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COLONIAL BANCGROUP INC

Form 424B5

April 04, 2005

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FILED PURSUANT TO RULE 424(B)5

REGISTRATION NO: 333-123456

FFLC Bancorp, Inc.

800 North Boulevard

P.O. Box 490420

Leesburg, Florida 34749

April 5, 2005

Dear Shareholder:

You are cordially invited to attend the Annual Meeting of Shareholders of FFLC Bancorp, Inc., which will be held on May 12, 2005, at 2:00 p.m. local time. The annual meeting will be held at the Leesburg Community Building, 109 E. Dixie Avenue, Leesburg, Florida.

At the annual meeting, you will be asked to consider and vote on approval of an Agreement and Plan of Merger, dated as of January 14, 2005, between FFLC and The Colonial BancGroup, Inc. The agreement provides for us to merge with Colonial BancGroup. In the merger, you will receive either two shares of Colonial BancGroup common stock or \$42.00 cash in exchange for each share of FFLC common stock that you own. You will be allowed to make an election as to how much stock and how much cash you receive. However, under the terms of our agreement with Colonial BancGroup, it will not have to pay more than about 35% of our total outstanding shares in cash. Therefore, if FFLC Shareholders elect to receive too much cash, the shareholders electing cash will have the amount of cash they receive reduced and the amount of stock they receive increased on a pro rata basis. Shareholders electing to receive all stock and shareholders who do not make an election, will receive all stock. Your election form will be sent in a separate envelope in a few days. Please take the time to complete and return your proxy card now.

Please see the attached Proxy Statement-Prospectus for a detailed description of the terms of the merger. Please refer to page 27 of the Proxy Statement-Prospectus for a more complete description of the consideration you will receive at the completion of the merger.

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

At the annual meeting, you will also be asked to vote on proposals for the election of three directors and the ratification of FFLC's independent accountants.

Additional information regarding the annual meeting, merger agreement, the merger, FFLC and Colonial BancGroup is set forth in the attached Proxy Statement-Prospectus. This document also serves as the prospectus for the shares of Colonial BancGroup common stock to be issued in connection with the merger. Please read these materials and carefully consider the information contained in them.

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

If you wish some portion of your merger consideration to be paid in cash, you must also complete the election form, which will be mailed to you within the next five business days, and return it to Colonial BancGroup's transfer agent by 5:00 p.m. on May 11, 2005. If the transfer agent has not received your completed election form by this time then you will receive two shares of Colonial BancGroup common stock for each share of FFLC common stock that you own in the merger and no cash.

Sincerely,

Stephen T. Kurtz

President and CEO

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

This Proxy Statement-Prospectus is dated April 1, 2005 and is first being mailed to the shareholders of FFLC on or about April 5, 2005.

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800 North Boulevard West
P.O. Box 490420
Leesburg, Florida 34749-0420

FFLC BANCORP, INC.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held on May 12, 2005, at 2:00 p.m.

NOTICE IS HEREBY GIVEN that the annual meeting of shareholders of FFLC Bancorp, Inc. will be held at the Leesburg Community Building, 109 E. Dixie Avenue, Leesburg, Florida, on May 12, 2005, at 2:00 p.m., local time, for the following purposes:

1. *Merger.* To consider and vote upon the authorization, adoption and approval of the Agreement and Plan of Merger, dated January 14, 2005, by and between The Colonial BancGroup, Inc. and FFLC Bancorp, Inc. Colonial BancGroup will be the surviving corporation in the merger. At the time of the merger, each share of your FFLC common stock will be converted into the right to receive a number of shares of Colonial BancGroup common stock or cash as determined in accordance with the terms of the Agreement and Plan of Merger, as described more fully in the accompanying Proxy Statement-Prospectus. The Agreement is attached to the Proxy Statement-Prospectus as Appendix A.
2. *Election of Directors.* The election of three directors for terms of three years each.
3. *Ratification of Independent Auditor.* The ratification of the appointment of Hacker Johnson & Smith PA as independent auditor of FFLC for the fiscal year ending December 31, 2005.
4. *Other Matters.* To transact such other business as may properly come before the Annual meeting or any adjournments or postponements thereof.

We have fixed the close of business on March 23, 2005, as the record date for the determination of shareholders entitled to notice of and to vote at the Annual meeting. Only our holders of record at the close of business on that date will be entitled to notice of and to vote at the Annual

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meeting or any adjournments or postponements thereof.

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

BY ORDER OF THE BOARD OF DIRECTORS

Sandra L. Rutschow

Vice President and Corporate Secretary

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

Helena T. Duncan
Secretary
The Colonial BancGroup, Inc.
Colonial Financial Center
One Commerce Street
Eighth Floor
Montgomery, Alabama 36104
(334) 240-5000

Sandra L. Rutschow
Secretary
FFLC Bancorp, Inc.
800 North Boulevard West
P.O. Box 490420
Leesburg, Florida 34749
(352) 787-3311

In order to obtain information prior to the annual meeting, you must make your request by May 5, 2005.

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QUESTIONS AND ANSWERS ABOUT THE MERGER

Q: What should I do now?

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

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

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

A: Send in your election form with your stock certificate(s). You should receive your election form in about five business days. You should complete, sign and date your election form and mail it in the envelope that will be provided. Your election form will be sent to Colonial BancGroup's transfer agent. It is not mandatory that you complete an election form, but if you do not complete and return it, your merger consideration will be 100% Colonial BancGroup common stock. Even if you do not desire to receive any cash consideration in the merger, we ask that you return your election form with your stock certificates as that will aid Colonial BancGroup's transfer agent in the exchange process. You may not make an election, and any election you have made will be final, at 5:00 p.m. on the day before the annual meeting.

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

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

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

A: Yes, if you give your broker instructions on how to do so. Your broker will complete your election form only if you provide your broker with instructions on how to do so. You should instruct your broker how to complete your election form by following the directions your broker provides. If you do not provide instructions to your broker, your election form will not be completed and you will receive two shares of Colonial BancGroup common stock for each share of FFLC common stock held for you by your broker and no cash.

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

A: Yes. You may revoke your proxy up to the time of the annual meeting by taking any of the actions explained under *The Annual Meeting Solicitation, Voting and Revocation of Proxies* on page 13 of this proxy statement-prospectus, including by giving a written notice of revocation, by signing and delivering a new later-dated proxy, or by attending the annual meeting and voting in person.

Q: Can I change my election form?

A: Yes. You may change your election up to 5:00 p.m. on May 11, 2005 by following the instructions under *Proposal 1: The Merger Election of Consideration* on page 28 of this proxy statement-prospectus, including by giving a written notice of revocation or by signing and delivering a new later-dated election form.

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Q: Can I vote my shares in person?

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

Q: Should I send in my stock certificates now?

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

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

A: We expect the merger to be completed in the second quarter of 2005. However, the timing of the completion of the merger is dependent on the merger agreement being approved by our shareholders as well as the approval of certain bank regulatory agencies and the satisfaction of other conditions described in this proxy statement-prospectus.

Q: Whom can I call with questions?

A: If you want additional copies of this document, or if you want to ask any questions about the merger agreement or the merger, you should contact: Sandra L. Rutschow, Vice President and Corporate Secretary of FFLC Bancorp, Inc., Telephone: (352) 787-3311.

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SUMMARY

This summary highlights selected information from this proxy statement/prospectus. It does not contain all of the information that will be important to you as you consider your vote. You should carefully read the entire document and the other documents to which we refer. These will give you a more detailed description of the transaction that we are proposing. For more information about Colonial BancGroup, see **Where You Can Find More Information and Information Incorporated by Reference** (page 64). Each item in this summary refers to the pages where that subject is discussed in greater detail elsewhere in the proxy statement/prospectus. In this section, the terms **we** and **us** refer to FFLC.

The Companies

One Commerce Street

Post Office Box 1108

Montgomery, Alabama 36101

(334) 240-5000

The Colonial BancGroup, Inc. is a \$18.9 billion financial services company providing diversified services including retail and commercial banking, wealth management services, mortgage banking and insurance through its branch network, private banking offices or officers, ATMs and the internet as well as other distribution channels to consumers and businesses. At December 31, 2004, BancGroup's branch network consisted of 292 offices in Florida, Alabama, Georgia, Nevada, Tennessee and Texas.

