean and median multiples of the comparable transactions.

U.S. Merger Transactions. Burke Capital selected a group of comparable U.S. merger and acquisition transactions and compared the pricing multiples to the multiples implied by the merger consideration.

Table of Contents

Specifically, Burke Capital selected bank and thrift merger and acquisition transactions according to the following criteria:

merger and acquisition transactions announced after January 1, 2003;

all stock and partial cash transactions;

seller located in the U.S.;

seller assets between \$500 million and \$1 billion;

seller ROAA between 0.40% and 1.00%; and

seller located in an MSA market.

Burke Capital selected 14 transactions fitting the criteria listed above as being comparable to the proposed merger. The 14 comparable transactions selected consisted of the following:

Buyer	State	Seller	State
Willow Grove Bancorp Inc.	PA	Chester Valley Bancorp Inc.	PA
Valley National Bancorp	NJ	NorCrown Bank	NJ
F.N.B. Corp.	PA	NSD Bancorp Inc.	PA
Wells Fargo & Co.	CA	First Community Capital Corp.	TX
Peoples Holding Co.	MS	Heritage Financial Holding Corp.	AL
South Financial Group Inc.	SC	Florida Banks Inc.	FL
Provident Bancorp Inc.	NY	Warwick Community Bancorp	NY
South Financial Group Inc.	SC	CNB Florida Bancshares Inc.	FL
Colonial BancGroup Inc.	AL	P.C.B. Bancorp Inc.	FL
Fulton Financial Corp.	PA	Premier Bancorp Inc.	PA
Alabama National BanCorp	AL	Indian River Banking Co.	FL
KNBT Bancorp Inc.	PA	First Colonial Group Inc.	PA
Seacoast Financial Services	MA	Abington Bancorp Inc.	MA
South Financial Group Inc.	SC	MountainBank Financial Corp.	NC

Burke Capital calculated the multiples of transaction value at announcement to the last 12 months earnings, book value, tangible book value and book premium to core deposits for each of the 14 selected and acquired institutions. Burke Capital then computed high, low, mean, median and quartile multiples and premiums for the transactions. These multiples and premiums were applied to First Capital's publicly available financial statements as of and for the period ended March 31, 2005 and were used to impute a transaction price. As illustrated in the following table, Burke Capital derived an imputed range of values per share of First Capital's common stock of \$17.87 to \$30.31 based upon the median and mean multiples of the selected U.S. transactions.

Median Multiple

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		<u>Implied Value/Share</u>	<u>Mean Multiple</u>	<u>Implied Value/ Share</u>	<u>Flag's Offer Price for First Capital</u>
Transaction Value / LTM E.P.S.	24.07x	\$ 17.87	26.03x	\$ 19.22	34.73x
Transaction Value / Book Value	2.83x	\$ 30.31	2.79x	\$ 29.88	2.33x
Transaction Value / Tangible Book Value	2.90x	\$ 26.76	3.07x	\$ 28.24	2.73x
Book Premium / Core Deposits	19.59%	\$ 23.11	20.63%	\$ 23.72	23.16%
	Median Value	\$ 24.93		\$ 25.98	
	Mean Value	\$ 24.51		\$ 25.26	\$25.22
	Implied Range	\$ 17.87	<=>	\$ 30.31	

The analysis showed that the merger consideration per share of \$25.22 is within the range of values imputed by the mean and median multiples of the comparable transactions.

Table of Contents

Based upon the forgoing analyses and other investigations and assumptions set forth in its opinion, without giving specific weightings to any one factor or comparison, Burke Capital determined that the transaction consideration was fair from a financial point of view to First Capital shareholders.

For its financial advisory services provided to First Capital, Burke Capital has been paid fees of \$50,000 to date and will be paid an additional fee that will amount to approximately \$1.2 million at the time of the closing of the merger. In addition, First Capital has agreed to indemnify Burke Capital against various liabilities, including any that may arise under the federal securities laws, subject to adjustment based on the actual deal value as of the closing date.

Opinion of Flag's Financial Advisor

By letter dated March 22, 2005, Flag retained Sandler O'Neill to act as its financial advisor in connection with a possible business combination with First Capital. Sandler O'Neill is a nationally recognized investment banking firm whose principal business specialty is financial institutions. In the ordinary course of its investment banking business, Sandler O'Neill is regularly engaged in the valuation of financial institutions and their securities in connection with mergers and acquisitions and other corporate transactions.

