

FFLC BANCORP INC
Form 10-Q
October 25, 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 September 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
(Address of Principal Executive Offices)

34749-0420
(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

5,405,429 shares outstanding at October 21, 2004

CONFORMED COPY

FFLC BANCORP, INC.

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Item 1. Financial Statements

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

| | At September 30, 2004 | At December 31, 2003 |
|---|-----------------------------|----------------------------|
| | <u>(unaudited)</u> | |
| Assets | | |
| Cash and due from banks | \$ 41,500 | 35,072 |
| Interest-earning deposits | 23,559 | 27,088 |
| | <hr/> | <hr/> |
| Cash and cash equivalents | 65,059 | 62,160 |
| Securities available for sale | 71,563 | 82,137 |
| Loans, net of allowance for loan losses of \$6,118 in 2004 and \$5,490 in 2003 | 861,435 | 767,987 |
| Accrued interest receivable | 3,897 | 3,849 |
| Premises and equipment, net | 22,718 | 21,448 |
| Foreclosed assets | 528 | 881 |
| Federal Home Loan Bank stock, at cost | 7,650 | 6,900 |
| Deferred income taxes | 1,508 | 1,134 |
| Other assets | 5,335 | 1,418 |
| | <hr/> | <hr/> |
| Total | \$ 1,039,693 | 947,914 |
| | <hr/> | <hr/> |
| Liabilities and Stockholders Equity | | |
| Liabilities: | | |
| Noninterest-bearing demand deposits | 40,567 | 31,481 |
| NOW and money-market accounts | 182,616 | 161,527 |
| Savings accounts | 29,556 | 26,636 |
| Certificates | 517,468 | 485,945 |
| | <hr/> | <hr/> |
| Total deposits | 770,207 | 705,589 |
| Advances from Federal Home Loan Bank | 153,000 | 133,000 |
| Other borrowed funds | 15,099 | 17,786 |
| Junior subordinated debentures | 5,155 | 5,155 |
| Accrued expenses and other liabilities | 13,639 | 9,028 |
| | <hr/> | <hr/> |
| Total liabilities | 957,100 | 870,558 |
| | <hr/> | <hr/> |
| Stockholders equity: | | |
| Preferred stock, \$.01 par value, 1,000,000 shares authorized, none outstanding | | |
| Common stock, \$.01 par value, 15,000,000 shares authorized, 6,408,802 in 2004 and 6,397,202 in 2003 shares issued | 64 | 64 |
| Additional paid-in-capital | 32,283 | 31,837 |

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| | | |
|--|-------------------|-------------------|
| Retained income | 70,327 | 65,071 |
| Accumulated other comprehensive income (loss) | (81) | 297 |
| Treasury stock, at cost (1,003,373 shares in 2004 and 1,000,048 shares in 2003) | (20,000) | (19,913) |
| | <u> </u> | <u> </u> |
| Total stockholders' equity | 82,593 | 77,356 |
| | <u> </u> | <u> </u> |
| Total | \$ 1,039,693 | 947,914 |
| | <u> </u> | <u> </u> |

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 September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-------------------|------------------------------------|-------------------|
| | 2004 | 2003 | 2004 | 2003 |
| Interest income: | | | | |
| Loans | \$ 13,301 | 12,264 | 38,497 | 37,576 |
| Securities | 556 | 482 | 1,725 | 1,607 |
| Other | 170 | 160 | 414 | 629 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total interest income | 14,027 | 12,906 | 40,636 | 39,812 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Interest expense: | | | | |
| Deposits | 3,742 | 3,916 | 11,175 | 12,561 |
| Borrowed funds | 2,132 | 2,010 | 6,039 | 6,224 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total interest expense | 5,874 | 5,926 | 17,214 | 18,785 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Net interest income | 8,153 | 6,980 | 23,422 | 21,027 |
| Provision for loan losses | 389 | 330 | 1,122 | 1,124 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Net interest income after provision for loan losses | 7,764 | 6,650 | 22,300 | 19,903 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

Noninterest income:

