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FFLC BANCORP INC
Form 10-Q
July 23, 2004

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2004

OR

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

For the transition period from _____ to _____

Commission file number 0-22608

FFLC BANCORP, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of Incorporation or Organization) 59-3204891
(I.R.S. Employer Identification No.)

800 North Boulevard West, Post Office Box 490420, Leesburg, Florida 34749-0420
(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, Including Area Code (352) 787-3311

Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report.

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12B-2 of the Exchange Act): Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Common stock, par value \$.01 per share 5,405,179 shares outstanding at
----- July 20, 2004

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FFLC BANCORP, INC.

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FFLC BANCORP, INC.

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

Condensed Consolidated Balance Sheets
(\$ in thousands, except per share amounts)

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| | At June 30, 2004 ---- | At December 31, 2003 ---- |
|---|--------------------------------|------------------------------------|
| Assets | | |
| | (unaudited) | |
| Cash and due from banks | \$ 36,129 | 35,072 |
| Interest-earning deposits | 17,160 | 27,088 |
| | ----- | ----- |
| Cash and cash equivalents | 53,289 | 62,160 |
| Securities available for sale | 73,126 | 82,137 |
| Loans, net of allowance for loan losses of \$5,891 in 2004 and \$5,490 in 2003 | 842,423 | 767,987 |
| Accrued interest receivable | 3,759 | 3,849 |
| Premises and equipment, net | 22,879 | 21,448 |
| Foreclosed assets | 1,151 | 881 |
| Federal Home Loan Bank stock, at cost | 7,650 | 6,900 |
| Deferred income taxes | 1,340 | 1,134 |
| Other assets | 5,378 | 1,418 |
| | ----- | ----- |
| Total | \$ 1,010,995 | 947,914 |
| | ===== | ===== |
| Liabilities and Stockholders' Equity | | |
| Liabilities: | | |
| Noninterest-bearing demand deposits | 39,953 | 31,481 |
| NOW and money-market accounts | 180,025 | 161,527 |
| Savings accounts | 28,344 | 26,636 |
| Certificates | 491,925 | 485,945 |
| | ----- | ----- |
| Total deposits | 740,247 | 705,589 |
| Advances from Federal Home Loan Bank | 153,000 | 133,000 |
| Other borrowed funds | 17,242 | 17,786 |
| Junior subordinated debentures | 5,155 | 5,155 |
| Accrued expenses and other liabilities | 14,862 | 9,028 |
| | ----- | ----- |
| Total liabilities | 930,506 | 870,558 |
| | ----- | ----- |
| Stockholders' equity: | | |
| Preferred stock, \$.01 par value, 1,000,000 shares authorized, none outstanding | -- | -- |
| Common stock, \$.01 par value, 15,000,000 shares authorized, 6,398,202 in 2004 and 6,397,202 in 2003 shares issued | 64 | 64 |
| Additional paid-in-capital | 32,160 | 31,837 |
| Retained income | 68,346 | 65,071 |
| Accumulated other comprehensive income (loss) | (118) | 297 |
| Treasury stock, at cost (1,002,023 shares in 2004 and 1,000,048 shares in 2003) | (19,963) | (19,913) |
| | ----- | ----- |
| Total stockholders' equity | 80,489 | 77,356 |
| | ----- | ----- |

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| | | |
|-------|--------------|---------|
| Total | \$ 1,010,995 | 947,914 |
| | ===== | ===== |

See accompanying Notes to Condensed Consolidated Financial Statements.

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FFLC BANCORP, INC.

Condensed Consolidated Statements of Income (Unaudited)
(\$ in thousands, except per share amounts)

| | Three Months Ended June 30, | | Six M |
|--|--------------------------------|--------|--------|
| | 2004 | 2003 | 2004 |
| | ---- | ---- | ---- |
| Interest income: | | | |
| Loans | \$ 12,704 | 12,590 | 25,196 |
| Securities | 566 | 537 | 1,169 |
| Other | 119 | 202 | 244 |
| | ----- | ----- | ----- |
| Total interest income | 13,389 | 13,329 | 26,609 |
| | ----- | ----- | ----- |
| Interest expense: | | | |
| Deposits | 3,697 | 4,230 | 7,433 |
| Borrowed funds | 1,973 | 2,087 | 3,907 |
| | ----- | ----- | ----- |
| Total interest expense | 5,670 | 6,317 | 11,340 |
| | ----- | ----- | ----- |
| Net interest income | 7,719 | 7,012 | 15,269 |
| Provision for loan losses | 394 | 388 | 733 |
| | ----- | ----- | ----- |
| Net interest income after provision for loan losses | 7,325 | 6,624 | 14,536 |
| | ----- | ----- | ----- |
| Noninterest income: | | | |
| Deposit account fees | 356 | 255 | 615 |
| Other service charges and fees | 565 | 702 | 1,015 |
| Net gain on sales of loans held for sale | 130 | 359 | 280 |
| Other | 191 | 116 | 310 |
| | ----- | ----- | ----- |
| Total noninterest income | 1,242 | 1,432 | 2,220 |
| | ----- | ----- | ----- |
| Noninterest expense: | | | |
| Salaries and employee benefits | 2,648 | 2,500 | 5,308 |
| Occupancy expense | 718 | 702 | 1,420 |

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| | | | |
|--|-----------|-----------|-----------|
| Data processing expense | 389 | 280 | 780 |
| Advertising and promotion | 189 | 116 | 353 |
| Professional services | 138 | 120 | 270 |
| Other | 592 | 545 | 1,110 |
| | ----- | ----- | ----- |
| Total noninterest expense | 4,674 | 4,263 | 9,241 |
| | ----- | ----- | ----- |
| Income before income taxes | 3,893 | 3,793 | 7,515 |
| | ----- | ----- | ----- |
| Income taxes | 1,479 | 1,427 | 2,837 |
| | ----- | ----- | ----- |
| Net income | \$ 2,414 | 2,366 | 4,678 |
| | ===== | ===== | ===== |
| Basic income per share | \$.45 | .44 | .87 |
| | ===== | ===== | ===== |
| Weighted-average number of shares outstanding for basic | 5,396,185 | 5,385,407 | 5,395,344 |
| | ===== | ===== | ===== |
| Diluted income per share | \$.44 | .43 | .85 |
| | ===== | ===== | ===== |
| Weighted-average number of shares outstanding for diluted | 5,482,649 | 5,483,407 | 5,484,720 |
| | ===== | ===== | ===== |
| Dividends per share | \$.13 | .10 | .26 |
| | ===== | ===== | ===== |

See accompanying Notes to Condensed Consolidated Financial Statements

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FFLC BANCORP, INC.