Sandler O'Neill acted as financial advisor to Flag in connection with the proposed transaction and participated in certain of the negotiations leading to the execution of a definitive merger agreement on May 26, 2005. At the May 17, 2005 meeting at which Flag's board considered and approved the merger agreement, subject to satisfactory resolution of certain outstanding issues, Sandler O'Neill delivered to the board its oral opinion, that, as of such date, the merger consideration was fair to Flag from a financial point of view. **The full text of Sandler O'Neill's opinion is attached as Appendix C to this joint proxy statement/prospectus. The opinion outlines the procedures followed, assumptions made, matters considered and qualifications and limitations on the review undertaken by Sandler O'Neill in rendering its opinion. The description of the opinion set forth below is qualified in its entirety by reference to the opinion. Sandler O'Neill urges Flag shareholders to read the entire opinion carefully in connection with their consideration of the proposed merger.**

Sandler O'Neill's opinion speaks only as of the date of the opinion. The opinion was directed to the Flag board and is directed only to the fairness of the merger consideration to Flag from a financial point of view. It does not address the underlying business decision of Flag to engage in the merger or any other aspect of the merger and is not a recommendation to any Flag shareholder as to how such shareholder should vote at the special meeting with respect to the merge or any other matter.

In connection with rendering its May 17, 2005 opinion, Sandler O'Neill reviewed and considered, among other things:

the merger agreement;

certain publicly available financial statements and other historical financial information of Flag that Sandler O'Neill deemed relevant;

certain publicly available financial statements and other historical financial information of First Capital that Sandler O'Neill deemed relevant;

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an internal budget for Flag for the year ending December 31, 2005 furnished by and reviewed with senior management of Flag and estimates of asset, loan and earnings per share growth for the years thereafter;

internal budgets for First Capital for the years ending December 31, 2005 and 2006 furnished by senior management of First Capital and reviewed with and adjusted downward by senior management of Flag, earnings per share estimates for First Capital for the year ending December 31, 2005 published by I/B/E/S and earnings per share and loan and deposit growth rates, furnished by and reviewed with senior management of Flag;

the pro forma financial impact of the merger on Flag, based on assumptions relating to transaction expenses, purchase accounting adjustments and cost savings furnished by and reviewed with the senior

Table of Contents

managements of Flag and First Capital; and the expected issuance of up to \$30 million in trust preferred securities by Flag;

the publicly reported historical price and trading activity for the common stock of both Flag and First Capital, including a comparison of certain financial and stock market information for Flag and First Capital with similar publicly available information for certain other financial institutions the securities of which are publicly traded;

to the extent publicly available, the financial terms of certain recent business combinations in the commercial banking industry;

the current market environment generally and the banking environment in particular; and

such other information, financial studies, analyses and investigations and financial, economic and market criteria as Sandler O'Neill considered relevant.

Sandler O'Neill also discussed with certain members of senior management of Flag the business, financial condition, results of operations and prospects of Flag and held similar discussions with the financial advisor of First Capital regarding the business, financial condition, results of operations and prospects of First Capital.

In performing its reviews and analyses and in rendering its opinion, Sandler O'Neill relied upon the accuracy and completeness of all the financial and other information that was available to it from public sources, that was provided to Sandler O'Neill by Flag or First Capital or their respective representatives or that was otherwise reviewed by Sandler O'Neill and has assumed such accuracy and completeness for purposes of rendering this opinion. Sandler O'Neill further relied on the assurances of the management of each of Flag and First Capital that they are not aware of any facts or circumstances that would make any of such information inaccurate or misleading. Sandler O'Neill has not been asked to undertake, and has not undertaken, an independent verification of any of such information, and Sandler O'Neill does not assume any responsibility or liability for the accuracy or completeness thereof. Sandler O'Neill did not make an independent evaluation or appraisal of the specific assets, the collateral securing the assets or the liabilities (contingent or otherwise) of Flag or First Capital or any of their subsidiaries, or the collectibility of any such assets, nor has Sandler O'Neill been furnished with any such evaluations or appraisals. Sandler O'Neill did not make an independent evaluation of the adequacy of the allowance for loan losses of Flag or First Capital nor has Sandler O'Neill reviewed any individual credit files relating to Flag or First Capital. Sandler O'Neill assumed, with Flag's consent, that the respective allowances for loan losses for both Flag and First Capital are adequate to cover such losses.

The internal budgets and estimates for growth used and relied upon by Sandler O'Neill in its analyses for Flag were provided by Flag senior management who confirmed to Sandler O'Neill that those budgets and estimates reflected the best currently available estimates and judgments of the future financial performance of Flag. With respect to the internal budgets and growth estimates for First Capital, with Flag's consent, Sandler O'Neill used and relied on the budgets provided by the senior management of First Capital as adjusted by Flag's senior management. All projections of transaction costs, purchase accounting adjustments and expected cost savings related to the merger were provided by or reviewed with the senior managements of Flag and First Capital, and those managements confirmed to Sandler O'Neill that those projections reflected the best currently available estimates and judgments. Sandler O'Neill assumed that the financial performances reflected in all budgets, estimates and projections used in its analyses would be achieved. Sandler O'Neill expressed no opinion as to such budgets, estimates or projections or the assumptions on which they were based. Sandler O'Neill also assumed that there has been no material change in the assets, financial condition, results of operations, business or prospects of Flag or First Capital since the date of the last financial statements made available to it and that Flag and First Capital will remain as going concerns for all periods relevant to the analyses.