800 North Boulevard West

P.O. Box 490420

Leesburg, Florida 34749-0420

(352) 787-3311

FFLC is a savings and loan holding company whose wholly-owned subsidiary, First Federal Savings Bank of Lake County, provides corporate and retail banking services principally in Lake County, Florida and surrounding areas. As of December 31, 2004, FFLC's total assets were about \$1.1 billion, deposits were about \$795.2 million and shareholders' equity was about \$84.5 million.

The Merger (page 15)

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

The merger agreement provides for the following:

FFLC will merge into Colonial BancGroup. When the merger becomes effective, FFLC will cease to exist as a separate entity and you, as a shareholder of FFLC, will be entitled to receive either two shares

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of Colonial BancGroup common stock or \$42.00 cash for each share of FFLC common stock that you own. Under the terms of the merger agreement, Colonial BancGroup is not obligated to pay more than \$79,559,369 (assuming 5,412,202 shares of FFLC common stock are outstanding at the time of the completion of the merger) in cash. If FFLC shareholders elect to receive more cash than Colonial BancGroup is required to pay, then FFLC shareholders electing cash will have the amount of cash they will receive reduced and the amount of stock they will receive increased on a pro rata basis.

As an example, if there are 5,412,202 shares of FFLC common stock outstanding at the time of the completion of the merger (in which case Colonial BancGroup is not obligated to pay more than \$79,559,369 of the total merger consideration in cash), and the FFLC shareholders make an aggregate cash election of \$113,656,242, then that would be \$34,096,873 more than Colonial BancGroup is required to pay in cash, and would represent approximately 811,830 shares of Acquired Corporation Stock. The electing shareholders who had elected cash would have their cash portion of the merger consideration reduced on a pro rata basis and would instead receive an aggregate of 1,623,660 shares of Colonial BancGroup common stock. On an individual basis, each electing shareholder who had elected some portion of his or her merger consideration to be paid in cash would in fact receive cash for 70% of the FFLC common stock that he or she had originally elected to be paid in cash and the remaining 30% of FFLC common stock that the electing shareholder had requested cash for would be paid in Colonial BancGroup common stock.

Colonial BancGroup will not issue fractional shares in the merger. If the number of shares you are to receive is not a whole number, you will receive \$42.00 cash times the fraction of your FFLC common stock that is not converted into Colonial BancGroup common stock.

Comparative Market Prices (page 38)

Colonial BancGroup's common stock is traded on the New York Stock Exchange under the symbol CNB. On January 14, 2005, the last trading day before we announced the signing of the merger agreement, the closing price of Colonial BancGroup's common stock was \$20.00.

FFLC's common stock is traded on the NASDAQ National Market System under the symbol FFLC. On January 14, 2005, the last trading day before we announced the signing of the merger agreement, the closing price of FFLC's common stock was \$35.03.

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

<u>BancGroup(1)</u>	<u>FFLC(2)</u>	<u>Equivalent price per FFLC share(3)</u>
\$20.00	\$ 35.03	\$ 40.00

(1) Closing price on January 14, 2005.

(2) Closing price on January 14, 2005.

(3) If the merger had closed on January 14, 2005, you would have received two (2) shares of Colonial BancGroup common stock for each share of FFLC common stock you owned on that date.

Fairness Opinion (page 19)

In deciding to approve the merger, your Board of Directors considered the opinion of its financial advisor, Keefe, Bruyette & Woods, Inc., that, based upon and subject to the assumptions made and matters set forth in the written opinion, as of January 14, 2005, the consideration to be received by the shareholders of FFLC in the

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merger, is fair, from a financial point of view, to such shareholders. We have attached as Appendix B the written opinion of Keefe, Bruyette & Woods, Inc., dated as of January 14, 2005. You should read it carefully to understand the assumptions made, matters considered and limitations of the review undertaken by Keefe, Bruyette & Woods, Inc., in providing its opinion.

The Annual Meeting (page 12)

We will hold an annual meeting of the shareholders of FFLC at 2:00 p.m. local time, on May 12, 2005 at Leesburg Community Building, 109 E. Dixie Avenue, Leesburg, Florida. At the meeting, we will ask the shareholders to approve the merger agreement, elect directors and ratify the appointment of our independent auditor and to act on any other matters that may be put to a vote at the meeting.

Our Recommendation to our Shareholders (page 26)

Based on FFLC's reasons for the merger described herein, including the opinion of Keefe, Bruyette & Woods, Inc. referred to above, your Board of Directors believes that the merger is fair to you and in your best interests, and unanimously recommends that you vote **For** the proposal to approve the merger agreement. In addition, the Board of Directors recommends you vote **FOR** the election of the nominees proposed by the Board, and **FOR** the ratification of the appointment of Hacker, Johnson & Smith PA as independent auditors of FFLC.

Record Date; Voting Power (page 12)

You may vote at the annual meeting if you owned FFLC shares as of the close of business on March 23, 2005. You will have one vote for each share of stock you owned on that date.

Vote Required (page 12)

If a quorum is present at the annual meeting, then the affirmative vote of a majority of the outstanding shares will be sufficient to approve the merger agreement. A quorum consists of a majority of the shares outstanding on the record date. On the record date, 5,412,202 shares of FFLC common stock were outstanding. The directors of FFLC own an aggregate of 833,910 shares of FFLC common stock representing approximately 15.1% of the outstanding shares. These individuals have agreed with Colonial BancGroup to vote their shares in favor of the merger agreement. Accordingly, if these individuals vote as they have agreed with Colonial BancGroup, then the merger agreement will be approved if holders of 1,872,192 of the remaining outstanding shares, representing 34.6% of the total outstanding, also vote to approve the merger agreement. Under Delaware law and FFLC's Certificate of Incorporation, directors are elected by a plurality of votes cast, without regard to either broker non-votes, or proxies as to which authority to vote for one or more of the nominees being proposed is withheld. As to other matters that may properly come before the Annual meeting, such matters shall be determined by a majority of the votes cast affirmatively or negatively, without regard to broker non-votes, or proxies marked **ABSTAIN** as to that matter unless otherwise required by law.

Election Form (page 28)

In a few days you should receive an election form. You may use this form to elect what percentage of cash, if any, you wish to receive for your shares of FFLC common stock. If you do not return an election form by the deadline, then your merger consideration will only be in the form of Colonial BancGroup common stock (except for cash received for a fractional share). The deadline by which election forms must be received by Colonial BancGroup's transfer agent, SunTrust Bank, is 5:00 p.m. on the day prior to the annual meeting. If you choose to receive some portion of your merger consideration in cash, you will be taxed on the cash that you receive (see Certain Federal Income Tax Consequences on page 30).

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Colonial BancGroup is only obligated to pay a certain portion of the total consideration in cash (up to 35% of the outstanding FFLC shares will be paid in cash). If too many FFLC shareholders elect to receive too much cash, then all FFLC shareholders electing cash will have their cash election reduced and their stock election increased on a pro rata basis. If you have not received an election form within five business days of receiving this proxy statement-prospectus, or if you desire to receive another election form, please contact Sandra Rutschow at (352) 787-3311.

Exchange of Certificates (page 29)

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

Conditions to Completion of the Merger (page 32)

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

the shareholders of FFLC must approve the merger agreement;

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

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

the completion of the merger before September 30, 2005; and

the receipt of certain professional opinions.

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

Termination of the Merger Agreement (page 33)

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

Either company can also terminate the merger agreement:

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

if the merger has not been completed by September 30, 2005, (provided that the failure to complete has not been caused by the breach of the company electing to terminate); or

if FFLC enters into a binding agreement with any third party to merge with, or sell control to, that third party. In that event, Colonial BancGroup will have the right to receive a payment of \$10,000,000 from FFLC or its acquirer.

Federal Income Tax Consequences (page 30)

We expect that neither the two companies nor the FFLC shareholders will recognize any gain or loss for U.S. federal income tax purposes as a result of the merger, except in connection with any cash payment that a

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FFLC shareholder may elect to receive or may receive for a fractional share. Colonial BancGroup has received an opinion from PricewaterhouseCoopers LLP that this will be the case. The tax opinion is based upon customary assumptions contained therein, including the assumption that consideration other than Colonial BancGroup common stock (including cash in lieu of fractional shares, cash consideration in exchange for outstanding options and cash paid to FFLC shareholders electing to receive cash on the merger) will represent no more than 50% of the total fair market value of all consideration paid to FFLC shareholders in the transaction. The opinion will not bind the Internal Revenue Service, which could take a different view. We expect that any cash received will be treated as capital gain for federal income tax purposes.