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| | | | | |
|--|-------------------|-------------------|-------------------|-------------------|
| Deposit account fees | 395 | 276 | 1,010 | 762 |
| Other service charges and fees | 479 | 670 | 1,494 | 1,956 |
| Net gain on sales of loans held for sale | 111 | 381 | 391 | 1,011 |
| Other | 292 | 138 | 602 | 451 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total noninterest income | 1,277 | 1,465 | 3,497 | 4,180 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Noninterest expense: | | | | |
| Salaries and employee benefits | 2,723 | 2,624 | 8,031 | 7,570 |
| Occupancy expense | 747 | 704 | 2,167 | 2,054 |
| Data processing expense | 407 | 333 | 1,187 | 886 |
| Professional services | 139 | 123 | 409 | 346 |
| Advertising and promotion | 116 | 111 | 469 | 364 |
| Other | 575 | 540 | 1,685 | 1,600 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total noninterest expense | 4,707 | 4,435 | 13,948 | 12,820 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Income before income taxes | 4,334 | 3,680 | 11,849 | 11,263 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Income taxes | 1,650 | 1,387 | 4,487 | 4,250 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Net income | \$ 2,684 | 2,293 | 7,362 | 7,013 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Basic income per share | \$.50 | .42 | 1.37 | 1.30 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Weighted-average number of shares outstanding for basic | 5,403,300 | 5,389,768 | 5,398,349 | 5,383,140 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Diluted income per share | \$.49 | .42 | 1.34 | 1.28 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Weighted-average number of shares outstanding for diluted | 5,486,033 | 5,482,560 | 5,484,992 | 5,481,431 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Dividends per share | \$.13 | .13 | .39 | .33 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

See accompanying Notes to Condensed Consolidated Financial Statements

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Nine Months Ended September 30, 2004 and 2003
(\$ in thousands)

| | Common Stock | | Additional Paid-In Capital | Treasury Stock | Retained Income | Accumulated | Total Stockholders Equity |
|---|---------------------|--------|----------------------------------|-------------------|--------------------|----------------------------------|---------------------------------|
| | Number of Shares | Amount | | | | Other Comprehensive Income | |
| Balance at December 31, 2002 | 4,574,944 | \$ 46 | 31,638 | (19,667) | 58,409 | 636 | 71,062 |
| Comprehensive income: | | | | | | | |
| Net income (unaudited) | | | | | 7,013 | | 7,013 |
| Change in unrealized gains on securities available for sale, net of income tax benefit of \$203 (unaudited) | | | | | | (336) | (336) |
| Change in unrealized loss on derivative instrument, net of income tax benefit of \$10 (unaudited) | | | | | | (17) | (17) |
| Comprehensive income (unaudited) | | | | | | | 6,660 |
| Net proceeds from the issuance of common stock, stock options exercised (unaudited) | 26,715 | | 191 | | | | 191 |
| Dividends paid (unaudited) | | | | | (1,784) | | (1,784) |
| Purchase of treasury stock, 8,379 shares (unaudited) | | | | (247) | | | (247) |
| Three-for-two stock split (unaudited) | 1,792,269 | 18 | (18) | | | | |
| Balance at September 30, 2003 (unaudited) | 6,393,928 | \$ 64 | 31,811 | (19,914) | 63,638 | 283 | 75,882 |

(continued)

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Nine Months Ended September 30, 2004 and 2003

(\$ in thousands)

| | Common Stock | | Additional Paid-In Capital | Treasury Stock | Retained Income | Accumulated | Total Stockholders Equity |
|---|---------------------|--------|----------------------------------|-------------------|--------------------|--|---------------------------------|
| | Number of Shares | Amount | | | | Other Comprehensive Income (Loss) | |
| Balance at December 31, 2003 | 6,397,202 | \$ 64 | 31,837 | (19,913) | 65,071 | 297 | 77,356 |
| Comprehensive income: | | | | | | | |
| Net income (unaudited) | | | | | 7,362 | | 7,362 |
| Change in unrealized gains on securities available for sale, net of income tax benefit of \$247 (unaudited) | | | | | | (409) | (409) |
| Change in unrealized loss on derivative instrument, net of income tax benefit of \$19 (unaudited) | | | | | | 31 | 31 |
| Comprehensive income (unaudited) | | | | | | | 6,984 |
| Net proceeds from the issuance of common stock, stock options exercised (unaudited) | 11,600 | | 132 | | | | 132 |
| Tax benefit from stock compensation plans | | | 314 | | | | 314 |
| Dividends paid (unaudited) | | | | | (2,106) | | (2,106) |
| Purchase of treasury stock, 3,325 shares (unaudited) | | | | (87) | | | (87) |
| Three-for-two stock split (unaudited) | | | | | | | |
| Balance at September 30, 2004 (unaudited) | 6,408,802 | \$ 64 | 32,283 | (20,000) | 70,327 | (81) | 82,593 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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| | | |
|--|-----------------------------|-----------------------------|
| Cash flows from financing activities: | | |
| Net increase in deposits | \$ 64,618 | 17,441 |
| Net (decrease) increase in advances from Federal Home Loan Bank | 20,000 | (16,000) |
| Net increase in other borrowed funds | (2,687) | 849 |
| Issuance of common stock | 132 | 191 |
| Purchase of treasury stock | (87) | (247) |
| Cash dividends paid | (2,106) | (1,784) |
| | <u> </u> | <u> </u> |
| Net cash provided by financing activities | 79,870 | 450 |
| | <u> </u> | <u> </u> |
| Net increase in cash and cash equivalents | 2,899 | 6,122 |
| Cash and cash equivalents at beginning of period | 62,160 | 69,394 |
| | <u> </u> | <u> </u> |
| Cash and cash equivalents at end of period | \$ 65,059 | 75,516 |
| | <u> </u> | <u> </u> |
| Supplemental disclosures of cash flow information- | | |
| Cash paid during the period for: | | |
| Interest | \$ 17,055 | 18,891 |
| | <u> </u> | <u> </u> |
| Income taxes | \$ 4,178 | 4,908 |
| | <u> </u> | <u> </u> |
| Noncash investing and financing activities: | | |
| Accumulated other comprehensive income: | | |
| Net change in unrealized gain on securities available for sale, net of tax | \$ (409) | (336) |
| | <u> </u> | <u> </u> |
| Net change in unrealized loss on derivative instrument, net of tax | \$ 31 | (17) |
| | <u> </u> | <u> </u> |
| Transfers from loans to foreclosed assets | \$ 1,743 | 1,418 |
| | <u> </u> | <u> </u> |
| Loans originated on sales of foreclosed assets | \$ 325 | 136 |
| | <u> </u> | <u> </u> |
| Loans funded by and sold to correspondent | \$ 8,697 | 12,264 |
| | <u> </u> | <u> </u> |