With respect to the merger agreement, Sandler O'Neill assumed that all of the representations and warranties contained in the merger agreement and all related agreements are true and correct, that each party to such agreements will perform all of the covenants required to be performed by such party under the agreements, that the conditions precedent in the merger agreement are not waived and that the merger will be a tax-free

Table of Contents

reorganization for federal income tax purposes. Finally, with Flag's consent, Sandler O'Neill relied upon the advice received from Flag's legal, accounting and tax advisors as to all legal, accounting and tax matters relating to the merger agreement and the other transactions contemplated by the agreement.

Sandler O'Neill's opinion was necessarily based upon market, economic and other conditions as they existed on, and could be evaluated as of, the date of its opinion. Events occurring after the date hereof could materially affect this opinion. Sandler O'Neill has not undertaken to update, revise, reaffirm or withdraw its opinion or otherwise comment upon events occurring after the date hereof. Sandler O'Neill expressed no opinion as to what the value of Flag's common stock will be when issued to First Capital's shareholders pursuant to the merger agreement or the prices at which the common stocks of Flag or First Capital may trade at any time.

In rendering its May 17, 2005 opinion, Sandler O'Neill performed a variety of financial analyses. The following is a summary of the material analyses performed by Sandler O'Neill, but is not a complete description of all the analyses underlying Sandler O'Neill's opinion. The summary includes information presented in tabular format. **In order to fully understand the financial analyses, these tables must be read together with the accompanying text. The tables alone do not constitute a complete description of the financial analyses.** The preparation of a fairness opinion is a complex process involving subjective judgments as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. The process, therefore, is not necessarily susceptible to a partial analysis or summary description. Sandler O'Neill believes that its analyses must be considered as a whole and that selecting portions of the factors and analyses to be considered without considering all factors and analyses, or attempting to ascribe relative weights to some or all such factors and analyses, could create an incomplete view of the evaluation process underlying its opinion. Also, no company included in Sandler O'Neill's comparative analyses described below is identical to Flag or First Capital, and no transaction is identical to the merger. Accordingly, an analysis of comparable companies or transactions involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies and other factors that could affect the public trading values or merger transaction values, as the case may be, of Flag and First Capital and the companies to which they are being compared.

In performing its analyses, Sandler O'Neill also made numerous assumptions with respect to industry performance, business and economic conditions and various other matters, many of which cannot be predicted and are beyond the control of Flag, First Capital and Sandler O'Neill. The analyses performed by Sandler O'Neill are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by such analyses. Sandler O'Neill prepared its analyses solely for purposes of rendering its opinion and provided such analyses to the Flag board at the board's May 17, 2005 meeting. Estimates on the values of companies do not purport to be appraisals or necessarily reflect the prices at which companies or their securities may actually be sold. Such estimates are inherently subject to uncertainty, and actual values may be materially different. Accordingly, Sandler O'Neill's analyses do not necessarily reflect the value of Flag's or First Capital's common stock or the prices at which Flag's or First Capital's common stock may be sold at any time.

Table of Contents

Summary of Proposal. Sandler O'Neill reviewed the financial terms of the proposed transaction. Using the fixed exchange ratio of 1.6 shares of Flag common stock for each share of First Capital common stock, and the closing price of Flag common stock of \$14.96 on May 13, 2005 for calculating both the stock and cash portion of the consideration, Sandler O'Neill calculated a transaction value of \$23.93 per share. Based upon financial information for First Capital as or for the 12-month period ended March 31, 2005, Sandler O'Neill calculated the following transaction ratios:

Transaction Multiples

Offer Price Per Share / LTM EPS	31.1x
Offer Price Per Share / Book Value	210.2%
Offer Price Per Share / Tangible Book Value	242.6%
Tangible Book Premium / Core Deposits (1)	22.3%
Current Market Premium (2)	36.7%

- (1) Core deposits exclude time deposits with a balance over \$100,000.
(2) Based on First Capital's closing stock price of \$17.50 on May 13, 2005.

The aggregate transaction value was approximately \$127.5 million, based upon the offer price per share of \$23.93, the 5,067,719 First Capital common shares outstanding and the intrinsic value of options to acquire 567,454 shares of First Capital common stock at a weighted-average exercise price of \$12.86.

Stock Trading History. Sandler O'Neill reviewed the history of the reported trading prices and volume of Flag's and First Capital's common stock and the relationship between the movements in the price of Flag's common stock and First Capital's common stock to movements in the prices of the Standard & Poor's 500 Index, the Nasdaq Bank Index, the Standard & Poor's Bank Index and the median performance of a composite peer group of publicly traded commercial banks selected by Sandler O'Neill for Flag and First Capital, respectively. The composition of the respective peer groups for Flag and First Capital is discussed under the relevant section under "Comparable Company Analysis" below.

Table of Contents

Sandler O'Neill analyzed Flag's common stock for the one-year period ended May 13, 2005. During this period, Flag's common stock generally outperformed each of the indices and the peer group to which it was compared.