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

Accounting Treatment (page 37)

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

Interests of Persons Involved in the Merger that are Different from Yours (page 26)

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

Directors, executive officers and employees of FFLC currently hold options to acquire 194,309 shares of FFLC common stock. Colonial BancGroup and each holder of FFLC stock options have agreed that such holder will exchange his or her FFLC stock options for the right to receive either (i) Colonial BancGroup options equal to twice the number of shares of FFLC common stock that would have been issuable in connection with the exercise of the FFLC stock options and exercisable at half of such employees' FFLC option exercise price, or (ii) a cash payment equal to \$42.00 multiplied by the number of shares of FFLC common stock that would have been issuable in connection with the exercise of the FFLC stock options less the aggregate exercise price for such FFLC stock options.

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

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

Pursuant to agreements with FFLC and Colonial BancGroup, Stephen T. Kurtz, President and CEO, Paul K. Mueller, Executive Vice President and Sandra L. Rutschow, Vice President and Corporate Secretary are expected to be paid \$1,105,835, \$637,421 and \$176,776, respectively, at the completion of the merger. Pursuant to similar agreements, eight non-executive officers will also

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receive an aggregate amount of \$2,511,283 at the completion of the merger.

Stephen T. Kurtz has entered into an employment agreement with Colonial Bank that will become effective when and if the merger is completed. The agreement provides for a term of four years, and a

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base compensation of approximately \$300,000. The agreement also provides that Mr. Kurtz will receive a signing bonus of \$500,000 on the Closing Date. The employment agreement also provides that Mr. Kurtz will be eligible to receive options to purchase 10,000 shares of Colonial BancGroup common stock and annual incentive payments of not less than \$75,000. The employment agreement also contains a covenant prohibiting Mr. Kurtz from soliciting Colonial Bank's customers and employees or competing against Colonial Bank during the term of the employment agreement.

Dwight L. Hart, Jay R. Bartholomew, Joseph D. Cioppa and Michael J. Cox have each entered into employment agreements with Colonial Bank that become effective at the completion of the merger. The employment agreements provide for one year of employment at their current level of salary and bonus.

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

agree to vote his or her shares for the merger;

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

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

directors who are not also employees of FFLC agreed generally not to compete with Colonial Bank, N.A. for a period of two years after the effective date of the Merger.

Dissenters' Rights (page 36)

In connection with the merger, FFLC shareholders are not entitled to exercise dissenters' rights of appraisal under Delaware law.

Where You Can Find More Information (page 64)

This document incorporates important business and financial information about Colonial BancGroup and FFLC from documents that are not included in or delivered with this document. You can obtain documents regarding BancGroup incorporated by reference in this document (other than certain exhibits to those documents) by requesting them in writing or by telephone from Colonial BancGroup by contacting Helena T. Duncan, Secretary, Post Office Box 1108, Montgomery, Alabama 36101-1108, telephone: (334) 240-5000. You can obtain documents regarding FFLC by requesting them in writing or by telephone from FFLC by contacting Sandra L. Rutschow, Secretary, 800 North Boulevard West, P.O. Box 490420 Leesburg, Florida 34749-0420, telephone: (352) 787-3311. You will not be charged for any of these documents. **If you would like to request a document, please do so by May 5, 2005, in order to receive them before the annual meeting.** You may also find documents regarding BancGroup and FFLC filed or furnished at the Security and Exchange Commission's website at www.sec.gov.

Recent Developments BancGroup

Union Bank Acquisition

Colonial BancGroup completed the acquisition of Union Bank Financial Corporation's (UB) wholly-owned subsidiary, Union Bank of Florida (Union), a Florida state chartered bank, on February 10, 2005. The acquisition enhances Colonial BancGroup's geographic position and expands Colonial BancGroup's banking operations within existing locations in Florida, primarily in the Dade, Broward and Palm Beach markets. Union's results of operations will be included in Colonial BancGroup's consolidated financial results beginning February

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11, 2005. Additional information about the reasons for the merger and factors that contributed to the purchase price is included in Colonial BancGroup's Registration Statement on Form S-3 filed as of December 28, 2004.

Total consideration for the transaction was \$233.5 million, consisting of 2,903,402 shares of Colonial BancGroup common stock valued at \$58.8 million and \$174.8 million in cash. The value of the common stock issued was determined based on the average market price of Colonial BancGroup's shares over the five day period before and after the date that the exact number of Colonial BancGroup shares to be issued was known. The purchase price was preliminarily allocated to the assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. The final allocation of the purchase price will be adjusted after completion of additional analysis relating to the fair values of Union's tangible and identifiable intangible assets and liabilities, and final decisions regarding integration activities.

Forward Sale Agreement

On November 18, 2004, Colonial BancGroup entered into a forward sale agreement relating to 8,400,000 shares of Colonial BancGroup's common stock. The commitment was accounted for as an equity instrument, in accordance with EITF 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock*.

On February 24, 2005, Colonial BancGroup settled the forward sale agreement with 8,400,000 shares of common stock. Colonial BancGroup received approximately \$179.8 million, or \$21.40 per share, in proceeds from the purchaser in this settlement.

Precautionary Language Regarding the Merger Agreement

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

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

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

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

	2004	2003	2002	2001	2000
(In thousands, except per share amounts)					
Statement of Income					
Interest income	\$ 848,017	\$ 780,808	\$ 783,431	\$ 902,167	\$ 918,076
Interest expense	263,501	274,165	322,261	480,238	517,754
Net interest income	584,516	506,643	461,170	421,929	400,322
Provision for loan losses	26,994	37,378	35,980	39,573	29,775
Net interest income after provision for loan losses	557,522	469,265	425,190	382,356	370,547
Noninterest income(1)	138,027	133,022	106,923	93,709	77,885
Noninterest expense(2)	429,870	375,124	317,370	284,168	258,691
Income from continuing operations before income taxes	265,679	227,163	214,743	191,897	189,741
Applicable income taxes	90,331	77,236	73,872	69,181	69,556
Income from continuing operations	175,348	149,927	140,871	122,716	120,185
Discontinued Operations:(3)					
Loss from discontinued operations, net of income taxes of (\$445), (\$371), and (\$450) for the years ended December 31, 2002, 2001, and 2000, respectively			(846)	(613)	(743)
Loss on disposal of discontinued operations (net of income tax benefit of \$2,616)					(4,322)
Net Income	\$ 175,348	\$ 149,927	\$ 140,025	\$ 122,103	\$ 115,120
Earnings Per Common Share:					
Income from continuing operations:(3)					
Basic	\$ 1.34	\$ 1.20	\$ 1.18	\$ 1.07	\$ 1.05
Diluted	1.33	1.20	1.17	1.06	1.04
Net income:					
Basic	\$ 1.34	\$ 1.20	\$ 1.17	\$ 1.06	\$ 1.00
Diluted	1.33	1.20	1.16	1.06	1.00
Average shares outstanding:					
Basic	131,144	124,615	119,583	114,811	114,760
Diluted	132,315	125,289	120,648	115,881	115,653
Cash dividends per common share	\$ 0.58	\$ 0.56	\$ 0.52	\$ 0.48	\$ 0.44

(1) Included in noninterest income are securities gains of \$7.5 million, \$4.8 million, \$5.7 million, \$8.7 million and \$538,000 for years ended 2004, 2003, 2002, 2001 and 2000, respectively.

(2) Included in noninterest expense are merger related expenses of \$2 million, \$0.27 million, \$0.87 million and \$3 million for years ended 2004, 2003, 2002 and 2001, respectively. Also included in noninterest expense in 2004 is \$7.4 million for loss on early extinguishment of

debt.

- (3) In December 2000, the company exited the mortgage servicing business. The financial results for this line of business have been separately reported as Discontinued Operations in all periods presented.