See accompanying Notes to Condensed Consolidated Financial Statements.

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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 September 30, 2004 and the results of operations for the three- and nine-month periods ended September 30, 2004 and 2003 and cash flows for the nine-month periods ended September 30, 2004 and 2003. The results of operations for the three-and nine-month periods ended September 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 Company s loan portfolio in dollar amounts and percentages at the dates indicated (in thousands):

| | At September 30, 2004 | | At December 31, 2003 | |
|--|-----------------------|------------|----------------------|------------|
| | Amount | % of Total | Amount | % of Total |
| First mortgage loans secured by: | | | | |
| One-to-four-family residential * | \$ 419,428 | 46.33% | \$ 384,514 | 48.22% |
| Construction and land | 75,819 | 8.37 | 43,575 | 5.47 |
| Multi-family units | 13,561 | 1.50 | 12,453 | 1.56 |
| Commercial real estate, churches and other | 184,149 | 20.34 | 167,381 | 20.99 |
| | <hr/> | | <hr/> | |
| Total first mortgage loans | 692,957 | 76.54 | 607,923 | 76.24 |
| Consumer loans | 174,410 | 19.26 | 155,438 | 19.50 |
| Commercial loans | 38,005 | 4.20 | 33,990 | 4.26 |
| | <hr/> | | <hr/> | |
| Total loans (1) | 905,372 | 100.00% | 797,351 | 100.00% |
| | <hr/> | | <hr/> | |
| Undisbursed portion of loans in process | (38,856) | | (24,573) | |
| Net deferred loan costs | 1,037 | | 699 | |
| Allowance for loan losses (2) | (6,118) | | (5,490) | |
| | <hr/> | | <hr/> | |
| Loans, net | \$ 861,435 | | \$ 767,987 | |
| | <hr/> | | <hr/> | |

* Includes \$9.7 million and \$15.6 million of loans classified as held for sale at September 30, 2004 and December 31, 2003, respectively.

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

| At | | | |
|--------------------|------------|-------------------|------------|
| September 30, 2004 | | December 31, 2003 | |
| Amount | % of Total | Amount | % of Total |

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At

| Residential | \$ 414,552 | 45.79% | \$ 372,551 | 46.72% |
|-------------|-------------------|----------------|-------------------|----------------|
| Commercial | 312,729 | 34.54 | 265,655 | 33.32 |
| Consumer | 178,091 | 19.67 | 159,145 | 19.96 |
| | <u>\$ 905,372</u> | <u>100.00%</u> | <u>\$ 797,351</u> | <u>100.00%</u> |

(continued)

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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

| | September 30, 2004 | | December 31, 2003 | |
|-------------|--------------------|------------------|-------------------|------------------|
| | Amount | % to Gross Loans | Amount | % to Gross Loans |
| Residential | \$ 919 | .22% | \$ 911 | .24% |
| Commercial | 3,798 | 1.21 | 3,371 | 1.27 |
| Consumer | 1,401 | .79 | 1,208 | .76 |
| | <u>\$ 6,118</u> | <u>.68%</u> | <u>\$ 5,490</u> | <u>.69%</u> |