Flag's One Year Stock Performance (May 13, 2004 - May 13, 2005)

	Beginning Index Value May 13, 2004	Ending Index Value May 13, 2005
Flag	100.00%	120.81%
Flag Peer Group	100.00	109.91
S&P Index	100.00	105.25
Nasdaq Bank Index	100.00	104.56
S&P Bank Index	100.00	108.80

Sandler O'Neill analyzed First Capital's common stock for the period May 28, 2004 (the closing date of the merger between First Capital and CNB Holdings, Inc.) through May 13, 2005. During this period, First Capital's common stock generally outperformed each of indices and the peer group to which it was compared.

First Capital's Stock Performance (May 28, 2004 - May 13, 2005)

	Beginning Index Value May 28, 2004	Ending Index Value May 13, 2005
First Capital	100.00%	116.67%
First Capital Peer Group	100.00	117.00
S&P Index	100.00	102.98
Nasdaq Bank Index	100.00	101.39
S&P Bank Index	100.00	104.18

Comparable Company Analysis. Sandler O'Neill also used publicly available information to perform a comparison of selected financial and market trading information for Flag and First Capital, to two different groups of selected financial institutions for Flag and First Capital, respectively.

The Flag peer group consisted of the following publicly traded commercial banks headquartered in Georgia, North Carolina or South Carolina with total assets between \$750 million and \$2.0 billion:

ABC Bancorp
Bank of Granite Corporation
Capital Bank Corporation
Colony Bancorp, Inc.
Fidelity Southern Corporation
First Bancorp
First South Bancorp, Inc.
FNB Corp.
FNB Financial Services Corporation

GB&T Bancshares, Inc.
Georgia Bank Financial Corporation
LSB Bancshares, Inc.
PAB Bankshares, Inc.
SCBT Financial Corporation
Security Bank Corporation
Southern Community Financial Corporation
Yadkin Valley Bank and Trust Company

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The analysis compared publicly available financial and market trading information for Flag and the high, low and median data for the Flag peer group as of and for the 12 months ended March 31, 2005 (or in cases where March data was not available, as of or for the 12 months ended December 31, 2004). The table below sets forth the data for Flag and the median, high and low data for the Flag peer group as of and for the 12 months ended March 31, 2005 (or in cases where March data was not available, as of or for the 12 months ended December 31, 2004), with pricing data as of May 13, 2005.

Table of Contents**Comparable Group Analysis**

	Flag	Peer Group Median Result	Peer Group High Result	Peer Group Low Result
Balance Sheet				
Total Assets (<i>in thousands</i>)	\$ 840,415	\$ 995,826	\$ 1,687,160	\$ 750,881
Net Loans / Total Assets	73.00%	76.54%	87.62%	64.12%
Gross Loans / Total Deposits	87.25%	97.41%	102.23%	88.63%
Total Borrowings / Total Assets	3.77%	9.30%	18.35%	2.04%
Asset Quality				
Non-performing Assets / Assets	0.80%	0.60%	1.24%	0.21%
Loan Loss Reserve / Gross Loans	1.43%	1.27%	1.80%	1.03%
Capital Adequacy				
Tangible Equity / Tangible Assets	6.01%	7.64%	12.52%	6.02%
Tier 1 Leverage Ratio	7.87%	9.05%	13.85%	7.82%
Tier 1 Risk Based Capital Ratio	10.20%	10.40%	15.97%	8.96%
Total Risk Based Capital Ratio	11.46%	11.97%	17.25%	9.99%
Intangible Assets / Total Equity	29.97%	8.01%	38.46%	0.00%
Profitability				
Net Interest Margin	4.48%	4.16%	4.79%	3.25%
Non-interest Income / Average Assets	1.12%	1.10%	1.80%	0.60%
Fees / Revenues	21.32%	20.74%	32.26%	15.78%
Non-interest Expense / Average Assets	3.83%	2.90%	4.19%	2.36%
Efficiency Ratio	72.85%	62.96%	74.75%	48.46%
Return on Average Assets	0.92%	1.06%	1.66%	0.62%
Return on Average Equity	10.64%	11.06%	20.65%	5.98%
Trading Multiples				
Price / Book Value	181.5%	170.2%	351.9%	120.0%
Price / Tangible Book Value	259.2%	200.0%	379.5%	161.6%
Price / LTM Earnings per Share	18.9x	17.2x	24.8x	14.9x
Price / 2005 Estimated Earnings per Share (1)	N/A	15.2x	17.3x	13.9x
Dividend Payout Ratio	30.38%	36.23%	65.66%	20.81%
Dividend Yield	1.60%	2.15%	3.82%	0.90%
Market Capitalization (<i>in thousands</i>)	\$ 127,590	\$ 173,475	\$ 304,541	\$ 103,334

(1) Based on I/B/E/S estimates.