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	2004	2003	2002	2001	2000
(In thousands, except per share amounts)					
Statement of Condition data at year end:					
Total assets	\$ 18,897,150	\$ 16,273,302	\$ 15,822,355	\$ 13,185,103	\$ 11,999,621
Total loans, net of unearned income:					
Mortgage warehouse loans	1,114,923	982,488	1,671,149	1,259,870	376,638
All other loans, net of unearned income	11,742,888	10,606,407	10,021,281	9,107,795	9,266,316
Loans held for sale	678,496	378,324	347,101	35,453	9,866
Non-time deposits	7,330,967	5,867,648	4,950,443	4,114,049	3,565,709
Total deposits	11,646,612	9,768,592	9,319,735	8,322,979	8,355,849
Long-term debt	2,218,428	1,943,314	1,998,534	1,786,140	862,247
Shareholders' equity	1,393,615	1,178,305	1,071,436	864,774	775,100
Average balances:					
Total assets	17,432,848	15,850,214	13,813,457	12,592,300	11,591,168
Interest-earning assets	16,173,539	14,736,974	12,909,926	11,881,184	10,723,803
Total loans, net of unearned income:					
Mortgage warehouse loans	1,033,238	1,449,236	1,093,151	815,387	250,652
All other loans, net of unearned income	11,115,275	10,101,694	9,427,620	9,303,798	8,779,877
Loans held for sale	497,315	373,226	89,566	22,941	14,711
Non-time deposits	6,665,166	5,275,086	4,379,753	3,732,744	3,546,402
Total deposits	10,679,872	9,274,567	8,688,029	8,432,980	8,252,352
Shareholders' equity	1,286,794	1,113,386	972,653	826,081	727,495
Selected Financial Measures:					
Net income to:					
Average assets	1.01%	0.95%	1.01%	0.97%	0.99%
Average shareholders' equity	13.63	13.47	14.40	14.78	15.82
Noninterest income/average assets(1)	0.79	0.84	0.77	0.74	0.67
Noninterest expense/average assets(2)	2.47	2.37	2.30	2.26	2.23
Efficiency ratio	59.35	58.43	55.58	54.82	53.79
Dividend payout ratio	43.61	46.67	44.83	45.28	44.00
Shareholders' equity to assets	7.37	7.24	6.77	6.56	6.46
Tangible capital ratio	5.40	5.60	5.23	5.74	5.87
Book value per share	\$ 10.41	\$ 9.28	\$ 8.66	\$ 7.50	\$ 6.93
Tangible book value per share	\$ 7.47	\$ 7.06	\$ 6.58	\$ 6.52	\$ 6.26
Risk-based capital:					
Tier 1	8.77%	9.35%	7.76%	7.39%	8.24%
Total Capital	11.36	12.49	10.93	10.91	10.59
Tier 1 leverage	7.14	7.50	6.50	6.24	6.66
Total nonperforming assets to net loans, other real estate and repossessions	0.29	0.65	0.78	0.64	0.53
Net charge-offs to average loans	0.19	0.31	0.29	0.28	0.21
Allowance for loan losses to total loans (net of unearned income)	1.16	1.20	1.16	1.18	1.14
Allowance for loan losses to nonperforming loans	548%	240%	191%	239%	258%

(1) Included in noninterest income are securities gains of \$7.5 million, \$4.8 million, \$5.7 million, \$8.7 million and \$538,000 for years ended 2004, 2003, 2002, 2001 and 2000, respectively.

(2) Included in noninterest expense are merger related expenses of \$2 million, \$0.27 million, \$0.87 million, and \$3 million for years ended 2004, 2003, 2002 and 2001, respectively. Also included in noninterest expense in 2004 is \$7.4 million for loss on early extinguishment of debt.

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

	Year Ended December 31, 2004
BancGroup Historical:	
Income from Continuing Operations:	
Basic	\$ 1.34
Diluted	1.33
Book Value at end of period	10.41
Dividends per share	0.58
FFLC Historical:	
Net Income:	
Basic	1.86
Diluted	1.83
Book Value at end of period	15.62
Dividends per share	0.52
BancGroup Pro Forma Combined:(a)	
Income from Continuing Operations:	
Basic	1.31
Diluted	1.29
Book Value at end of period	11.24
BancGroup Pro Forma Combined Per Equivalent FFLC Share:(a)	
Income from Continuing Operations:(b)	
Basic	2.61
Diluted	2.59
Book value at end of period(b)	22.48
Dividends per share(c)	1.16

- (a) The pro forma per share data of BancGroup and the equivalent pro forma per share data of FFLC have been presented using the assumption that the consideration paid by BancGroup consisted of 100% stock.
- (b) Pro forma equivalent per share amounts are calculated by multiplying the pro forma combined total income per share and the pro forma combined total book value per share of BancGroup by the exchange ratio so that the per share amounts are equated to the respective values for one share of FFLC. For these pro forma equivalent share amounts, a 2.0 BancGroup common stock exchange ratio is utilized.
- (c) Pro forma equivalent dividends per share are shown at BancGroup's common stock dividend per share rate multiplied by the 2.0 exchange ratio per share of FFLC common stock. BancGroup presently contemplates that dividends will be declared in the future. However, the payment of cash dividends is subject to BancGroup's actual results of operations as well as certain other internal and external factors. Accordingly, there is no assurance that cash dividends will either be declared and paid in the future, or, if declared and paid, that such dividends will approximate the pro forma amounts indicated.

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A WARNING ABOUT FORWARD-LOOKING STATEMENTS

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

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

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

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

increases in competitive pressure in the banking industry;

changes in the interest rate environment which reduce margins;

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

changes which may occur in the regulatory environment;

a significant rate of inflation or deflation;

acts of terrorism, such as the events of September 11, 2001, and war; and

changes in the securities markets.

Many of these factors are beyond our control and beyond the control of Colonial BancGroup. For a discussion of factors that could cause Colonial BancGroup's actual results to differ, please see the discussions in the sections entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in its Annual Report on Form 10-K for the year ended December 31, 2004.

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THE ANNUAL MEETING

General

This Proxy Statement-Prospectus is being furnished to the shareholders of FFLC Bancorp, Inc. (FFLC) in connection with the solicitation of proxies by the Board of Directors of FFLC for use at the annual meeting of the shareholders of FFLC to be held on May 12, 2005 (the Annual Meeting) and at any adjournments or postponements thereof. The purpose of the Annual Meeting is to consider and vote upon the Agreement which provides for the proposed merger (the Merger) of FFLC with and into The Colonial BancGroup, Inc. (BancGroup). BancGroup will be the surviving corporation in the Merger. FFLC shareholders will also be voting upon the election of the nominees proposed by the FFLC Board and the ratification of the appointment of Hacker Johnson & Smith PA as independent auditors of FFLC at the Annual Meeting.

The Board of Directors of FFLC believes that the Merger is in the best interests of the FFLC shareholders and unanimously recommends that shareholders vote FOR the Agreement (item 1 on the proxy card).

The Board of Directors of FFLC unanimously recommends that shareholders vote FOR the nominees proposed by the Board and FOR the ratification of the appointment of Hacker Johnson & Smith PA as independent auditors of FFLC.

This Proxy Statement-Prospectus is also furnished by BancGroup in connection with the offer of shares of BancGroup common stock to be issued in the Merger. No vote of BancGroup shareholders is required to approve the Merger.

Record Date; Shares Entitled to Vote; Vote Required

The Board of Directors of FFLC has fixed the close of business on March 23, 2005, as the date for the determination of shareholders entitled to vote at the Annual Meeting (the Record Date). There were 1,712 record holders of FFLC common stock and 5,412,202 shares of FFLC common stock outstanding, each entitled to one vote per share, as of the Record Date. As of the date of this Proxy Statement-Prospectus, FFLC was obligated to issue up to an additional 194,309 shares of FFLC common stock upon the exercise of outstanding FFLC options.

The presence at the Annual Meeting, in person or by proxy, of the holders of a majority of the outstanding shares of FFLC common stock on the Record Date is necessary to constitute a quorum for the transaction of business at the Annual Meeting. In the absence of a quorum, the Annual Meeting may be postponed from time to time until FFLC shareholders holding the requisite number of shares of FFLC common stock are represented in person or by proxy. If a quorum is present, the affirmative vote of the holders of at least a majority of the outstanding shares of FFLC common stock, whether or not present or represented at the Annual Meeting, is required to approve the Agreement. Broker non-votes and abstentions will not be counted as votes FOR or AGAINST the proposal to approve the Agreement, and, as a result, such non-votes will have the same effect as votes cast AGAINST the Agreement. Each holder of record of shares of FFLC common stock is entitled to cast, for each share registered in his or her name, one vote on the Agreement as well as on each other matter presented to a vote of shareholders at the Annual Meeting.