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-------------|----------------------------------|--------|---------------------------------|---------|
| | 2004 | 2003 | 2004 | 2003 |
| Residential | \$ 49,814 | 57,583 | 138,239 | 154,174 |
| Commercial | 35,630 | 22,238 | 116,737 | 75,174 |
| Consumer | 31,944 | 24,381 | 92,582 | 71,628 |

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| Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-------------------------------------|---------|------------------------------------|---------|
| \$ 117,388 | 104,202 | 347,558 | 300,976 |

3. Loan Impairment and Loan Losses. The Company prepares a quarterly review of the adequacy of the allowance for loan losses to identify and value impaired loans in accordance with guidance in the 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 September 30, | | Nine Months Ended September 30, | |
|---------------------------|-------------------------------------|-------|------------------------------------|-------|
| | 2004 | 2003 | 2004 | 2003 |
| Beginning balance | \$ 5,891 | 5,426 | 5,490 | 5,181 |
| Provision for loan losses | 389 | 330 | 1,122 | 1,124 |
| Net loans charged-off | (162) | (345) | (494) | (894) |
| Ending balance | \$ 6,118 | 5,411 | 6,118 | 5,411 |

(continued)

FFLC BANCORP, INC.

Notes to Condensed Consolidated Financial Statements (Unaudited), Continued

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

| | At | |
|--|---------------|--------------|
| | September 30, | December 31, |
| | 2004 | 2003 |
| Loans identified as impaired: | | |
| Gross loans with no related allowance for losses | \$ 731 | 2,971 |
| Gross loans with related allowance for losses recorded | 400 | 400 |
| Less: Allowances on these loans | (50) | (50) |
| Net investment in impaired loans | \$ 1,081 | 3,321 |

At

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|-------|------------------------------------|-------|
| | 2004 | 2003 | 2004 | 2003 |
| Average net investment in impaired loans | \$ 2,211 | 3,149 | 2,958 | 1,742 |
| Interest income recognized on impaired loans | \$ 4 | 64 | 16 | 73 |
| Interest income received on impaired loans | \$ 4 | 64 | 16 | 73 |

Nonaccrual and past due loans were as follows (in thousands):

| | At | |
|---|---------------|--------------|
| | September 30, | December 31, |
| | 2004 | 2003 |
| Nonaccrual loans | \$ 3,170 | 5,287 |
| Accruing loans past due ninety days or more | 159 | |
| Total | \$ 3,329 | 5,287 |

The decrease in impaired and nonaccrual loans during the quarter mainly resulted from the pay-down of one agricultural loan that had been in nonaccrual and designated as impaired.

(continued)

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

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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 September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|-----------|------------------------------------|-----------|
| | 2004 | 2003 | 2004 | 2003 |
| Weighted-average shares of common stock issued and outstanding before adjustments for RRP and common stock options | 5,403,300 | 5,393,871 | 5,399,859 | 5,387,243 |
| Adjustment to reflect the effect of unallocated RRP average shares | | (4,103) | (1,510) | (4,103) |
| Weighted-average shares for basic income per share | 5,403,300 | 5,389,768 | 5,398,349 | 5,383,140 |
| Basic income per share | \$.50 | .42 | 1.37 | 1.30 |
| Total weighted-average common shares and equivalents outstanding for basic income per share computation | 5,403,300 | 5,389,768 | 5,398,349 | 5,383,140 |
| Additional dilutive shares using the average market value for the period utilizing the treasury stock method regarding stock options | 82,733 | 92,792 | 86,643 | 98,291 |
| Weighted-average shares and equivalents outstanding for diluted income per share | 5,486,033 | 5,482,560 | 5,484,992 | 5,481,431 |
| Diluted income per share | \$.49 | .42 | 1.34 | 1.28 |

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

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 September 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 nine-month periods ended September 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 | (28,828) | 4.00-11.75 | 6.03 |
| Outstanding, September 30, 2003 | 123,499 | \$ 4.00-14.17 | 6.99 |
| Outstanding, December 31, 2003 | 170,796 | \$ 4.00-26.74 | 12.61 |
| Granted | 7,553 | 25.36 | 25.36 |
| Exercised | (11,600) | 8.00-26.74 | 11.44 |
| Outstanding, September 30, 2004 | 166,749 | \$ 4.00-26.74 | 13.27 |

(continued)