Sandler O'Neill also used publicly available information to compare selected financial and market trading information for First Capital and a group of financial institutions selected by Sandler O'Neill. The First Capital peer group consisted of the following publicly traded commercial banks headquartered in Georgia, North Carolina or South Carolina with total assets between \$500 million and \$1 billion:

BNC Bancorp
 Capital Bank Corporation
 Colony Bankcorp, Inc.
 Community Bankshares, Inc.
 Community Capital Corporation
 Cooperative Bankshares, Inc.
 ECB Bancorp, Inc.

Gateway Financial Holdings, Inc.
 Georgia Bank Financial Corporation
 Integrity Financial Corporation
 LSB Bancshares, Inc.
 PAB Bankshares, Inc.
 Peoples Bancorp of North Carolina, Inc.
 Savannah Bancorp, Inc.

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First South Bancorp, Inc.
FNB Corp.
FNB Financial Services Corporation

Summit Bank Corporation
Yadkin Valley Bank and Trust Company

Table of Contents

The analysis compared publicly available financial and market trading information for First Capital and the high, low and median data for the First Capital peer group as of and for the 12 months ended March 31, 2005 (or in cases where March data was not available, as of or for the 12 months ended December 31, 2004). The table below sets forth the data for First Capital and the median, high and low data for the First Capital peer group as of and for the 12 months ended March 31, 2005 (or in cases where March data was not available, as of or for the 12 months ended December 31, 2004), with pricing data as of May 13, 2005.

Comparable Group Analysis

	<u>First Capital</u>	<u>Peer Group Median Result</u>	<u>Peer Group High Result</u>	<u>Peer Group Low Result</u>
Balance Sheet				
Total Assets (<i>in thousands</i>)	\$ 673,842	\$ 690,020	\$ 995,826	\$ 501,890
Net Loans / Total Assets	73.30%	76.26%	87.62%	63.31%
Gross Loans / Total Deposits	104.65%	97.30%	115.08%	77.02%
Total Borrowings / Total Assets	18.93%	11.03%	20.12%	2.04%
Asset Quality				
Non-performing Assets / Assets	0.32%	0.43%	1.24%	0.00%
Loan Loss Reserve / Gross Loans	1.24%	1.28%	1.66%	0.92%
Capital Adequacy				
Tangible Equity / Tangible Assets	7.50%	7.56%	9.39%	5.04%
Tier 1 Leverage Ratio	8.46%	8.81%	13.89%	7.82%
Tier 1 Risk Based Capital Ratio	10.22%	10.43%	14.46%	8.96%
Total Risk Based Capital Ratio	11.35%	11.68%	15.40%	9.99%
Intangible Assets / Total Equity	13.36%	7.28%	34.08%	0.00%
Profitability				
Net Interest Margin	3.57%	3.94%	4.79%	3.33%
Non-interest Income / Average Assets	0.23%	0.98%	1.80%	0.64%
Fees / Revenues	6.24%	21.04%	32.26%	15.78%
Non-interest Expense / Average Assets	2.46%	2.94%	4.19%	2.51%
Efficiency Ratio	67.31%	64.16%	77.92%	48.46%
Return on Average Assets	0.61%	0.91%	1.66%	0.31%
Return on Average Equity	7.72%	10.77%	20.65%	3.26%
Trading Multiples				
Price / Book Value	153.7%	173.2%	351.9%	126.7%
Price / Tangible Book Value	177.4%	195.0%	379.5%	126.7%
Price / LTM Earnings per Share	22.7x	17.2x	24.8x	14.4x
Price / 2005 Estimated Earnings per Share (1)	18.8x	14.5x	33.1x	13.1x
Dividend Payout Ratio	0.00%	35.17%	65.66%	9.30%
Dividend Yield	0.00%	2.00%	3.82%	0.22%
Market Capitalization (<i>in thousands</i>)	\$ 88,685	\$ 111,131	\$ 217,748	\$ 60,271

(1) Based on I/B/E/S estimates.

Analysis of Selected Merger Transactions. Sandler O'Neill reviewed 18 nationwide merger transactions announced from January 1, 2004 through May 13, 2005 involving commercial banks with assets between \$500 million and \$1 billion (based on publicly available information when the transactions were announced) as the acquired institution. Sandler O'Neill also reviewed 44 merger transactions with a transaction value greater than \$15 million announced during the same period involving commercial banks in the Southeastern United States as the acquired institution. Sandler O'Neill reviewed the following multiples: transaction price at announcement to last 12 months EPS, transaction price to book value per share, transaction price to tangible book value per share,

Table of Contents

and tangible book premium to core deposits and premium to market price and then computed high, low, mean, median multiples and premiums for the transactions. The median multiples were applied to First Capital's financial information as of and for the 12 months ended March 31, 2005. As illustrated in the following tables, Sandler O'Neill derived an imputed range of values per share for First Capital's common stock of \$17.88 to \$30.80 based upon the median multiples for the nationwide transactions and \$21.09 to \$28.41 based upon the median multiples for the Southeast transactions. The implied per share transaction value of the merger as calculated by Sandler O'Neill was \$23.93 per share.