Condensed Consolidated Statements of Changes in Stockholders' Equity (Unaudited)

Six Months Ended June 30, 2004 and 2003
(\$ in thousands)

| | Common Stock | | Additional Paid-In Capital | Treasury Stock | Retain- ed Earnings |
|------------------------------|---------------------|--------|----------------------------------|-------------------|------------------------|
| | Number of Shares | Amount | | | |
| | ----- | ----- | ----- | ----- | ----- |
| Balance at December 31, 2002 | 4,574,944 | \$46 | 31,638 | (19,667) | 58,113 |
| Comprehensive income: | | | | | |
| Net income (unaudited) | -- | -- | -- | -- | 4,678 |

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| | | | | | |
|--|-----------|------|--------|----------|-----|
| Change in unrealized gains on securities available for sale, net of income tax benefit of \$51 (unaudited) | -- | -- | -- | -- | -- |
| Change in unrealized loss on derivative instrument, net of income tax benefit of \$41 (unaudited) | -- | -- | -- | -- | -- |
| Comprehensive income (unaudited) | | | | | |
| Net proceeds from the issuance of common stock, stock options exercised (unaudited) | 25,890 | -- | 174 | -- | -- |
| Dividends paid (unaudited) | -- | -- | -- | -- | -- |
| Purchase of treasury stock, 8,379 shares (unaudited) | -- | -- | -- | (247) | (1) |
| Three-for-two stock split (unaudited) | 1,792,269 | 18 | (18) | -- | -- |
| Balance at June 30, 2003 (unaudited) | 6,393,103 | \$64 | 31,794 | (19,914) | 62 |

(continued)

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FFLC BANCORP, INC.

Condensed Consolidated Statements of Changes in Stockholders' Equity
(Unaudited), Continued

Six Months Ended June 30, 2004 and 2003
(\$ in thousands)

| | Common Stock | | Additional Paid-In Capital | Treasury Stock | Retain- ed In- come |
|---|---------------------|--------|----------------------------------|-------------------|---------------------------|
| | Number of Shares | Amount | | | |
| Balance at December 31, 2003 | 6,397,202 | \$64 | 31,837 | (19,913) | 65, |
| Comprehensive income: | | | | | |
| Net income (unaudited) | -- | -- | -- | -- | 4, |
| Change in unrealized gains on securities available for sale, net of income tax benefit of \$295 (unaudited) | -- | -- | -- | -- | -- |
| Change in unrealized loss on derivative instrument, net of income taxes | | | | | |

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| | | | | | |
|---|-----------|------|--------|----------|-------|
| of \$44 (unaudited) | -- | -- | -- | -- | |
| Comprehensive income (unaudited) | | | | | |
| Net proceeds from the issuance of common stock, stock options exercised (unaudited) | 1,000 | -- | 17 | -- | |
| Tax benefit from stock compensation plans | -- | -- | 306 | -- | |
| Dividends paid (unaudited) | -- | -- | -- | -- | (1, |
| Purchase of treasury stock, 1,975 shares (unaudited) | -- | -- | -- | (50) | |
| | ----- | --- | ----- | ----- | ----- |
| Balance at June 30, 2004 (unaudited) | 6,398,202 | \$64 | 32,160 | (19,963) | 68, |
| | ===== | === | ===== | ===== | ===== |

See accompanying Notes to Condensed Consolidated Financial Statements.

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FFLC BANCORP, INC.

Condensed Consolidated Statements of Cash Flows (Unaudited)
(In thousands)

| | |
|--|-------|
| Cash flows from operating activities: | |
| Net income | \$ 4 |
| Adjustments to reconcile net income to net cash provided by operating activities: | |
| Provision for loan losses | |
| Depreciation and amortization | |
| Deferred income taxes | |
| Net amortization of premiums and discounts on securities | |
| Net amortization of deferred loan fees and costs | |
| Net gain on sales of loans held for sale | |
| Loans originated for sale | (11 |
| Proceeds from sales of loans held for sale | 16 |
| Tax benefit from stock compensation plans | |
| Decrease in accrued interest receivable | |
| (Increase) decrease in other assets | (3 |
| Increase in accrued expenses and other liabilities | 5 |
| | ----- |
| Net cash provided by operating activities | 14 |
| | ----- |

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| | |
|--|----------------|
| Cash flows from investing activities: | |
| Proceeds from principal repayments and maturities on securities available for sale | 12 |
| Purchase of securities available for sale | (4) |
| Loan disbursements | (150) |
| Principal repayments on loans | 68 |
| Purchase of premises and equipment, net | (2) |
| (Purchase) redemption of Federal Home Loan Bank stock | |
| Net proceeds from sales of foreclosed assets | ----- |
| Net cash used in investing activities | (75) ----- |
| | |
| Cash flows from financing activities: | |
| Net increase in deposits | 34 |
| Net increase (decrease) in advances from Federal Home Loan Bank | 20 |
| Net (decrease) increase in other borrowed funds | |
| Issuance of common stock | |
| Purchase of treasury stock | |
| Cash dividends paid | (1) ----- |
| Net cash provided by (used in) financing activities | 52 ----- |
| | |
| Net decrease in cash and cash equivalents | (8) |
| Cash and cash equivalents at beginning of period | 62 ----- |
| Cash and cash equivalents at end of period | \$ 53 ===== |

(continued)

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FFLC BANCORP, INC.

Condensed Consolidated Statements of Cash Flows (Unaudited), Continued
(In thousands)

| | |
|--|------------------|
| Supplemental disclosures of cash flow information- | |
| Cash paid during the period for: | |
| Interest | \$ 11,2 ===== |
| Income taxes | \$ 2,7 ===== |
| | |
| Noncash investing and financing activities: | |

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Accumulated other comprehensive income:

| | | |
|--|----|-------|
| Net change in unrealized gain on securities available for sale, net of tax | \$ | (4) |
| | | ===== |
| Net change in unrealized loss on derivative instrument, net of tax | \$ | |
| | | ===== |
| Transfer from loans to foreclosed assets | \$ | 1,0 |
| | | ===== |
| Loans originated on sales of foreclosed assets | \$ | |
| | | ===== |
| Loans funded by and sold to correspondent | \$ | 3,0 |
| | | ===== |

See accompanying Notes to Condensed Consolidated Financial Statements.

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FFLC BANCORP, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. **Basis of Presentation.** In the opinion of the management of FFLC Bancorp, Inc. (the "Holding Company"), the accompanying condensed consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position at June 30, 2004 and the results of operations for the three- and six-month periods ended June 30, 2004 and 2003 and cash flows for the six-month periods ended June 30, 2004 and 2003. The results of operations for the three- and six-month periods ended June 30, 2004, are not necessarily indicative of results that may be expected for the year ending December 31, 2004.

The condensed consolidated financial statements include the accounts of the Holding Company and its two subsidiaries, First Federal Savings Bank of Lake County (the "Bank") and First Alliance Title, LLC and the Bank's wholly-owned subsidiary, Lake County Service Corporation (together, the "Company"). All significant intercompany accounts and transactions have been eliminated in consolidation. First Alliance Title, LLC ceased operations in November 2003.