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

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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 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 123 to stock-based employee compensation (\$ in thousands, except per share data):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-------|------------------------------------|-------|
| | 2004 | 2003 | 2004 | 2003 |
| Weighted-average-grant-date fair value of stock options issued during the period | \$ N/A | N/A | 42 | N/A |
| Net income, as reported | \$ 2,684 | 2,293 | 7,362 | 7,013 |
| Deduct: Total stock-based employee compensation determined under the fair value based method for all awards, net of related tax benefit | (38) | | (142) | |
| Proforma net income | \$ 2,646 | 2,293 | 7,220 | 7,013 |
| Basic income per share: | | | | |
| As reported | \$.50 | .42 | 1.37 | 1.30 |
| Proforma | \$.49 | .42 | 1.34 | 1.30 |
| Diluted income per share: | | | | |
| As reported | \$.49 | .42 | 1.34 | 1.28 |
| Proforma | \$.48 | .42 | 1.32 | 1.28 |

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

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

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 September 30, 2004, the related condensed consolidated statements of income for the three- and nine-month periods ended September 30, 2004 and 2003 and the related condensed consolidated statements of changes in stockholders equity and cash flows for the nine-month periods ended September 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 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
October 18, 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 Company's consolidated results of operations are primarily those of the Bank.

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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, 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. Based on its capital resources shown below, the Company believes that it will have sufficient funds available to meet its commitments. A summary of the contractual amounts of the Company's financial instruments with off-balance sheet risk at September 30, 2004 follows (in thousands):

| | |
|---|------------|
| Commitments to extend credit | \$ 24,842 |
| Unused lines of credit | \$ 108,583 |
| Undisbursed portion of loans in process | \$ 38,856 |
| Standby letters of credit | \$ 2,997 |

Capital Resources

At September 30, 2004, certificates of deposit which were scheduled to mature in one year or less totaled \$259.8 million. Based on past experience, management believes that a significant portion of those funds will remain with the Company to meet its commitments.

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 classification are also subject to qualitative judgments 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 September 30, 2004, the Bank meets all capital adequacy requirements to which it is subject.

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FFLC BANCORP, INC.

As of September 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 September 30, 2004 are also presented in the table.

| | Actual | | Minimum For Capital Adequacy Purposes | | To Be Well Capitalized For Prompt Corrective Action Provisions | |
|---|--------|-----------|--|--------|--|--------|
| | % | Amount | % | Amount | % | Amount |
| (\$ in thousands) | | | | | | |
| Stockholders' equity, and ratio to total assets | 8.19% | \$ 85,210 | | | | |
| Less: investment in nonincludable subsidiary | | (4,449) | | | | |
| Less: unrealized gain on securities available for sale | | (58) | | | | |
| Tangible capital, and ratio to adjusted | | | | | | |

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| | Actual | Minimum For Capital Adequacy Purposes | To Be Well Capitalized For Prompt Corrective Action Provisions |
|--|------------------|--|--|
| Tier 1 (core) capital, and ratio to adjusted total assets | 7.79% \$ 80,703 | 1.5% \$ 15,531 | |
| | 7.79% \$ 80,703 | 3.0% \$ 31,061 | 5.0% \$ 51,769 |
| Tier 1 capital, and ratio to risk-weighted assets | 11.02% 80,703 | 4.0% \$ 29,206 | 6.0% \$ 43,959 |
| Tier 2 capital (allowance for loan losses) | 6,037 | | |
| Total risk-based capital, and ratio to risk- weighted assets | 11.84% \$ 86,740 | 8.0% \$ 58,611 | 10.0% \$ 73,264 |
| Total assets | \$ 1,039,887 | | |
| Adjusted total assets | \$ 1,035,372 | | |
| Risk-weighted assets | \$ 732,642 | | |

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FFLC BANCORP, INC.

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

| | Nine Months Ended September 30, 2004 | Year Ended December 31, 2003 | Nine Months Ended September 30, 2003 |
|---|---|------------------------------------|---|
| Average equity as a percentage of average assets | 8.08% | 8.02% | 7.96% |
| Total equity to total assets at end of period | 7.94% | 8.16% | 8.20% |
| Return on average assets (1) | .99% | .98% | 1.01% |
| Return on average equity (1) | 12.24% | 12.23% | 12.63% |

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| | Nine Months Ended September 30, 2004 | Year Ended December 31, 2003 | Nine Months Ended September 30, 2003 |
|--|---|------------------------------------|---|
| Noninterest expense to average assets (1) | 1.87% | 1.86% | 1.84% |
| Nonperforming assets to total assets at end of period | .37% | .65% | .64% |
| Operating efficiency ratio (1) | 51.81% | 51.66% | 50.86% |

(1) Annualized for the nine months ended September 30, 2004 and 2003.