Transaction Multiples

	Nationwide Transactions		Southeast Transactions	
	Median Multiple	Implied Value	Median Multiple	Implied Value
Transaction Price/LTM EPS	23.23x	\$ 17.88	30.63x	\$ 23.58
Transaction Price/Book Value	270.56%	\$ 30.80	249.58%	\$ 28.41
Transaction Price/Tangible Book Value	307.65%	\$ 30.34	263.32%	\$ 25.97
Tangible Book Premium/Core Deposits (1)	21.05%	\$ 23.18	19.29%	\$ 22.09
Premium to Market (2)	24.13%	\$ 21.72	20.51%	\$ 21.09

- (1) Core deposits are defined as total deposits less time deposits over \$100,000. The core deposit premium is calculated by taking transaction value, less tangible book value, divided by core deposits.
- (2) Based on First Capital's May 13, 2005 closing price of \$17.50.

Discounted Dividend Stream and Terminal Value Analysis. Sandler O'Neill performed an analysis that estimated the future stream of after-tax dividend flows of Flag through December 31, 2009 under various circumstances, assuming Flag's projected dividend stream and that Flag performed in accordance with the 2005 net income projection and earnings per share growth rate projections for 2006 through 2009 provided by management. To approximate the terminal value of Flag common stock at December 31, 2009, Sandler O'Neill applied price to LTM earnings multiples of 14.0x to 24.0x and multiples of tangible book value ranging from 175% to 325%. The dividend income streams and terminal values were then discounted to present values using different discount rates ranging from 9.0% to 15.0% chosen to reflect different assumptions regarding required rates of return of holders or prospective buyers of Flag common stock. As illustrated in the following tables, this analysis indicated an imputed range of values per share for Flag's common stock of \$10.02 to \$21.44 when applying the price/earnings multiples, and \$10.17 to \$23.26 when applying multiples of tangible book value to the current budget. The closing price for Flag's common stock on May 13, 2005 was \$14.96.

Earnings Per Share Multiples

Discount Rate	14.0x	16.0x	18.0x	20.0x	22.0x	24.0x
9.00%	\$ 12.83	\$ 14.55	\$ 16.27	\$ 17.99	\$ 19.71	\$ 21.44
10.00%	\$ 12.30	\$ 13.95	\$ 15.60	\$ 17.25	\$ 18.89	\$ 20.54
11.00%	\$ 11.80	\$ 13.38	\$ 14.96	\$ 16.53	\$ 18.11	\$ 19.69
12.00%	\$ 11.32	\$ 12.83	\$ 14.35	\$ 15.86	\$ 17.37	\$ 18.88
13.00%	\$ 10.87	\$ 12.32	\$ 13.77	\$ 15.22	\$ 16.67	\$ 18.11
14.00%	\$ 10.43	\$ 11.82	\$ 13.21	\$ 14.60	\$ 16.00	\$ 17.39
15.00%	\$ 10.02	\$ 11.36	\$ 12.69	\$ 14.02	\$ 15.36	\$ 16.69

Table of Contents**Tangible Book Value Per Share Multiples**

Discount Rate	175%	200%	225%	250%	275%	300%	325%
9.00%	\$ 13.01	\$ 14.72	\$ 16.43	\$ 18.13	\$ 19.84	\$ 21.55	\$ 23.26
10.00%	\$ 12.47	\$ 14.11	\$ 15.75	\$ 17.38	\$ 19.02	\$ 20.65	\$ 22.29
11.00%	\$ 11.97	\$ 13.53	\$ 15.10	\$ 16.66	\$ 18.23	\$ 19.80	\$ 21.36
12.00%	\$ 11.48	\$ 12.98	\$ 14.48	\$ 15.99	\$ 17.49	\$ 18.99	\$ 20.49
13.00%	\$ 11.02	\$ 12.46	\$ 13.90	\$ 15.34	\$ 16.78	\$ 18.22	\$ 19.66
14.00%	\$ 10.59	\$ 11.97	\$ 13.35	\$ 14.73	\$ 16.11	\$ 17.49	\$ 18.87
15.00%	\$ 10.17	\$ 11.49	\$ 12.82	\$ 14.14	\$ 15.47	\$ 16.79	\$ 18.11

In addition, Sandler O'Neill performed an analysis that estimated the future stream of after-tax dividend flows of First Capital through December 31, 2009 under various circumstances, assuming First Capital performed in accordance with 2005 and 2006 net income projections and earnings per share growth rate projections for 2007 through 2009 provided by Flag's management. To approximate the terminal value of First Capital common stock at December 31, 2009, Sandler O'Neill applied price/earnings multiples ranging from 14.0x to 24.0x and multiples of tangible book value ranging from 175% to 325%. The income streams and terminal values were then discounted to present values using different discount rates ranging from 9.0% to 15.0% chosen to reflect different assumptions regarding required rates of return of holders or prospective buyers of First Capital common stock. As illustrated in the following tables, this analysis indicated an imputed range of values per share of First Capital common stock of \$13.23 to \$29.24 when applying the price/earnings multiples, and \$15.57 to \$37.29 when applying multiples of tangible book value. The implied per share transaction value of the merger as calculated by Sandler O'Neill was \$23.93 per share.