2. **Loans.** The following table sets forth the composition of the Bank's loan portfolio in dollar amounts and percentages at the dates indicated (in thousands):

| | At June 30, 2004 | | At December 31, 2003 |
|----------------------------------|------------------|------------|----------------------|
| | Amount | % of Total | Amount |
| First mortgage loans secured by: | | | |
| One-to-four-family residential * | \$407,387 | 46.44% | \$384,514 |
| Construction and land | 65,699 | 7.49 | 43,575 |
| Multi-family units | 14,032 | 1.60 | 12,453 |

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| | | | |
|--|-----------|---------|-----------|
| Commercial real estate, churches and other | 187,598 | 21.39 | 167,381 |
| | ----- | ----- | ----- |
| Total first mortgage loans | 674,716 | 76.92 | 607,923 |
| Consumer loans | 165,916 | 18.91 | 155,438 |
| Commercial loans | 36,608 | 4.17 | 33,990 |
| | ----- | ----- | ----- |
| Total loans (1) | 877,240 | 100.00% | 797,351 |
| | | ===== | |
| Undisbursed portion of loans in process | (29,830) | | (24,573) |
| Net deferred loan costs | 904 | | 699 |
| Allowance for loan losses (2) | (5,891) | | (5,490) |
| | ----- | | ----- |
| Loans, net | \$842,423 | | \$767,987 |
| | ===== | | ===== |

* Includes \$10.3 million and \$15.6 million of loans classified as held for sale at June 30, 2004 and December 31, 2003, respectively.

(1) Total loans outstanding by department consisted of the following (\$ in thousands):

| | At | | | |
|-------------|---------------|------------|-------------------|------------|
| | June 30, 2004 | | December 31, 2003 | |
| | Amount | % of Total | Amount | % of Total |
| | ----- | ----- | ----- | ----- |
| Residential | \$ 399,506 | 45.54% | \$ 372,551 | 46.72% |
| Commercial | 307,461 | 35.05 | 265,655 | 33.32 |
| Consumer | 170,273 | 19.41 | 159,145 | 19.96 |
| | ----- | ----- | ----- | ----- |
| | \$ 877,240 | 100.00% | \$ 797,351 | 100.00% |
| | ===== | ===== | ===== | ===== |

(continued)

FFLC BANCORP, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited), Continued

2. Loans, Continued.

(2) Total allowance for loan losses by department consisted of the following (\$ in thousands):

| | At |
|--|-------------------|
| | ----- |
| | June 30, 2004 |
| | ----- |
| | December 31, 2003 |
| | ----- |

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| | Amount | % to Gross Loans | Amount | % to Gross Loans |
|-------------|---------|------------------------|---------|------------------------|
| | ----- | ----- | ----- | ----- |
| Residential | \$ 820 | .21% | \$ 911 | .24% |
| Commercial | 3,740 | 1.22 | 3,371 | 1.27 |
| Consumer | 1,331 | .78 | 1,208 | .76 |
| | ----- | | ----- | |
| | \$5,891 | .67% | \$5,490 | .69% |
| | ===== | ===== | ===== | ===== |

Total gross loans originated by department, including unfunded construction and line of credit loans, consisted of the following (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|-------------|--------------------------------|---------|------------------------------|---------|
| | ----- | ----- | ----- | ----- |
| | 2004 | 2003 | 2004 | 2003 |
| | ---- | ---- | ---- | ---- |
| Residential | \$ 51,012 | 51,578 | 88,425 | 96,591 |
| Commercial | 43,141 | 27,038 | 81,107 | 52,936 |
| Consumer | 34,007 | 26,274 | 60,638 | 47,247 |
| | ----- | ----- | ----- | ----- |
| | \$128,160 | 104,890 | 230,170 | 196,774 |
| | ===== | ===== | ===== | ===== |

3. Loan Impairment and Loan Losses. The Company also prepares a quarterly review of the adequacy of the allowance for loan losses to identify and value impaired loans in accordance with the guidance in Statements of Financial Accounting Standards No. 114 and 118.

An analysis of the change in the allowance for loan losses was as follows (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---------------------------|--------------------------------|-------|------------------------------|-------|
| | ----- | ----- | ----- | ----- |
| | 2004 | 2003 | 2004 | 2003 |
| | ---- | ---- | ---- | ---- |
| Beginning balance | \$ 5,646 | 5,311 | 5,490 | 5,181 |
| Provision for loan losses | 394 | 388 | 733 | 794 |
| Net loans charged-off | (149) | (273) | (332) | (549) |
| | ----- | ----- | ----- | ----- |
| Ending balance | \$ 5,891 | 5,426 | 5,891 | 5,426 |
| | ===== | ===== | ===== | ===== |

(continued)

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3. Loan Impairment and Loan Losses, Continued. The following summarizes the amount of impaired loans, all of which were collateral dependent (in thousands):

| | At | |
|--|----------|--------------|
| | June 30, | December 31, |
| | 2004 | 2003 |
| | ----- | ----- |
| Loans identified as impaired: | | |
| Gross loans with no related allowance for losses | \$ 2,992 | 2,971 |
| Gross loans with related allowance for losses recorded | 400 | 400 |
| Less: Allowances on these loans | (50) | (50) |
| | ----- | ----- |
| Net investment in impaired loans | \$ 3,342 | 3,321 |
| | ===== | ===== |

The average net investment in impaired loans and interest income recognized and received on impaired loans was as follows (in thousands):

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|-------|------------------|-------|
| | June 30, | | June 30, | |
| | 2004 | 2003 | 2004 | 2003 |
| | ----- | ----- | ----- | ----- |
| Average net investment in impaired loans | \$3,335 | 594 | 3,332 | 518 |
| | ===== | === | ===== | === |
| Interest income recognized on impaired loans | \$ 6 | 7 | 12 | 9 |
| | ===== | === | ===== | === |
| Interest income received on impaired loans | \$ 6 | 7 | 12 | 9 |
| | ===== | === | ===== | === |

Nonaccrual and accruing loans past due ninety days or more were as follows (in thousands):

| | At | |
|---|----------|--------------|
| | June 30, | December 31, |
| | 2004 | 2003 |
| | ----- | ----- |
| Nonaccrual loans | \$5,651 | 5,287 |
| Accruing loans past due ninety days or more | -- | -- |
| | ----- | ----- |
| Total | \$5,651 | 5,287 |
| | ===== | ===== |

FFLC BANCORP, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited), Continued