| | At September 30, 2004 | At December 31, 2003 | At September 30, 2003 |
|------------------------------------|-----------------------------|----------------------------|-----------------------------|
| Weighted-average interest rates: | | | |
| Interest-earning assets: | | | |
| Loans | 6.28% | 6.45% | 6.57% |
| Securities | 3.12% | 3.24% | 3.90% |
| Other interest-earning assets | 2.23% | 1.45% | 1.32% |
| Total interest-earning assets | 5.92% | 5.96% | 6.03% |
| Interest-bearing liabilities: | | | |
| Interest-bearing deposits | 2.20% | 2.22% | 2.37% |
| Borrowed funds | 4.85% | 4.93% | 5.13% |
| Total interest-bearing liabilities | 2.59% | 2.70% | 2.80% |
| Interest-rate spread | 3.33% | 3.26% | 3.23% |

Changes in Financial Condition

Total assets increased \$91.8 million or 9.68%, from \$947.9 million at December 31, 2003 to \$1,039.7 million at September 30, 2004, primarily as a result of a \$93.4 million increase in net loans. Deposits increased \$64.6 million from \$705.6 million at December 31, 2003 to \$770.2 million at September 30, 2004 and advances from the Federal Home Loan Bank increased \$20.0 million to \$153.0 million at September 30, 2004 from \$133.0 million at December 31, 2003. The \$5.2 million net increase in stockholders' equity during the nine months ended September 30, 2004 resulted primarily from net income of \$7.4 million less dividends paid of \$2.1 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.

| Three Months Ended September 30, | |
|----------------------------------|------|
| 2004 | 2003 |
| | |

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Three Months Ended September 30,

| | Average Balance | Interest and Dividends | Average Yield/ Cost | Average Balance | Interest and Dividends | Average Yield/ Cost |
|--|---------------------|------------------------------|---------------------------|--------------------|------------------------------|---------------------------|
| (\$ in Thousands) | | | | | | |
| Interest-earning assets: | | | | | | |
| Loans | \$ 848,962 | 13,301 | 6.27% | \$ 736,183 | 12,264 | 6.66% |
| Securities | 80,005 | 556 | 2.78 | 87,031 | 482 | 2.22 |
| Other interest-earning assets (1) | 28,295 | 170 | 2.40 | 42,478 | 160 | 1.51 |
| | <u>957,262</u> | <u>14,027</u> | 5.86 | <u>865,692</u> | <u>12,906</u> | 5.96 |
| Total interest-earning assets | | | | | | |
| Noninterest-earning assets | <u>67,486</u> | | | <u>57,500</u> | | |
| Total assets | <u>\$ 1,024,748</u> | | | <u>\$ 923,192</u> | | |
| Interest-bearing liabilities: | | | | | | |
| NOW and money-market accounts | 181,072 | 168 | .37 | 150,907 | 163 | .43 |
| Savings accounts | 28,911 | 34 | .47 | 25,804 | 37 | .57 |
| Certificates | 504,488 | 3,540 | 2.81 | 478,979 | 3,716 | 3.10 |
| Federal Home Loan Bank advances | 153,000 | 2,008 | 5.25 | 133,000 | 1,891 | 5.69 |
| Other borrowed funds (2) | 21,824 | 124 | 2.27 | 21,944 | 119 | 2.17 |
| | <u>889,295</u> | <u>5,874</u> | 2.64 | <u>810,634</u> | <u>5,926</u> | 2.92 |
| Total interest-bearing liabilities | | | | | | |
| Noninterest-bearing deposits | 42,591 | | | 26,059 | | |
| Noninterest-bearing liabilities | 10,991 | | | 10,902 | | |
| Stockholders' equity | <u>81,871</u> | | | <u>75,597</u> | | |
| Total liabilities and stockholders' equity | <u>\$ 1,024,748</u> | | | <u>\$ 923,192</u> | | |
| Net interest income | | <u>\$ 8,153</u> | | | <u>\$ 6,980</u> | |
| Interest-rate spread (3) | | | <u>3.22%</u> | | | <u>3.04%</u> |
| Net interest-earning assets, net margin (4) | <u>\$ 67,967</u> | | <u>3.41%</u> | <u>\$ 55,058</u> | | <u>3.23%</u> |
| Ratio of interest-earning assets to interest-bearing liabilities | <u>1.08</u> | | | <u>1.07</u> | | |

(1) Includes interest-bearing 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.