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As of the Record Date, directors of FFLC owned 833,910 shares of FFLC common stock representing approximately 15.1% of the outstanding shares. These individuals have agreed with BancGroup to vote their shares in favor of the Agreement. Accordingly, if these individuals vote as they have agreed with BancGroup, then the Agreement will be approved if holders of 1,872,192 of the remaining shares (34.6% of the total outstanding) also vote to approve it.

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If the Agreement is approved at the Annual Meeting, FFLC is expected to merge with and into BancGroup promptly after the other conditions to the Agreement are satisfied. See Proposal 1: The Merger Conditions of Consummation of the Merger.

THE BOARD OF DIRECTORS OF FFLC URGES THE SHAREHOLDERS OF FFLC TO EXECUTE AND RETURN THE ENCLOSED PROXY CARD AS SOON AS POSSIBLE AND UNANIMOUSLY RECOMMENDS THAT THE SHARES REPRESENTED BY THE PROXY BE VOTED IN FAVOR OF THE AGREEMENT.

As to the election of Directors, the proxy card being provided by the Board of Directors enables a shareholder to vote FOR the election of the nominees proposed by the Board, or to WITHHOLD AUTHORITY to vote for one or more of the nominees being proposed. Under Delaware law and FFLC's Certificate of Incorporation and Bylaws, directors are elected by a plurality of votes cast, without regard to either (i) broker non-votes, or (ii) proxies as to which authority to vote for one or more of the nominees being proposed is withheld. Consequently, votes that are withheld in the election of directors and broker non-votes will have no effect on the election.

As to other matters that may properly come before the Annual Meeting, by checking the appropriate box, a shareholder may: (i) vote FOR the item; (ii) vote AGAINST the item; or (iii) ABSTAIN from voting on such item. Under FFLC's Certificate of Incorporation and Bylaws, other matters shall be determined by a majority of the votes cast affirmatively or negatively, without regard to (a) broker non-votes, or (b) proxies marked ABSTAIN as to that matter unless otherwise required by law.

Solicitation, Voting and Revocation of Proxies

In addition to soliciting proxies by mail, directors, officers and other employees of FFLC, without receiving special compensation therefor, may solicit proxies from the shareholders of FFLC by telephone, by e-mail or other electronic means, by facsimile or in person. Arrangements will also be made with brokerage firms and other custodians, nominees and fiduciaries, if any, to forward solicitation materials to any beneficial owners of shares of FFLC common stock. FFLC will reimburse such custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses in connection therewith.

FFLC will bear the cost of assembling and mailing this Proxy Statement-Prospectus and other materials furnished to its shareholders. FFLC will also pay all other expenses of solicitation, including the expenses of brokers, custodians, nominees, and other fiduciaries who, at the request of FFLC, mail material to, or otherwise communicate with, beneficial owners of the shares held by them. BancGroup will pay all expenses incident to the registration of the BancGroup common stock to be issued in connection with the Merger.

FFLC has retained Georgeson Shareholder Communications to assist with the solicitation of proxies for a fee not to exceed \$6,500, plus reimbursement for out-of-pocket expenses.

Shares of FFLC common stock represented by a proxy properly signed and received at or prior to the Annual Meeting, unless properly revoked, will be voted in accordance with the instructions on the proxy. If a proxy is signed and returned without any voting instructions, shares of FFLC common stock represented by the proxy will be voted FOR the proposal to approve the Agreement, FOR the election of the nominees proposed by the Board, FOR the ratification of the appointment of Hacker Johnson & Smith PA as independent auditors of FFLC for the fiscal year ending December 31, 2005, and in accordance with the determination of the majority of the Board of Directors of FFLC as to any other matter which may properly come before the Annual Meeting, including any adjournment or postponement thereof. A shareholder may revoke any

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proxy given pursuant to this solicitation by: (i) delivering to the Secretary of FFLC, prior to or at the Annual Meeting, a written notice revoking the proxy; (ii) delivering to the Secretary of FFLC, at or prior to the Annual Meeting, a duly executed proxy relating to the same shares and bearing a later date; or (iii) voting in person at the Annual Meeting.

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Attendance at the Annual Meeting will not, in and of itself, constitute a revocation of a proxy. All written notices of revocation and other communications with respect to the revocation of a proxy should be addressed to:

FFLC Bancorp, Inc.

800 North Boulevard West

P.O. Box 490420

Leesburg, Florida 34749-0420

Attention: Sandra L. Rutschow, Secretary

Facsimile: (352) 787-7206

The Board of Directors of FFLC is not aware of any business to be acted upon at the Annual Meeting other than consideration of the Agreement described herein, the election of the nominees proposed by the Board and the ratification at the appointment of Hacker Johnson & Smith PA as independent auditors of FFLC. If, however, other matters are properly brought before the Annual Meeting, or any adjournments or postponements thereof, the persons appointed as proxies will have the discretion to vote or act on such matters according to their best judgment. Proxies voted in favor of the approval of the Agreement, or proxies as to which no voting instructions are given, will be voted to adjourn the Annual Meeting, if necessary, in order to solicit additional proxies in favor of the approval of the Agreement. Proxies voted against the approval of the Agreement and abstentions will not be voted for an adjournment. See Adjournment of the Annual Meeting.

Participants In the Bank s KSOP

If you participate in the First Federal Savings Bank of Lake County Employee Stock Ownership Plan and 401(k) Plan (the KSOP), you will receive a voting authorization form that reflects all shares you may vote under this plan. Under the terms of the KSOP, all shares held by the KSOP are voted by the trustee, but each participant in the KSOP may direct the trustee as to the manner in which shares of FFLC common stock allocated to each participant s account are to be voted. Allocated shares for which no voting instructions are received will be voted by the trustee in the same proportion as shares for which the trustee has received voting instructions. The deadline for returning your voting instructions to the trustee is April 15, 2005.

Effect of Merger on Outstanding BancGroup Common Stock

Assuming that 5,412,202 shares of FFLC common stock are outstanding on the Effective Date, and that no one elects to receive any of their merger consideration in cash, BancGroup will issue approximately 10,824,404 shares in connection with the Merger. The issuance of 10.8 million shares of BancGroup common stock would represent approximately 6.9% of the total number of shares of BancGroup common stock outstanding following the Merger, not counting any additional shares BancGroup may issue for reasons unconnected to the Merger.

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PROPOSAL 1: THE MERGER

The following sets forth a summary of the material provisions of the Agreement and the transactions contemplated thereby. The description does not purport to be complete and is qualified in its entirety by reference to the Agreement, a copy of which is attached hereto as Appendix A. All FFLC shareholders are urged to read the Agreement and the Appendices in their entirety.

General

The Agreement provides that, subject to approval by the shareholders of FFLC, receipt of necessary regulatory approvals and satisfaction of certain other conditions described below at Conditions to Consummation of the Merger, FFLC will merge with and into BancGroup. Upon completion of the Merger, the corporate existence of FFLC will cease, and BancGroup will succeed to the business formerly conducted by FFLC.

Background of the Merger

The management of FFLC has periodically reviewed and assessed the strategic options of FFLC. Such reviews and assessments were conducted internally and, at various times, with the assistance of Keefe, Bruyette & Woods, Inc. (KBW), FFLC's financial advisor. On a periodic basis, senior management and representatives of KBW have discussed with the FFLC Board of Directors the strategic options for FFLC, including strategies to grow and enhance FFLC's business through internal and external means and through acquisitions of other financial service providers. These discussions have included analyses of the financial institution merger market on a national and regional basis, the potential value of the FFLC franchise based on current merger market fundamentals and the potential market value of the FFLC stock assuming the execution of its current business plan under various scenarios. The Board and management also routinely have discussed the increasing level of competition, continuing consolidation, regulatory burden and related costs and other developments in the financial services industry, particularly in the Southeast. Additionally, the management of FFLC has, from time to time, informally discussed with representatives of other financial institutions strategic opportunities.