4. Income Per Share of Common Stock. Basic income per share of common stock has been computed by dividing the net income for the period by the weighted-average number of shares outstanding. Shares of common stock purchased by the Retention and Recognition Plan ("RRP") are only considered outstanding when the shares are released or committed to be released for allocation to participants. Diluted income per share is computed by dividing net income by the weighted-average number of shares outstanding including the dilutive effect of stock options computed using the treasury stock method. All per share amounts reflect the three-for-two stock split declared on February 14, 2003. The following table presents the calculation of basic and diluted income per share of common stock for the periods indicated:

| | Three Months Ended June 30, | |
|--|--------------------------------|-----------|
| | 2004 | 2003 |
| | ----- | ----- |
| Weighted-average shares of common stock issued and outstanding before adjustments for RRP and common stock options | 5,397,695 | 5,389,510 |
| Adjustment to reflect the effect of unallocated RRP average shares | (1,510) | (4,103) |
| | ----- | ----- |
| Weighted-average shares for basic income per share | 5,396,185 | 5,385,407 |
| | ===== | ===== |
| Basic income per share | \$.45 | .44 |
| | ===== | ===== |
| Total weighted-average common shares and equivalents outstanding for basic income per share computation | 5,396,185 | 5,385,407 |
| Additional dilutive shares using the average market value for the period utilizing the treasury stock method regarding stock options | 86,464 | 98,000 |
| | ----- | ----- |
| Weighted-average common shares and equivalents outstanding for diluted income per share | 5,482,649 | 5,483,407 |
| | ===== | ===== |
| Diluted income per share | \$.44 | .43 |
| | ===== | ===== |

5. Stock Split. On February 14, 2003, the Board of Directors declared a

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three-for-two stock split in the nature of a dividend on the common shares outstanding on February 28, 2003, which was distributed on March 14, 2003. In lieu of fractional shares resulting from the split, stockholders received cash based on the closing price on the record date.

(continued)

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FFLC BANCORP, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited), Continued

6. Stock Option Plans. During 2002, the Company adopted a new stock option plan (the "2002 Plan") which authorizes the Company to issue up to 375,000 shares (adjusted) in connection with options granted to directors, officers or employees of the Company. The terms and vesting periods will be determined as each option is granted, but the option price cannot be less than the then current market value of the common stock at the grant date. At June 30, 2004, 367,447 options remain available for future grants under the 2002 Plan.

The Company also has a 1993 stock option plan (the "1993 Plan") under which common shares are authorized to be issued in connection with options granted to directors, officers and employees of the Company. Options granted under the 1993 Plan are exercisable at the market price of the common stock at the date of grant. Such incentive stock options granted to officers and employees are exercisable in three equal annual installments, with the first installment becoming exercisable one year from the date of grant. Options granted to outside directors are exercisable immediately, but any common shares obtained from exercise of the options may not be sold prior to one year from the date of grant. All options expire at the earlier of ten years from the date of grant for officers and employees or twenty years for directors or one year following the date which the outside director, officer or employee ceases to serve in such capacity. All authorized options under the 1993 Plan have been granted.

The following is a summary of stock option transactions during the six-month periods ended June 30, 2004 and 2003 (all options and option price per share information has been adjusted to reflect the three-for-two stock split in 2003):

| | Number of Options | Range of Exercise Prices | Weighted- Average Exercise Price |
|--------------------------------|----------------------|-----------------------------|---|
| | ----- | ----- | ----- |
| Outstanding, December 31, 2002 | 152,327 | \$ 4.00-14.17 | 6.61 |
| Exercised | (28,003) | 4.00-11.75 | 5.50 |
| | ----- | | |
| Outstanding, June 30, 2003 | 124,324 | \$ 4.00-14.17 | 6.97 |
| | ===== | ===== | ===== |
| Outstanding, December 31, 2003 | 170,796 | \$ 4.00-26.74 | 12.61 |
| Granted | 7,553 | 25.36 | 25.36 |
| Exercised | (1,000) | 8.00-26.74 | 17.37 |

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| | | | |
|----------------------------|---------|---------------|-------|
| | ----- | | |
| Outstanding, June 30, 2004 | 177,349 | \$ 4.00-26.74 | 13.13 |
| | ===== | ===== | ===== |

(continued)

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FFLC BANCORP, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited), Continued

6. Stock Option Plans, Continued Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure (collectively, "SFAS 123") requires pro forma fair value disclosures if the intrinsic value method is being utilized to value stock-based compensation awards. For purposes of pro forma disclosure, the estimated fair value of stock options granted is included in expense in the period vesting occurs. The proforma information has been determined as if the Company had accounted for its stock options under the fair value method of SFAS No. 123. The Company accounts for the stock option plans under the recognition and measurement principles of APB No. 25. No stock-based employee compensation cost is reflected in net income during the periods presented, as all stock options granted under the plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and basic and diluted income per share as if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation (\$ in thousands, except per share data):

| | Three Months Ended June 30, | |
|---|--------------------------------|-------|
| | 2004 | 2003 |
| | ----- | ----- |
| Weighted-average grant-date fair value of stock options issued during the period | \$ 42 | N/A |
| | ===== | ===== |
| Net income, as reported | \$ 2,414 | 2,366 |
| Deduct: Total stock-based employee compensation determined under the fair value based method for all awards, net of related tax benefit | (65) | -- |
| | ----- | ----- |
| Proforma net income | \$ 2,349 | 2,366 |
| | ===== | ===== |
| Basic income per share, as reported | \$.45 | .44 |
| | ===== | ===== |
| Proforma basic income per share | \$.44 | .44 |
| | ===== | ===== |

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| | | | |
|---------------------------------------|--------|-----|-------|
| Diluted income per share, as reported | \$.44 | .43 | ===== |
| Proforma diluted income per share | \$.43 | .43 | ===== |

7. Reclassifications. Certain amounts in the 2003 condensed consolidated financial statements have been reclassified to conform to the 2004 presentation.

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FFLC BANCORP, INC.

Review by Independent Registered Public Accounting Firm

Hacker, Johnson & Smith PA, the Company's independent registered public accounting firm, have made a limited review of the financial data as of June 30, 2004, and for the three- and six-month periods ended June 30, 2004 and 2003 presented in this document, in accordance with standards established by the American Institute of Certified Public Accountants.

Their report furnished pursuant to Article 10 of Regulation S-X is included herein.

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Report of Independent Registered Public Accounting Firm

FFLC Bancorp, Inc.
Leesburg, Florida:

We have reviewed the accompanying condensed consolidated balance sheet of FFLC Bancorp, Inc. and Subsidiaries (the "Company") as of June 30, 2004, the related condensed consolidated statements of income for the three- and six-month periods ended June 30, 2004 and 2003 and the related condensed consolidated statements of changes in stockholders' equity and cash flows for the six-month periods ended June 30, 2004 and 2003. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial statements for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with auditing standards of the Public Company Accounting Oversight Board, the consolidated balance sheet as of December 31, 2003, and the related consolidated statements of income, changes in

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stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated January 16, 2004 we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2003, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Hacker, Johnson & Smith PA

HACKER, JOHNSON & SMITH PA
Orlando, Florida
July 9, 2004

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FFLC BANCORP, INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

General

FFLC Bancorp, Inc., (the "Holding Company") is the holding company for First Federal Savings Bank of Lake County (the "Bank") and the Bank's wholly-owned subsidiary, Lake County Service Corporation ("LCSC") (together, the "Company"). The Holding Company's other subsidiary, First Alliance Title, LLC ceased operations in November 2003. The Company's consolidated results of operations are primarily those of the Bank.