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 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 certain fees which are considered to constitute adjustments to yields.

| | Nine Months Ended September 30, | | | | | |
|-----------------------------------|---------------------------------|------------------------------|---------------------------|--------------------|------------------------------|---------------------------|
| | 2004 | | | 2003 | | |
| | Average Balance | Interest and Dividends | Average Yield/ Cost | Average Balance | Interest and Dividends | Average Yield/ Cost |
| | (\$ in Thousands) | | | | | |
| Interest-earning assets: | | | | | | |
| Loans | \$ 816,654 | 38,497 | 6.29% | \$ 738,253 | 37,576 | 6.79% |
| Securities | 83,029 | 1,725 | 2.77 | 89,478 | 1,607 | 2.39 |
| Other interest-earning assets (1) | 26,684 | 414 | 2.07 | 47,718 | 629 | 1.76 |
| | <hr/> | <hr/> | | <hr/> | <hr/> | |
| Total interest-earning assets | 926,367 | 40,636 | 5.85 | 875,449 | 39,812 | 6.06 |
| | <hr/> | <hr/> | | <hr/> | <hr/> | |
| Noninterest-earning assets | 66,944 | | | 54,377 | | |
| | <hr/> | | | <hr/> | | |
| Total assets | \$ 993,311 | | | \$ 929,826 | | |
| | <hr/> | | | <hr/> | | |
| Interest-bearing liabilities: | | | | | | |
| NOW and money-market accounts | 173,592 | 499 | .38 | 147,798 | 617 | .56 |
| Savings accounts | 27,758 | 104 | .50 | 25,789 | 118 | .61 |
| Certificates | 498,991 | 10,572 | 2.82 | 485,195 | 11,826 | 3.25 |
| Federal Home Loan Bank advances | 141,704 | 5,675 | 5.34 | 141,136 | 5,856 | 5.53 |
| Other borrowed funds (2) | 22,032 | 364 | 2.20 | 21,117 | 368 | 2.32 |
| | <hr/> | <hr/> | | <hr/> | <hr/> | |

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| | Nine Months Ended September 30, | | | | | |
|--|---------------------------------|-----------|-------|------------|-----------|-------|
| Total interest-bearing liabilities | 864,077 | 17,214 | 2.66 | 821,035 | 18,785 | 3.05 |
| Noninterest-bearing deposits | 38,179 | | | 24,006 | | |
| Noninterest-bearing liabilities | 10,845 | | | 10,738 | | |
| Stockholders equity | 80,210 | | | 74,047 | | |
| Total liabilities and stockholders equity | \$ 993,311 | | | \$ 929,826 | | |
| Net interest income | | \$ 23,422 | | | \$ 21,027 | |
| Interest-rate spread (3) | | | 3.19% | | | 3.01% |
| Net interest-earning assets, net margin (4) | \$ 62,290 | | 3.37% | \$ 54,414 | | 3.20% |
| Ratio of interest-earning assets to interest-bearing liabilities | | 1.07 | | 1.07 | | |

- (1) Includes interest-bearing 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.

FFLC BANCORP, INC.

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

General Operating Results. Net income for the three-month period ended September 30, 2004 was \$2.7 million, or \$.50 per basic and \$.49 per diluted share, compared to \$2.3 million, or \$.42 per basic share and 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 the 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 \$1.1 million to \$14.0 million for the three-month period ended September 30, 2004. The increase was due to a \$91.6 million increase in average interest-earning assets outstanding for the three-month period ended September 30, 2004 compared to the 2003 period, and was partially offset by a decrease in the average yield earned on interest-earning assets from 5.96% for the three-month period ended September 30, 2003 to 5.86% for the three-month period ended September 30, 2004.

Interest Expense. Interest expense decreased \$52,000 or .9%, from \$5.93 million for the three-month period

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ended September 30, 2003 to \$5.87 million for the three-month period ended September 30, 2004. Average interest-bearing deposits outstanding during the three-month period ended September 30, 2004 increased \$58.8 million and was offset by a decrease in the average cost of interest-bearing deposits from 2.39% for the three-month period ended September 30, 2003 to 2.10% for the comparable 2004 period. Average borrowings increased \$19.9 million from \$154.9 million during the three-month period ended September 30, 2003 to \$174.8 million for the comparable 2004 period, and was offset by a decrease in the average cost of borrowed funds from 5.19% for the three-month period ended September 30, 2003 to 4.88% 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 three-month periods ended September 30, 2004 and 2003 of \$389,000 and \$330,000, respectively. Net loans charged off for the three-month periods ended September 30, 2004 and 2003 were \$162,000 and \$345,000, respectively. Management believes that the allowance for loan losses, which was \$6.1 million or .68% of gross loans at September 30, 2004 is adequate.

Noninterest Income. Noninterest income decreased \$188,000 or 12.8% from \$1.5 million during the three-month period ended September 30, 2003 to \$1.3 million during the 2004 period. The decrease was partly due to a \$270,000 decrease in gain on sales of loans held for sale and a decrease of \$191,000 in other service charges and fees. Those decreases were offset by a \$119,000 increase in deposit account fees and a \$154,000 increase in other income.