Earnings Per Share Multiples

Discount Rate	14.0x	16.0x	18.0x	20.0x	22.0x	24.0x
9.00%	\$ 17.06	\$ 19.50	\$ 21.93	\$ 24.37	\$ 26.81	\$ 29.24
10.00%	\$ 16.33	\$ 18.67	\$ 21.00	\$ 23.34	\$ 25.67	\$ 28.00
11.00%	\$ 15.65	\$ 17.88	\$ 20.12	\$ 22.35	\$ 24.59	\$ 26.82
12.00%	\$ 14.99	\$ 17.14	\$ 19.28	\$ 21.42	\$ 23.56	\$ 25.71
13.00%	\$ 14.37	\$ 16.43	\$ 18.48	\$ 20.54	\$ 22.59	\$ 24.64
14.00%	\$ 13.79	\$ 15.76	\$ 17.72	\$ 19.69	\$ 21.66	\$ 23.63
15.00%	\$ 13.23	\$ 15.11	\$ 17.00	\$ 18.89	\$ 20.78	\$ 22.67

Tangible Book Value Per Share Multiples

Discount Rate	175%	200%	225%	250%	275%	300%	325%
9.00%	\$ 20.08	\$ 22.95	\$ 25.82	\$ 28.69	\$ 31.55	\$ 34.42	\$ 37.29
10.00%	\$ 19.23	\$ 21.97	\$ 24.72	\$ 27.47	\$ 30.22	\$ 32.96	\$ 35.71
11.00%	\$ 18.42	\$ 21.05	\$ 23.68	\$ 26.31	\$ 28.94	\$ 31.58	\$ 34.21
12.00%	\$ 17.65	\$ 20.17	\$ 22.69	\$ 25.22	\$ 27.74	\$ 30.26	\$ 32.78
13.00%	\$ 16.92	\$ 19.34	\$ 21.76	\$ 24.17	\$ 26.59	\$ 29.01	\$ 31.42
14.00%	\$ 16.23	\$ 18.55	\$ 20.86	\$ 23.18	\$ 25.50	\$ 27.82	\$ 30.14
15.00%	\$ 15.57	\$ 17.79	\$ 20.02	\$ 22.24	\$ 24.46	\$ 26.69	\$ 28.91

In connection with its analyses, Sandler O'Neill considered and discussed with the Flag board how the present value analyses would be affected by changes in the underlying assumptions, including variations with respect to net income. Sandler O'Neill noted that the discounted dividend stream and terminal value analysis is a widely used valuation methodology, but the results of such methodology are highly dependent upon the numerous assumptions that must be made, and the results thereof are not necessarily indicative of actual values or future results.

Table of Contents

Pro Forma Merger Analysis. Sandler O Neill analyzed certain potential pro forma effects of the merger, assuming the following: (1) the merger closes on September 30, 2005; (2) approximately 84.4% of First Capital shares are exchanged for Flag common stock at a fixed exchange ratio of 1.6x; (3) approximately 15.6% of First Capital shares are exchanged for cash at a price of \$23.93; (4) First Capital stock options are converted into options to purchase Flag common stock, adjusted for the fixed exchange ratio; (5) First Capital's 2005 and 2006 net income projections and earnings per share growth rates for 2007 through 2009 provided by and reviewed with Flag's management; (6) Flag's 2005 budgeted net income and earnings per share growth rate projections for 2006 through 2009 provided by and review with Flag's management; (7) purchase accounting adjustments, charges and transaction costs associated with the merger and cost savings determined by the senior managements of Flag and First Capital; (8) Flag issues \$30 million of trust preferred at closing at a cost of 5.25% per annum. The analyses indicated that for the year ending December 31, 2006 (the first full year of combined operations), the merger would be accretive to Flag's projected earnings per share and, at September 30, 2005 (the assumed closing date of the merger) the merger would be dilutive to Flag's tangible book value per share. The actual results achieved by the combined company may vary from projected results and the variations may be material.

Flag has agreed to pay Sandler O Neill a transaction fee in connection with the merger of approximately \$ (based upon the closing price of Flag common stock on 2005 of \$), of which \$50,000 has been paid and the balance of which is contingent, and payable, upon closing of the merger. Sandler O Neill has also received a fee of \$150,000 in connection with rendering its opinion, which fee shall be credited against the fee payable upon closing of the merger. Flag has also agreed to reimburse certain of Sandler O Neill's reasonable out-of-pocket expenses up to \$15,000 incurred in connection with its engagement and to indemnify Sandler O Neill and its affiliates and their respective partners, directors, officers, employees, agents and controlling persons against certain expenses and liabilities, including liabilities under securities laws.

Sandler O Neill may provide investment banking services to Flag in the future and may receive compensation for such services. The services may include raising capital in connection with the merger and/or other services to be performed during the period prior to the closing of the merger.