The Bank's principal business continues to be attracting retail deposits from the general public and investing those deposits, together with borrowings and principal repayments on loans and investments and funds generated from operations in loans. Those loans are primarily loans secured by first mortgages on one-to-four-family homes or commercial real estate. The Bank also makes commercial and consumer loans and, to a lesser extent, construction, land and multi-family mortgage loans. In addition, the Bank holds investments permitted by federal laws and regulations including securities issued by the U.S. Government and its agencies. The Bank's revenues are derived principally from interest on its loan and securities portfolios. The Bank is a member of the Federal Home Loan Bank ("FHLB") system and its deposits are insured up to the applicable limits by the Savings Association Insurance Fund ("SAIF") of the Federal Deposit Insurance Corporation (the "FDIC"). The Bank is subject to regulation by the Office of Thrift Supervision (the "OTS") as its chartering agency, and the FDIC as its deposit insurer.

The Bank has sixteen full-service banking facilities in Lake, Sumter, Citrus and Marion Counties, Florida. The Bank's sixteenth branch opened during the second quarter of 2004 in Sumter County.

The Company's results of operations depend primarily on its net interest income, which is the difference between the interest income earned primarily on its loan and securities portfolios, and its cost of funds, consisting of the interest paid on its deposits and borrowings. The Company's operating results are also affected, to a lesser extent, by fee income. The Company's operating expenses consist primarily of salaries and employee benefits, occupancy expenses, and other general and administrative expenses. The Company's results of operations are also significantly affected by general economic and competitive conditions,

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particularly changes in market interest rates, government policies, and actions of regulatory authorities.

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FFLC BANCORP, INC.

Off-Balance Sheet Arrangements

The Company's primary sources of funds include proceeds from payments and prepayments on mortgage loans and mortgage-backed securities, proceeds from maturities of investment securities, and increases in deposits and advances from the Federal Home Loan Bank and other borrowed funds. While maturities and scheduled amortization of loans and investment securities are predictable sources of funds, deposit inflows and mortgage prepayments are greatly influenced by local conditions, general interest rates, and regulatory changes.

To meet the financing needs of its customers, the Company is a party to financial instruments with off-balance sheet risk in the normal course of business. In the event of nonperformance by the other party to the off-balance sheet financial instrument, the Company's exposure to credit loss is the contractual amount of those instruments. The Company uses the same credit policies in making commitments as it does for on-balance-sheet instruments. A summary of the contractual amounts of the Company's financial instruments with off-balance sheet risk at June 30, 2004 follows (in thousands):

| | |
|---|-------------------|
| Commitments to extend credit | \$34,554 ===== |
| Unused lines of credit | \$96,182 ===== |
| Undisbursed portion of loans in process | \$29,830 ===== |
| Standby letters of credit | \$ 3,111 ===== |

Capital Resources

The Company believes that it will have sufficient funds available to meet its commitments. At June 30, 2004, certificates of deposit which were scheduled to mature in one year or less totaled \$275.5 million. Based on past experience, management believes that a significant portion of those funds will remain with the Company.

Regulatory Capital Requirements

The Bank is subject to various regulatory capital requirements administered by the Federal banking agencies. Failure to meet minimum capital requirements can result in regulators initiating certain mandatory- and possibly additional discretionary-actions that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and

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classification are also subject to qualitative judgements by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts (set forth in the table) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined). Management believes that, as of June 30, 2004, the Bank meets all capital adequacy requirements to which it is subject.

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FFLC BANCORP, INC.

As of June 30, 2004, the most recent notification from the OTS categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum tangible, Tier I (core), Tier I (risk-based) and total risk-based capital percentages as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

The Bank's actual capital amounts and percentages at June 30, 2004 are also presented in the table.

| | | Actual ----- Amount ----- | | Minimum For Capital Adequacy Purposes ----- Amount ----- (\$ in thousands) |
|---|------------|------------------------------------|----------|---|
| | % | | % | |
| Stockholders' equity, and ratio to total assets | 8.29% | \$ 83,842 | | |
| Less: investment in nonincludable subsidiary | | (4,451) | | |
| Add: unrealized loss on securities available for sale | | 13 ----- | | |
| Tangible capital, and ratio to adjusted total assets | 7.89% | \$ 79,404 ===== | 1.5% | \$ 15,100 ===== |
| Tier 1 (core) capital, and ratio to adjusted total assets | 7.89% | \$ 79,404 ===== | 3.0% | \$ 30,200 ===== |
| Tier 1 capital, and ratio to risk-weighted assets | 11.07% | 79,404 | 4.0% | \$ 28,690 ===== |

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| | | | | |
|---|--------|--------------|------|-----------|
| Tier 2 capital (allowance for loan losses) | | 5,787 | | |
| | | ----- | | |
| Total risk-based capital, and ratio to risk-weighted assets | 11.88% | \$ 85,191 | 8.0% | \$ 57,380 |
| | | ===== | | ===== |
| Total assets | | \$ 1,011,095 | | |
| | | ===== | | |
| Adjusted total assets | | \$ 1,006,652 | | |
| | | ===== | | |
| Risk-weighted assets | | \$ 717,255 | | |
| | | ===== | | |

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FFLC BANCORP, INC.

The following table shows selected ratios for the periods ended or at the dates indicated:

| | Six Months Ended June 30, 2004 | Year Ended December 31, 2003 |
|---|--------------------------------------|------------------------------------|
| | ----- | ----- |
| Average equity as a percentage of average assets | 8.11% | 8.02% |
| Total equity to total assets at end of period | 7.96% | 8.16% |
| Return on average assets (1) | .96% | .98% |
| Return on average equity (1) | 11.80% | 12.23% |
| Noninterest expense to average assets (1) | 1.89% | 1.86% |
| Nonperforming assets to total assets at end of period | .67% | .65% |
| Operating efficiency ratio (1) | 52.84% | 51.66% |

(1) Annualized for the six months ended June 30, 2004 and 2003.

| | |
|------------------------|----------------------------|
| At June 30, 2004 | At December 31, 2003 |
| ----- | ----- |

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Weighted-average interest rates:

Interest-earning assets:

| | | |
|-------------------------------|-------|-------|
| Loans | 6.19% | 6.45% |
| Securities | 3.25% | 3.24% |
| Other interest-earning assets | 2.05% | 1.45% |
| Total interest-earning assets | 5.86% | 5.96% |