On March 3, 2004, FFLC CEO Stephen Kurtz met with BancGroup President Flake Oakley for lunch. This was primarily an opportunity for senior management of FFLC and BancGroup to get acquainted. During this meeting, Mr. Oakley did indicate BancGroup had an interest in acquiring Florida banks, but no specific arrangements or pricing were discussed. On May 19, 2004, FFLC Chairman James Logan and Mr. Kurtz met with BancGroup CEO Robert Lowder, Mr. Oakley and two other BancGroup representatives. At that meeting, Messrs. Kurtz and Logan made it clear to the BancGroup representatives that the FFLC Board intended to maintain a strategy of independence and that it would take something significant to change the Board's mindset. On May 27, 2004, at a regular meeting of the Board of Directors, Messrs. Logan and Kurtz discussed with the Board the interest BancGroup had in acquiring a Florida-based banking institution. The Board agreed with maintaining a strategy of independence; however, it was agreed that KBW should be consulted.

On August 11, 2004, Messrs. Lowder and Oakley met with a representative of KBW (who had advised FFLC in the past) to discuss BancGroup's interest in FFLC. During that meeting, Messrs. Lowder and Oakley made it clear that BancGroup was very interested in pursuing FFLC and urged KBW's representative to consider such a transaction and asked them what they would need to propose to FFLC to make a transaction with BancGroup attractive to FFLC. Representatives of KBW informed Mr. Kurtz of these discussions.

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At a regularly scheduled meeting of the Board of FFLC on August 25, 2004, Mr. Kurtz advised the Board that Mr. Lowder had called him and requested that Mr. Kurtz meet with Mr. Lowder and Mr. Oakley on September 1, 2004. The Board discussed the interest being expressed by BancGroup at length and agreed Mr. Kurtz and Mr. Logan should meet with Messrs. Lowder and Oakley. It was also agreed that KBW should stay actively involved.

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At the September 1, 2004 meeting, Mr. Lowder described his view of the past performance of BancGroup as well as the prospects for the future. Mr. Oakley emphasized BancGroup's interest in acquiring FFLC and proposed a price range between \$35.00 and \$36.00 per share. After that meeting, Mr. Kurtz called its representative at KBW to discuss the pricing proposed by BancGroup. KBW also was contacted by BancGroup's financial advisor to discuss pricing.

On September 9, 2004, a FFLC Executive Committee meeting was held during which the September 1, 2004 meeting with BancGroup representatives was discussed in detail. The Executive Committee discussed BancGroup's informal expression of interest, management's views regarding BancGroup's operations and their interest in acquiring FFLC, the status of the performance of FFLC in relation to its then-current business plan and the projected earnings of FFLC under various scenarios. KBW provided a detailed report regarding the pricing proposed by BancGroup, as well as a detailed update of the regional financial institutions merger market, the potential value of the FFLC franchise based upon the current merger market fundamentals and the potential market value of FFLC stock assuming various scenarios. KBW also discussed other institutions that might be interested in pursuing business combination with FFLC and likely pricing. KBW informed the Executive Committee of their views of the different levels of pricing offered for FFLC. At the meeting, it was determined by the Executive Committee that, in light of the level of pricing indicated by BancGroup, BancGroup should be advised that the price range of \$35.00 to \$36.00 was insufficient to cause the Board to seriously consider a business combination with BancGroup. This was communicated by Mr. Kurtz to Mr. Lowder on September 10, 2004.

On September 28, 2004, Mr. Lowder called Mr. Kurtz to let him know that BancGroup had just announced the execution of a definitive merger agreement with Union Bank in Fort Lauderdale, Florida. After discussing BancGroup's announcement, Mr. Lowder suggested BancGroup might increase their offer to FFLC to \$39.00 per share. Mr. Kurtz then called KBW and Mr. Logan to discuss the call he had with Mr. Lowder. During that call, it was agreed that FFLC would not consider a transaction at that price, and Mr. Kurtz called Mr. Lowder to let him know of their decision on September 29, 2004. On September 30, 2004, Mr. Lowder called Mr. Kurtz and told him that BancGroup had analyzed a potential transaction with FFLC more closely and he believed BancGroup might be willing to pay \$42.00 per share.

On October 6, 2004, Mr. Lowder called Mr. Kurtz to let him know BancGroup was still extremely interested in a transaction with FFLC, but wanted to complete a stock offering before discussing a potential transaction further with FFLC. On October 12, 2004, the FFLC Board met and discussed the status of the proposed transaction with BancGroup at length. A representative of the law firm Muldoon Murphy & Aguggia LLP advised the Board regarding their fiduciary duties in the merger and acquisition context. It was agreed that KBW should be actively involved in all future discussions with BancGroup.

On November 19, 2004, Mr. Lowder called to inform Mr. Kurtz that BancGroup had completed its stock offering and was interested in meeting with FFLC. A Confidentiality Agreement was executed on December 2, 2004. Representatives for KBW had extensive conversations with Lehman Brothers, BancGroup's financial adviser, over the next week. On December 10, 2004, Mr. Lowder, Mr. Oakley and another BancGroup director met with Mr. Logan, Mr. Kurtz and a representative from KBW. It was agreed that a financial structure of \$42.00 per share for FFLC stock, in a mixture of stock and cash would be paid by BancGroup, with a maximum of 35% of the total consideration being cash. BancGroup provided FFLC with a term sheet. Due diligence was also discussed.

Mr. Kurtz and representatives of KBW continued to negotiate the terms of a possible transaction with BancGroup throughout December. On December 22, 2004, the Board met and discussed the status of the merger process. The proposed structure of the transaction, the possibility of the pricing being revised after due diligence, the volatility and performance of each institution's common stock, the operating strategy of BancGroup, dividend history, relative ability of each institution to compete and integrate merger transactions and the ability of FFLC shareholders to participate in the future of the combined company with the cash and stock mix proposed were all

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discussed. The Board then authorized Mr. Kurtz to negotiate, with the assistance of FFLC's legal and financial advisors, a definitive merger agreement with BancGroup on the basis of the proposal presented to the Board and to permit BancGroup to conduct due diligence on FFLC.

On January 13, 2005, the Board of Directors of FFLC held a special meeting at which senior management and representatives of KBW and Muldoon Murphy & Aguggia LLP presented the terms of the definitive merger agreement and ancillary agreements and the findings of FFLC's due diligence investigation of BancGroup. In addition, detailed presentations on the expected costs associated with the proposed transaction, estimated severance payments and the structure and tax treatment of the transaction were addressed. Representatives of KBW made a presentation regarding the fairness of the merger consideration in the proposed transaction to FFLC's shareholders from a financial point of view. The board reviewed the impact of the transaction on the existing employment and change in control agreements entered into with management, and reviewed with representatives of Muldoon Murphy & Aguggia LLP the fiduciary obligations and legal standards applicable to the proposed transaction, the approvals and contingencies necessary to consummate the transaction and the regulatory issues and process involved. After those presentations and further discussions regarding the proposed mix of cash and stock consideration and the fluctuation of the overall merger consideration under various scenarios, the board determined that the merger agreement, ancillary agreements and transactions contemplated thereby were in the best interest of FFLC shareholders, unanimously approved the proposed merger and related agreements and authorized Mr. Kurtz to execute the merger agreement and related documents and to take all steps necessary to effect the proposed transaction,

On January 14, 2005, the Executive Committee of the BancGroup Board of Directors approved the proposed terms of the merger and definitive merger agreement. On January 19, 2005, the BancGroup Board of Directors ratified the merger and definitive merger agreement.

On January 18, 2005, a joint press release was issued announcing the transaction before the trading of their stock.

FFLC's Reasons for the Merger

The FFLC board has unanimously approved the merger agreement and recommends that FFLC shareholders vote **FOR** the approval of the merger agreement.

The FFLC board has determined that the merger is fair to, and in the best interests of, FFLC and its shareholders. In approving the merger agreement, the Board of Directors of FFLC consulted with its financial advisors with respect to the financial aspects and fairness of the transaction to FFLC's shareholders from a financial point of view and with its legal counsel as to its legal duties and the terms of the merger agreement and related agreements. In reaching its determination to approve and recommend the merger, the Board of Directors of FFLC, with the advice from senior management and financial and legal advisors, considered a number of factors, including the following material factors:

The Board of Directors' understanding of strategic options available to FFLC and the assessment of those options by the board and senior management as to the prospects and estimated results of the execution of its business plan as an independent entity under various scenarios, and the determination that none of those strategic options or the execution of its business plan under the best case scenarios were likely to create greater value on a present value basis for shareholders than the merger consideration being paid by BancGroup.