In the ordinary course of its business as a broker-dealer, Sandler O Neill may purchase securities from and sell securities to Flag and First Capital and their respective affiliates. Sandler O Neill may also actively trade the debt and/or equity securities of Flag or First Capital or their respective affiliates for its own account and for the accounts of its customers and, accordingly, may at any time hold a long or short position in such securities.

Table of Contents

TERMS OF THE MERGER

The descriptions of the terms and conditions of the merger, the merger agreement and any related documents in this joint proxy statement/prospectus are qualified in their entirety by reference to the copy of the merger agreement attached as Appendix A to this joint proxy statement/prospectus, to the registration statement, of which this joint proxy statement/prospectus is a part, and to the exhibits to the registration statement.

General

The merger agreement provides that, if all of the conditions set forth in the merger agreement are satisfied or waived, First Capital will merge with and into Flag, with Flag remaining in existence as the surviving corporation in the merger. First Capital Bank and Capital Financial Software, LLC, each a wholly-owned subsidiary of First Capital, will become wholly-owned subsidiaries of Flag following the merger, and First Capital Bank will be immediately merged with and into Flag Bank. Flag will also assume First Capital's trust subsidiary, First Capital Statutory Trust I, which was created in connection with First Capital's issuance of trust preferred securities.

Conversion of Stock; Treatment of Options

First Capital Common Stock. At the effective time of the merger, each share of First Capital common stock outstanding generally will be converted into and exchanged for the right to receive 1.6 shares of Flag common stock and cash instead of fractional shares. The exchange ratio is subject to customary adjustments to preserve the relative value of the consideration First Capital shareholders are to receive in the event of stock splits, reverse stock splits or the like before the merger is completed, as described below under **Anti-dilution Adjustments**. Because the exchange ratio is fixed and because the market price of Flag common stock will fluctuate, the value of the shares of Flag common stock that First Capital shareholders will receive at the effective time of the merger may increase or decrease, both before and after the merger.

Any non-institutional First Capital shareholder that would own more than 384,000 shares of Flag common stock following the merger will receive a cash payment, in lieu of shares of Flag common stock over the 384,000 share threshold, equal to the number of such excess shares multiplied by the average closing price of Flag's common stock for the 20 trading days immediately following the public announcement of the merger, which we estimate will be approximately \$14.78 per share. As discussed below under **Interests of Employees and Directors of Flag and First Capital in the Merger**, as a result of this provision, William R. Blanton, vice president, chief financial officer and chief operating officer of First Capital, will receive a cash payment of approximately \$19.1 million in the merger.

Any First Capital shareholder who would otherwise have been entitled to receive a fraction of a share of Flag common stock in the merger will receive, in lieu thereof, cash (without interest) in an amount equal to his or her fractional share multiplied by the average closing price of Flag common stock for the 20 trading days immediately preceding the date of the effective time of the merger as reported in *The Wall Street Journal*.

Some shares of First Capital common stock will not be converted in the merger. These include any shares held by Flag, First Capital and their respective subsidiaries, except for shares held on behalf of third parties. Each outstanding share of First Capital common stock owned by Flag, First Capital and their respective subsidiaries will be canceled at the effective time of the merger and will cease to be outstanding.

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Stock Options. Each outstanding and unexercised option to acquire First Capital common stock granted under First Capital's stock incentive plans will be assumed by Flag, and any right to purchase First Capital common stock under the options shall be converted at the effective time of the merger into rights to purchase Flag common stock, with the following adjustments:

the number of shares of Flag common stock subject to the option will be equal to the product of the number of shares of First Capital common stock subject to the option immediately prior to the effective time of the merger and the exchange ratio; and

Table of Contents

the exercise price per share of Flag common stock subject to the option will be equal to the exercise price under the First Capital option immediately prior to the effective time of the merger divided by the exchange ratio.

Shares of Flag common stock to be issued upon the exercise of First Capital stock options will be timely registered under the Securities Act of 1933 on a registration statement on Form S-8.

Anti-dilution Adjustments. If, before the effective time of the merger, the outstanding shares of First Capital common stock or Flag common stock are increased, decreased, changed into or exchanged for a different number or kind of shares or securities as a result of a stock split, stock dividend, recapitalization, reclassification, exchange of shares or similar recapitalization transaction, an appropriate and proportionate adjustment will be made to the exchange ratio.

Flag Common Stock. All shares of Flag common stock issued and outstanding immediately before the effective time of the merger will remain issued and outstanding immediately after completion of the merger as shares of common stock of the surviving corporation. They will not be affected by the merger.

Raising of Additional Capital

We cannot complete our merger unless we obtain the approval of applicable bank regulatory authorities, including the Federal Reserve and the Georgia Department. We are in the process of preparing and filing applications for approval of the merger with the Federal Reserve and the Georgia Department. In connection with the application, we propose to issue and sell up to \$25,000,000 in trust preferred securities through a trust in an offering to accredited investors that is exempt from the registration requirements of the Securities Act of 1933. The offering of the trust preferred securities by Flag will be subj