Interest-bearing liabilities:

| | | |
|------------------------------------|-------|-------|
| Interest-bearing deposits | 2.04% | 2.22% |
| Borrowed funds | 4.75% | 4.93% |
| Total interest-bearing liabilities | 2.56% | 2.70% |

| | | |
|----------------------|-------|-------|
| Interest-rate spread | 3.30% | 3.26% |
|----------------------|-------|-------|

Changes in Financial Condition

Total assets increased \$63.1 million or 6.7%, from \$947.9 million at December 31, 2003 to \$1,011.0 million at June 30, 2004, primarily as a result of a \$74.4 million increase in net loans. Deposits increased \$34.7 million from \$705.6 million at December 31, 2003 to \$740.2 million at June 30, 2004 and advances from the Federal Home Loan Bank increased \$20.0 million to \$153.0 million at June 30, 2004 from \$133.0 million at December 31, 2003. The \$3.1 million net increase in stockholders' equity during the six months ended June 30, 2004 resulted primarily from net income of \$4.7 million less dividends paid of \$1.4 million.

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FFLC BANCORP, INC.

Results of Operations

The following table sets forth, for the periods indicated, information regarding (i) the total dollar amount of interest and dividend income of the Company from interest-earning assets and the resultant average yields; (ii) the total dollar amount of interest expense on interest-bearing liabilities and the resultant average costs; (iii) net interest/dividend income; (iv) interest-rate spread; and (v) net interest margin. Yields and costs were derived by dividing annualized income or expense by the average balance of assets or liabilities, respectively, for the periods shown. The average balance of loans includes loans on which the Company has discontinued accruing interest. The yields and costs include certain fees which are considered to constitute adjustments to yields.

| | 2004 | | | |
|-----------------------------------|--------------------|------------------------------|---------------------------|----|
| | Average Balance | Interest and Dividends | Average Yield/ Cost | |
| Interest-earning assets: | | | | |
| Loans | \$ 815,700 | 12,704 | 6.23% | \$ |
| Securities | 83,070 | 566 | 2.73 | |
| Other interest-earning assets (1) | 24,630 | 119 | 1.93 | |
| | | | | |

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| | | | | |
|--|------------|----------|-------|------|
| Total interest-earning assets | 923,400 | 13,389 | 5.80 | |
| | | ----- | | |
| Noninterest-earning assets | 69,984 | | | --- |
| | ----- | | | |
| Total assets | \$ 993,384 | | | \$ |
| | ===== | | | ==== |
| Interest-bearing liabilities: | | | | |
| NOW and money-market accounts | 170,293 | 166 | .39 | |
| Savings accounts | 27,629 | 34 | .49 | |
| Certificates | 504,136 | 3,497 | 2.77 | |
| Federal Home Loan Bank advances | 138,989 | 1,853 | 5.33 | |
| Other borrowed funds (2) | 21,966 | 120 | 2.19 | |
| | ----- | ----- | | --- |
| Total interest-bearing liabilities | 863,013 | 5,670 | 2.63 | |
| | | ----- | | |
| Noninterest-bearing deposits | 38,003 | | | |
| Noninterest-bearing liabilities | 12,382 | | | |
| Stockholders' equity | 79,986 | | | --- |
| | ----- | | | |
| Total liabilities and stockholders' equity | \$ 993,384 | | | \$ |
| | ===== | | | ==== |
| Net interest income | | \$ 7,719 | | |
| | | ===== | | |
| Interest-rate spread (3) | | | 3.17% | |
| | | | ==== | |
| Net interest-earning assets, net margin (4) | \$ 60,387 | | 3.34% | \$ |
| | ===== | | ==== | ==== |
| Ratio of interest-earning assets to interest-bearing liabilities | 1.07 | | | |
| | ==== | | | |

- (1) Includes interest-earnings deposits and Federal Home Loan Bank stock.
- (2) Includes other borrowed funds and junior subordinated debentures.
- (3) Interest-rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.
- (4) Net margin is annualized net interest income divided by average interest-earning assets.

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(i) the total dollar amount of interest and dividend income of the Company from interest-earning assets and the resultant average yields; (ii) the total dollar amount of interest expense on interest-bearing liabilities and the resultant average cost; (iii) net interest and dividend income; (iv) interest-rate spread; and (v) net interest margin. Yields and costs were derived by dividing annualized income or expense by the average balance of assets or liabilities, respectively, for the periods shown. The average balance of loans includes loans on which the Company has discontinued accruing interest. The yields and costs include fees which are considered to constitute adjustments to yields.

| | ----- 2004 ----- | | | |
|--|-----------------------------|---------------------------------------|-----------------------------------|-------|
| | Average Balance ----- | Interest and Dividends ----- | Average Yield/ Cost ---- | |
| Interest-earning assets: | | | | |
| Loans | \$ 800,322 | 25,196 | 6.30% | \$ |
| Securities | 84,557 | 1,169 | 2.76 | |
| Other interest-earning assets (1) | 25,870 | 244 | 1.89 | |
| | ----- | ----- | | ----- |
| Total interest-earning assets | 910,749 | 26,609 | 5.84 | |
| | | ----- | | |
| Noninterest-earning assets | 66,668 | | | |
| | ----- | | | ----- |
| Total assets | \$ 977,417 | | | \$ |
| | ===== | | | ===== |
| Interest-bearing liabilities: | | | | |
| NOW and money-market accounts | 171,723 | 331 | .39 | |
| Savings accounts | 27,176 | 70 | .52 | |
| Certificates | 496,212 | 7,032 | 2.83 | |
| Federal Home Loan Bank advances | 135,994 | 3,667 | 5.39 | |
| Other borrowed funds (2) | 22,307 | 240 | 2.15 | |
| | ----- | ----- | | ----- |
| Total interest-bearing liabilities | 853,412 | 11,340 | 2.66 | |
| | | ----- | | |
| Noninterest-bearing deposits | 33,954 | | | |
| Noninterest-bearing liabilities | 10,759 | | | |
| Stockholders' equity | 79,292 | | | |
| | ----- | | | ----- |
| Total liabilities and stockholders' equity | \$ 977,417 | | | \$ |
| | ===== | | | ===== |
| Net interest income | | \$ 15,269 | | |
| | | ===== | | |
| Interest-rate spread (3) | | | 3.18% | |
| | | | ===== | |

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| | | | |
|---|--------------------|----------------|-------------|
| Net interest-earning assets, net margin (4) | \$ 57,337 ===== | 3.35% ===== | \$ ===== |
| Ratio of interest-earning assets to interest-bearing liabilities | 1.07 ===== | | |

- (1) Includes interest-earnings deposits and Federal Home Loan Bank stock.
- (2) Includes other borrowed funds and junior subordinated debentures.
- (3) Interest-rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.
- (4) Net margin is annualized net interest income divided by average interest-earning assets.