Noninterest Expense. Noninterest expense increased by \$272,000 or 6.1% from \$4.4 million for the three-month period ended September 30, 2003 to \$4.7 million for the three-month period ended September 30, 2004. The increase was primarily due to increases of \$99,000 in salaries and employee benefits, \$74,000 in data processing expense, and \$43,000 in occupancy expense related to the overall growth of the Company.

Income Taxes. Income taxes increased from \$1.4 million for the three-month period ended September 30, 2003 (an effective tax rate of 37.7%) to \$1.7 million (an effective tax rate of 38.1%) for the corresponding period in 2004.

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FFLC BANCORP, INC.

Comparison of the Nine-Month Periods Ended September 30, 2004 and 2003

General Operating Results. Net income for the nine-month period ended September 30, 2004 was \$7.4 million, or \$1.37 per basic share and \$1.34 per diluted share, compared to \$7.0 million, or \$1.30 per basic share and \$1.28 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 of net interest income and a decrease in noninterest income, offset by an increase in noninterest expense.

Interest Income. Interest income increased \$824,000 to \$40.6 million for the nine-month period ended September 30, 2004. The increase was due to a \$50.9 million or 5.8% increase in average interest-earning assets outstanding for the nine months ended September 30, 2004 compared to the 2003 period, offset by a decrease in the average yield earned on interest-earning assets from 6.06% for the nine months ended September 30, 2003 to 5.85% for the nine months ended September 30, 2004.

Interest Expense. Interest expense decreased \$1.6 million or 8.4%, from \$18.8 million for the nine-month period ended September 30, 2003 to \$17.2 million for the nine-month period ended September 30, 2004. The decrease was primarily due to a decrease in the average cost of interest-bearing liabilities from 3.05% for the nine months ended September 30, 2003 to 2.66% for the comparable 2004 period, offset by an increase of \$43.0 million in average interest-bearing liabilities outstanding. Average interest-bearing deposits increased \$41.6 million from \$658.8 million outstanding during the nine months ended September 30, 2003 to \$700.3 million outstanding during the comparable period for 2004. Average borrowings increased \$1.5 million from \$162.3 million during the nine months ended September 30, 2003 to \$163.7 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 nine-month periods ended September 30, 2004 and 2003 of \$1.1 million. Net loans charged off for the nine-month periods ended September 30, 2004 and 2003 were \$494,000 and \$894,000, respectively. Management believes that the allowance for loan losses, which was \$6.1 million or .68% of gross loans at September 30, 2004 is adequate.

Noninterest Income. Noninterest income decreased \$683,000 or 16.3% from \$4.2 million during the 2003 period to \$3.5 million during the 2004 period. The decrease was mainly due to a \$620,000 decrease in gain on sale of loans held for sale and a decrease in other service charges and fees.

Noninterest Expense. Noninterest expense increased by \$1.1 million or 8.8% from \$12.8 million for the nine-month period ended September 30, 2003 to \$13.9 million for the nine-month period ended September 30, 2004. The increase was primarily due to increases of \$461,000 in salaries and employee benefits, \$113,000 in occupancy expense and \$301,000 in data processing expense related to the overall growth of the Company.

Income Taxes. Income taxes increased from \$4.3 million for the nine-month period ended September 30, 2003 (an effective tax rate of 37.7%) to \$4.5 million (an effective tax rate of 37.9%) for the corresponding period in 2004.

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 change in the Company's 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.

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 September 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 |
|-----------|--|------------------------------------|--|--|
| July | | \$ | | 230,698 |
| August | | | | 230,698 |
| September | 1,350 | 26.93 | 1,350 | 229,348 |
| | <hr/> | | <hr/> | |
| Total | 1,350 | \$ 26.93 | 1,350 | 229,348 |
| | <hr/> | | <hr/> | |

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

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

Not applicable

Item 5. Other Information

Not applicable

FFLC BANCORP, INC.

Item 6. Exhibits and Reports on Form 8-K

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(a) The following exhibits are filed as part of this report.

- 3.1 Certificate of Incorporation of FFLC Bancorp, Inc.*
- 3.2 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 June 30, 2004 FFLC Bancorp, Inc. Form 10-Q filed July 23, 2004.

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

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

On July 23, 2004, the Company filed a Form 8-K to disclose that the Company had issued a press release to announce that it will join over 85 other community banks participating in the 2004 Keefe, Bruyette & Woods 5th Annual Community Bank Investor Conference in New York.

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.

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Date: October 21, 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