The ability of FFLC shareholders to continue to participate in the future of the combined entity by receiving BancGroup common stock and ability of shareholders to elect to receive approximately 35% of the merger consideration in cash to moderate the effects of market fluctuations in BancGroup common stock and that shareholders would have potential value appreciation by owning the

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common stock of a highly-regarded and profitable financial institution operating in the Southeast region.

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Information concerning the business, earnings, operations, financial condition, strategic initiatives and general prospects of Colonial as compared to the other institutions and the expected performance of BancGroup and FFLC on a combined basis. In particular, the Board of Directors considered the recent merger transactions consummated by BancGroup and the impact those transactions had on BancGroup's performance, the market value and trading history of the common stock of BancGroup in comparison to its peer institutions, and in comparison to FFLC's common stock, the combined franchise and geographic coverage that would result from a merger with BancGroup and the relative prospects of continued growth and performance of BancGroup based upon the expected interest rate environment in the near term and the structure of BancGroup's balance sheet and operating strategy.

The opinion rendered by KBW, as financial advisor to FFLC, that, subject to the assumptions and limitations set forth therein, the merger consideration was, as of the date of the opinion, fair, from a financial point of view, to FFLC's shareholders.

The potential efficiencies and synergies that could result from a combination with BancGroup and the wider array of products and services that would be available to the current customers and communities served by FFLC and the prospect that the combined entity would be better able to capitalize on opportunities to provide increased financial services to FFLC customers.

The results of the due diligence review conducted on BancGroup, including the likelihood of the transaction receiving the requisite regulatory approvals in a timely manner.

The effect of the merger on the depositors, customers and the communities served by FFLC. The acquisition by BancGroup was deemed to be an opportunity to provide depositors, customers and the communities served by FFLC with increased financial services and access to financial services throughout a wider market area.

The expected effect on FFLC employees of a merger with BancGroup and that after the merger FFLC employees would have opportunities for career advancement in a larger organization.

That Mr. Kurtz would remain involved with the combined entity as an officer and the FFLC Board of Directors would remain involved as an Advisory Board to BancGroup.

The current and prospective economic, competitive and regulatory environment and associated compliance costs facing FFLC and independent community banking institutions generally.

A review, with the assistance of its financial and legal advisors, of the terms of the merger agreement, the structure of the merger and the mix of cash and stock consideration, including the fact that the merger is intended to qualify as a transaction of a type that is generally tax-free for U.S. federal income tax purposes as to the stock component of the merger consideration.

The likelihood of regulatory and shareholder approvals and estimated transactional and severance costs associated with the merger and payments that could be triggered upon termination of or failure to consummate the merger.

The foregoing information and factors considered by FFLC's Board of Directors are not exhaustive, but includes all material factors that FFLC's Board of Directors considered and discussed in approving and recommending the merger. In view of the wide variety of factors considered and discussed by FFLC's Board of Directors in connection with its evaluation of the merger and the complexity of these factors, the Board of Directors did not consider it practical to, nor did it attempt to, quantify, rank or otherwise assign any specific or relative weights to the specific factors that it considered in reaching its decision; rather it considered all of the factors as a whole. The Board of Directors discussed the foregoing factors, including asking questions of FFLC's Senior Management and legal and financial advisers, and reached a general consensus that the merger was in the best interests of FFLC and its shareholders. In considering the foregoing factors, individual directors may have assigned different weights to different factors. FFLC's Board of Directors relied on the experience and expertise of FFLC's financial adviser for quantitative analysis of the financial terms of the merger. See Proposal 1: The

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Merger Fairness Opinion of Keefe, Bruyette & Woods, Inc. below. It should be noted that this explanation of the reasoning of FFLC's Board of Directors and all other information presented in this section is forward-looking in nature and, therefore, should be read in light of the factors discussed under "A Warning About Forward-Looking Statements" on page 11.

Fairness Opinion of Keefe, Bruyette & Woods, Inc.

FFLC engaged KBW to act as its exclusive financial advisor in connection with the Merger. KBW agreed to assist FFLC in analyzing and effecting a transaction with BancGroup. FFLC selected KBW because KBW is a nationally recognized investment banking firm with substantial experience in transactions similar to the Merger and is familiar with FFLC and its business. As part of its investment banking business, KBW is continually engaged in the valuation of financial businesses and their securities in connection with mergers and acquisitions.

On January 13, 2005, FFLC's Board held a meeting to evaluate the proposed Merger with BancGroup. At this meeting, KBW reviewed the financial aspects of the proposed Merger and rendered an oral opinion (subsequently confirmed in writing) that, as of that date, the merger consideration in the Merger was fair to the shareholders of FFLC from a financial point of view.

The full text of KBW's written opinion is attached as Appendix B to this document and is incorporated herein by reference. FFLC's shareholders are urged to read the opinion in its entirety for a description of the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by KBW.

KBW's opinion is directed to the Board and addresses only the fairness, from a financial point of view, of the merger consideration to the FFLC shareholders. It does not address the underlying business decision to proceed with the Merger and does not constitute a recommendation to any FFLC shareholder as to how the shareholder should vote at the FFLC Annual Meeting on the Merger or any related matter.

In rendering its opinion, KBW:

reviewed, among other things,

the Agreement,

Annual Reports to Shareholders and Annual Reports on Form 10-K for the three years ended December 31, 2003, 2002 and 2001 of FFLC,

Annual Reports to Shareholders and Annual Reports on Form 10-K for the three years ended December 31, 2003, 2002 and 2001 of BancGroup,

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Certain interim reports to shareholders and Quarterly Reports on Form 10-Q of FFLC and certain other communications from FFLC to its respective shareholders,

Certain interim reports to shareholders and Quarterly Reports on Form 10-Q of BancGroup and certain other communications from BancGroup to its respective shareholders, and

Other financial information concerning the businesses and operations of FFLC and BancGroup furnished to KBW by FFLC and BancGroup for purposes of KBW's analysis;

held discussions with members of senior management of FFLC and BancGroup regarding

past and current business operations,

regulatory relationships,

financial condition, and

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future prospects of the respective companies;

reviewed the market prices, valuation multiples, publicly reported financial condition and results of operations for BancGroup and compared them with those of certain publicly traded companies that KBW deemed to be relevant;

reviewed the market prices, valuation multiples, publicly reported financial condition and results of operations for FFLC and compared them with those of certain publicly traded companies that KBW deemed to be relevant;

compared the proposed financial terms of the Merger with the financial terms of certain other transactions that KBW deemed to be relevant; and

performed other studies and analyses that it considered appropriate.

In conducting its review and arriving at its opinion, KBW relied upon and assumed the accuracy and completeness of all of the financial and other information provided to or otherwise made available to KBW or that was discussed with, or reviewed by or for KBW, or that was publicly available. KBW did not attempt or assume any responsibility to verify such information independently. KBW relied upon the management of FFLC as to the reasonableness and achievability of the financial and operating forecasts and projections (and assumptions and bases therefor) provided to KBW. KBW assumed, without independent verification, that the aggregate allowances for loan and lease losses for BancGroup and FFLC are adequate to cover those losses. KBW did not make or obtain any evaluations or appraisals of any assets or liabilities of BancGroup or FFLC, and KBW did not examine any books and records or review individual credit files.

The projections furnished to KBW and used by it in certain of its analyses were prepared by FFLC's senior management. FFLC does not publicly disclose internal management projections of the type provided to KBW in connection with its review of the Merger. As a result, such projections were not prepared with a view towards public disclosure. The projections were based on numerous variables and assumptions which are inherently uncertain, including factors related to general economic and competitive conditions. Accordingly, actual results could vary significantly from those set forth in the projections.

For purposes of rendering its opinion, KBW assumed that, in all respects material to its analyses:

the Merger will be completed substantially in accordance with the terms set forth in the Merger Agreement;

the representations and warranties of each party in the Merger Agreement and in all related documents and instruments referred to in the Merger Agreement are true and correct;

each party to the Merger Agreement and all related documents will perform all of the covenants and agreements required to be performed by such party under such documents;

all conditions to the completion of the Merger will be satisfied without any waivers; and

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in the course of obtaining the necessary regulatory, contractual, or other consents or approvals for the Merger, no restrictions, including any divestiture requirements, termination or other payments or amendments or modifications, will be imposed that will have a material adverse effect on the future results of operations or financial condition of the combined entity or the contemplated benefits of the Merger, including the cost savings, revenue enhancements and related expenses expected to result from the Merger.