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FFLC BANCORP, INC.

Comparison of the Three-Month Periods Ended June 30, 2004 and 2003

General Operating Results. Net income for the three-month period ended June 30, 2004 was \$2.4 million, or \$.45 per basic share and \$.44 per diluted share, compared to \$2.4 million, or \$.44 per basic share and \$.43 per diluted share, for the comparable period in 2003. All per share information has been adjusted to reflect the three-for-two stock split in 2003. The increase in net income was primarily a result of an increase in net interest income, partially offset by a decrease in noninterest income and an increase in noninterest expense.

Interest Income. Interest income increased \$60,000 to \$13.4 million for the three-month period ended June 30, 2004. The increase was due to a \$43.1 million or 4.9% increase in average interest-earning assets outstanding for the three months ended June 30, 2004 compared to the 2003 period, partially offset by a decrease in the average yield earned on interest-earning assets from 6.06% for the three months ended June 30, 2003 to 5.80% for the three months ended June 30, 2004.

Interest Expense. Interest expense decreased \$647,000 or 10.2%, from \$6.3 million for the three-month period ended June 30, 2003 to \$5.7 million for the three-month period ended June 30, 2004. The decrease was primarily due to a decrease in the average cost of interest-bearing liabilities from 3.06% for the three months ended June 30, 2003 to 2.63% for the comparable 2004 period, partially offset by an increase of \$38.4 million in average interest-bearing liabilities outstanding. Average interest-bearing deposits increased \$40.2 million from \$661.8 million outstanding during the three months ended June 30, 2003 to \$702.1 million outstanding during the comparable period for 2004. Average borrowings decreased \$1.9 million from \$162.8 million during the three months ended June 30, 2003 to \$161.0 million for the comparable 2004 period.

Provision for Loan Losses. The provision for loan losses is charged to income to increase the total allowance to a level deemed appropriate by management. It is based upon the volume and type of lending conducted by the Company, the Company's charge-off experience, industry standards, the amount of

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nonperforming loans, general economic conditions, particularly as they relate to the Company's market area, and other factors related to the collectibility of the Company's loan portfolio. The Company recorded provisions for loan losses for the three-month periods ended June 30, 2004 and 2003 of \$394,000 and \$388,000, respectively. Net loans charged off for the three-month periods ended June 30, 2004 and 2003 were \$149,000 and \$273,000, respectively. Management believes that the allowance for loan losses, which was \$5.9 million or .67% of gross loans at June 30, 2004, is adequate.

Noninterest Income. Noninterest income decreased \$190,000 or 13.3% from \$1.4 million during the 2003 period to \$1.2 million during the 2004 period. The decrease was partly due to a \$229,000 decrease from period to period in gain on sales of loans held for sale. The Company originated \$8.2 million of loans held for sale during the three months ended June 30, 2004 compared to \$25.9 million during the comparable 2003 period. This decrease in originations and sales resulted from a general slow down in secondary market activity with the recent increase in interest rates.

Noninterest Expense. Noninterest expense increased by \$411,000 or 9.6% from \$4.3 million for the three-month period ended June 30, 2003 to \$4.7 million for the three-month period ended June 30, 2004. The increase was primarily due to increases of \$148,000 in salaries and employee benefits and \$109,000 in data processing expense related to the overall growth of the Company.

Income Taxes. Income taxes increased from \$1.4 million for the three-month period ended June 30, 2003 (an effective tax rate of 37.6%) to \$1.5 million (an effective tax rate of 38.0%) for the corresponding period in 2004.

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FFLC BANCORP, INC.

Comparison of the Six-Month Periods Ended June 30, 2004 and 2003

General Operating Results. Net income for the six-month period ended June 30, 2004 was \$4.7 million, or \$.87 per basic share and \$.85 per diluted share, compared to \$4.7 million, or \$.88 per basic share and \$.86 per diluted share, for the comparable period in 2003. All per share information has been adjusted to reflect the three-for-two stock split in 2003. The decrease in net income was primarily a result of a decrease in noninterest income and an increase in noninterest expense, partially offset by an increase in net interest income.

Interest Income. Interest income decreased \$297,000 to \$26.6 million for the six-month period ended June 30, 2004. The decrease was due to a decrease in the average yield earned on interest-earning assets from 6.11% for the six months ended June 30, 2003 to 5.84% for the six months ended June 30, 2004, partially offset by a \$30.3 million or 3.4% increase in average interest-earning assets outstanding for the six months ended June 30, 2004 compared to the 2003 period.

Interest Expense. Interest expense decreased \$1.5 million or 11.8%, from \$12.9 million for the six-month period ended June 30, 2003 to \$11.3 million for the six-month period ended June 30, 2004. The decrease was primarily due to a decrease in the average cost of interest-bearing liabilities from 3.11% for the six months ended June 30, 2003 to 2.66% for the comparable 2004 period, partially offset by an increase of \$27.2 million in average interest-bearing liabilities outstanding. Average interest-bearing deposits increased \$34.9 million from \$660.2 million outstanding during the six

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months ended June 30, 2003 to \$695.1 million outstanding during the comparable period for 2004. Average borrowings decreased \$7.7 million from \$166.0 million during the six months ended June 30, 2003 to \$158.3 million for the comparable 2004 period.

Provision for Loan Losses. The provision for loan losses is charged to income to increase the total allowance to a level deemed appropriate by management. It is based upon the volume and type of lending conducted by the Company, the Company's charge-off experience, industry standards, the amount of nonperforming loans, general economic conditions, particularly as they relate to the Company's market area, and other factors related to the collectibility of the Company's loan portfolio. The Company recorded provisions for loan losses for the six-month periods ended June 30, 2004 and 2003 of \$733,000 and \$794,000, respectively. Net loans charged off for the six-month periods ended June 30, 2004 and 2003 were \$332,000 and \$549,000, respectively. Management believes that the allowance for loan losses, which was \$5.9 million or .67% of gross loans at June 30, 2004, is adequate.

Noninterest Income. Noninterest income decreased \$495,000 or 18.2% from \$2.7 million during the 2003 period to \$2.2 million during the 2004 period. The decrease was mainly due to a \$350,000 decrease from period to period in gain on sales of loans held for sale. The Company originated \$16.8 million of loans held for sale during the six months ended June 30, 2004 compared to \$42.4 million during the same period for 2003. This decrease in originations and sales resulted from a general slow down in secondary market activity as interest rates began to rise in 2004.

Noninterest Expense. Noninterest expense increased by \$856,000 or 10.2% from \$8.4 million for the six-month period ended June 30, 2003 to \$9.2 million for the six-month period ended June 30, 2004. The increase was primarily due to increases of \$362,000 in salaries and employee benefits and \$227,000 in data processing expense related to the overall growth of the Company.

Income Taxes. Income taxes decreased from \$2.9 million for the six-month period ended June 30, 2003 (an effective tax rate of 37.8%) to \$2.8 million (an effective tax rate of 37.8%) for the corresponding period in 2004.

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FFLC BANCORP, INC.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk of loss from adverse changes in market prices and rates. The Company's market risk arises primarily from interest-rate risk inherent in its lending and deposit taking activities. The Company has little or no risk related to trading accounts, commodities or foreign exchange.

Management actively monitors and manages its interest rate risk exposure. The primary objective in managing interest-rate risk is to limit, within established guidelines, the adverse impact of changes in interest rates on the Company's net interest income and capital, while adjusting the Company's asset-liability structure to obtain the maximum yield-cost spread on that structure. Management relies primarily on its asset-liability structure to control interest rate risk. However, a sudden and substantial increase in interest rates could adversely impact the Company's earnings, to the extent that the interest rates borne by assets and liabilities do not change at the same speed, to the same extent, or on the same basis. There have been no significant changes in the Company's

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market risk exposure since December 31, 2003. The Company does not believe that the interest rate swap entered into in September 2002 exposes the Company to significant interest rate risk.

Item 4. Controls and Procedures

- a. Evaluation of disclosure controls and procedures. The Company maintains controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Based upon their evaluation of those controls and procedures performed within 90 days of the filing date of this report, the Chief Executive and Chief Financial officers of the Company concluded that the Company's disclosure controls and procedures were adequate.

- b. Changes in internal controls. The Company made no significant changes in its internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation of those controls by the Chief Executive and Chief Financial officers.

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FFLC BANCORP, INC.

Part II - OTHER INFORMATION

Item 1. Legal Proceedings

There are no material pending legal proceeding to which FFLC Bancorp, Inc. or any of its subsidiaries is a party or to which any of their property is subject.

Item 2. Changes in Securities and Use of Proceeds

Common Stock. The following table shows information relating to the repurchase of shares of its common stock by the Holding Company during the three months ended June 30, 2004:

| | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|-------|--|------------------------------------|--|--|
| | ----- | ----- | ----- | ----- |
| April | -- | \$ -- | -- | 232,573 |
| May | -- | -- | -- | 232,573 |
| June | 1,875 | 25.00 | 1,875 | 230,698 |
| | ----- | | ----- | |
| Total | 1,875 | \$ 25.00 | 1,875 | 230,698 |
| | ===== | ===== | ===== | ===== |

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Junior Subordinated Debentures. The Holding Company has the right at one or more times, unless an event of default exists under the floating rate junior subordinated deferrable interest debentures due September 26, 2032 (the "Debentures"), to defer interest payments on the Debentures for up to twenty consecutive quarterly periods. During that time, the Holding Company will be prohibited from declaring or paying cash dividends on its common stock.

Item 3. Defaults upon Senior Securities

Not applicable

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FFLC BANCORP, INC.

Item 4. Submission of Matters to a Vote of Security Holders

The Annual Meeting of Shareholders (the "Annual Meeting") of FFLC Bancorp, Inc. was held on May 13, 2004, to consider: (i) the election of three directors each for a term of three years and (ii) the ratification of the appointment of the Company's independent auditors for the year ending December 31, 2004. At the Annual Meeting, incumbent Directors Howard H. Hewitt, H.D. Robuck, Jr., and Stephen T. Kurtz were reelected. The terms of Directors Joseph J. Junod, Claron D. Wagner, Paul K. Mueller, James P. Logan and Ted R. Ostrander, Jr. continued after the Annual Meeting.

At the Annual Meeting, 4,624,561 shares were present in person or by proxy. The following is a summary and tabulation of the matters that were voted upon at the Annual Meeting:

Proposal I.

The election of three directors, each for a term of three years:

| | For --- | Against ----- | Abstentions and Broker Nonvotes ----- |
|------------------|--------------------|------------------|--|
| Howard H. Hewitt | 4,591,322 ===== | 33,239 ===== | -- ===== |
| H.D. Robuck, Jr | 4,444,431 ===== | 180,130 ===== | -- ===== |
| Stephen T. Kurtz | 4,504,480 ===== | 120,081 ===== | -- ===== |

Proposal II:

To ratify the appointment of Hacker, Johnson & Smith PA as the Company's independent auditors for the year ending December 31, 2004:

| | For --- | Against ----- | Abstentions and Broker Nonvotes ----- |
|--|------------|------------------|--|
|--|------------|------------------|--|

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4,597,273
=====

14,691
=====

12,597
=====

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FFLC BANCORP, INC.

Item 5. Other Information

Not applicable

Item 6. Exhibits and Reports on Form 8-K

- (a) The following exhibits are filed as part of this report.
- 3.1 Certificate of Incorporation of FFLC Bancorp, Inc.*
 - 3.2 Amended Bylaws of FFLC Bancorp, Inc.
 - 4.0 Stock Certificate of FFLC Bancorp, Inc.*
 - 10.1 First Federal Savings Bank of Lake County Recognition and Retention Plan**
 - 10.2 First Federal Savings Bank of Lake County Recognition and Retention Plan for Outside Directors**
 - 10.3 FFLC Bancorp, Inc. Incentive Stock Option Plans for Officers and Employees**
 - 10.4 FFLC Bancorp, Inc. Stock Option Plan for Outside Directors**
 - 31.1 Certification of Chief Executive Officer required by Rule 13a-14(a)/15d-14(a) under the Exchange Act
 - 31.2 Certification of Chief Financial Officer required by Rule 13a-14(a)/15d-14(a) under the Exchange Act
 - 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002
 - 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002

* Incorporated herein by reference into this document from the Exhibits to Form S-1, Registration Statement, initially filed on September 27, 1993, Registration No. 33-69466.

** Incorporated herein by reference into this document from the Proxy Statement for the Annual Meeting of Stockholders held on May 12, 1994.

*** Incorporated herein by reference into this document from the September 30, 1999 FFLC Bancorp, Inc. Form 10-Q filed November 3, 1999.

- (b) The following Forms 8-K were filed during the three-month period ended June 30, 2004:

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On April 9, 2004, the Company filed a Form 8-K to disclose that the Company had issued a press release to announce the Company's first quarter earnings and declaration of a dividend.

On May 10, 2004, the Company filed a Form 8-K to disclose that the Company had issued a press release to announce that the Company will be participating in the 2004 America's Community Bankers' Community Bank Investor Conference in New York City.

On May 14, 2004, the Company filed Form 8-K to disclose that the Company had issued a press release to announce that a new Chairman, Vice Chairman and Director had been elected for the Board of the Company.

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FFLC BANCORP, INC.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: July 23, 2004

FFLC Bancorp, Inc.

By: /s/ Stephen T. Kurtz

Name: Stephen T. Kurtz, President and
Chief Executive Officer

By: /s/ Paul K. Mueller

Name: Paul K. Mueller, Executive Vice
President and Treasurer

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