KBW further assumed that the Merger will be accounted for as a purchase transaction under generally accepted accounting principles. KBW's opinion is not an expression of an opinion as to the prices at which shares of FFLC common stock or shares of BancGroup common stock will trade following the announcement of the Merger or the actual value of the shares of common stock of the combined company when issued pursuant to

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the Merger, or the prices at which the shares of common stock of the combined company will trade following the completion of the Merger.

In performing its analyses, KBW made numerous assumptions with respect to industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of KBW, FFLC and BancGroup. Any estimates contained in the analyses performed by KBW are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by these analyses. Additionally, estimates of the value of businesses or securities do not purport to be appraisals or to reflect the prices at which such businesses or securities might actually be sold. Accordingly, these analyses and estimates are inherently subject to substantial uncertainty. In addition, the KBW opinion was among several factors taken into consideration by the FFLC Board in making its determination to approve the Merger Agreement and the Merger. Consequently, the analyses described below should not be viewed as determinative of the decision of the FFLC Board or management of FFLC with respect to the fairness of the merger consideration.

The following is a summary of the material analyses performed by KBW in connection with its opinion. The summary is not a complete description of the analyses underlying the KBW opinion or the presentation made by KBW to the FFLC Board, but summarizes the material analyses performed and presented in connection with such opinion. The preparation of a fairness opinion is a complex analytic process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. Therefore, a fairness opinion is not readily susceptible to partial analysis or summary description. In arriving at its opinion, KBW did not attribute any particular weight to any analysis or factor that it considered, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. The financial analyses summarized below include information presented in tabular format. Accordingly, KBW believes that its analyses and the summary of its analyses must be considered as a whole and that selecting portions of its analyses and factors or focusing on the information presented below in tabular format, without considering all analyses and factors or the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the process underlying its analyses and opinion. The tables alone do not constitute a complete description of the financial analyses.

Transaction Summary. KBW calculated the merger consideration to be paid as a multiple of FFLC's book value per share, tangible book value per share, latest twelve months' earnings per share and 2005 First Call (as hereinafter defined) consensus estimated earnings per share. First Call is a data service that monitors and publishes a compilation of earnings estimates produced by selected research analysts regarding companies of interest to institutional investors. KBW also calculated the merger consideration to be paid as a Core Deposit Premium. Core Deposit Premium equals the difference between the aggregate merger consideration and FFLC's tangible equity divided by core deposits. Additionally, KBW has adjusted throughout its analyses the financial data to exclude any non-recurring income and expenses and any extraordinary items. The merger consideration was based on \$42.00 in cash or a fixed exchange ratio of 2.0 shares of BancGroup for each share of FFLC, subject to no more than 35% of the consideration in cash. These computations were based on FFLC's stated book value per share and tangible book value per share of \$15.62 as of December 31, 2004, FFLC's latest twelve months' earnings per share of \$1.83 as of December 31, 2004, a 2005 First Call consensus estimated earnings per share of \$2.02 and core deposits of \$572.2 million as of December 30, 2004. Based on those assumptions and BancGroup's closing price of \$20.00 on January 14, 2005, this analysis indicated FFLC shareholders would receive stock worth \$40.00 for each share of FFLC common stock held or \$42.00 in cash. Assuming a 65% stock, 35% cash consideration, the blended per share consideration of \$40.70 would represent 261% of book value per share, 261% of tangible book value per share, 22.2 times latest twelve months' earnings per share, 20.1 times estimated 2005 earnings per share and a Core Deposit Premium of 24.5%.

KBW also analyzed the per share transaction value as a premium to the closing price of FFLC common stock prior to the announcement of the merger. The analyses performed indicated the per share transaction value as a premium to the closing price of FFLC common stock on January 14, 2005 was 16.2%.

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Selected Transaction Analysis. KBW reviewed certain financial data related to a set of comparable Florida bank transactions announced since December 31, 2002 with deal values greater than \$100 million (13 transactions).

KBW compared multiples of price to various factors for the BancGroup-FFLC Merger to the same multiples for the comparable group's mergers at the time those mergers were announced. The results were as follows:

Comparable Transactions:

	<u>Median</u>	<u>Low</u>	<u>High</u>	<u>Colonial / FFLC Merger</u>
Price / Stated Book Value	290.2%	141.1%	569.4%	260.6%
Price / Latest Twelve Months Earnings Per Share	28.7x	21.2x	42.1x	22.2x
Price / Estimated Earnings Per Share	24.8	19.9	35.3	20.1
Core Deposit Premium	23.9%	13.2%	36.2%	24.5%
Premium to Market Price	18.8	(7.8)	40.5	16.2

KBW also analyzed the financial data for the period ended December 31, 2004 for FFLC and reporting periods prior to the announcement of each transaction for each target in the Selected Transactions Analysis. The results were as follows:

Comparable Targets:

	<u>Median</u>	<u>Low</u>	<u>High</u>	<u>FFLC*</u>
Equity / Assets	7.21%	4.48%	12.46%	7.93%
Non-Performing Assets / Assets	0.14	0.00	0.50	0.29
Return on Average Assets (Year-to-Date Annualized)	0.88	0.42	1.20	1.00
Return on Average Equity (Year-to-Date Annualized)	11.67	5.89	25.74	12.62
Efficiency Ratio (Last Twelve Months)	64	55	83	50

* FFLC's data as of or for the three months ended 12/31/04. Performance ratios annualized.

No company or transaction used as a comparison in the above analysis is identical to BancGroup, FFLC or the Merger. Accordingly, an analysis of these results is not purely mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies and other factors that could affect the value of the companies to which they are being compared.

Discounted Cash Flow Analysis. Using discounted dividends analysis, KBW estimated the present value of the future stream of dividends that FFLC could produce over the next five years, under various circumstances, assuming FFLC performed in accordance with its 2005-2006 First Call consensus estimated earnings per share, earnings per share are grown at 10.0% after 2006 and FFLC maintains an annual dividend payout ratio of 30.0% in all years. KBW then estimated the terminal values for FFLC stock at the end of the period by applying multiples ranging from

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14.0x to 17.0x projected earnings in year six. The dividend streams and terminal values were then discounted to present values using different discount rates (ranging from 10.0% to 14.0%) chosen to reflect different assumptions regarding the required rates of return to holders or prospective buyers of FFLC common stock. This discounted dividend analysis indicated reference ranges of between \$26.52 and \$37.66 per share of FFLC common stock. These values compare to the blended consideration offered by BancGroup to FFLC in the Merger of \$40.70 per share of FFLC common stock.

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Relative Stock Price Performance. KBW also analyzed the price performance of BancGroup common stock from December 31, 2002 to January 14, 2005 and compared that performance to the performance of the Philadelphia Exchange/Keefe, Bruyette & Woods Bank Index (Keefe Bank Index) over the same period. The Keefe Bank Index is a market cap weighted price index composed of 24 major commercial and savings banks stocks. The Keefe Bank Index is traded on the Philadelphia Exchange under the symbol BKX . This analysis indicated the following cumulative changes in price over the period:

BancGroup	67.64%
Keefe Bank Index	33.85

Selected Peer Group Analysis. KBW compared the financial performance and market performance of BancGroup to those of a group of comparable holding companies. The comparisons were based on:

various financial measures including:

earnings performance

operating efficiency

capital

asset quality

various measures of market performance including:

price to book value

price to earnings

dividend yield

To perform this analysis, KBW used the financial information as of and for the quarter ended September 30, 2004 and market price information as of January 14, 2005. The 9 companies in the peer group included publicly traded banks in Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, North Carolina, South Carolina and Tennessee with assets between \$5 billion and \$30 billion. This peer group includes Alabama National BanCorporation, BancorpSouth, Inc., Compass Bancshares, Inc., First Horizon National Corporation, Hibernia Corporation, The South Financial Group, Inc., Synovus Financial Corp., Trustmark Corporation and Whitney Holding Corporation. KBW has adjusted throughout its analysis the financial data to exclude certain non-recurring income and expenses and any extraordinary items.

KBW's analysis showed the following concerning BancGroup's financial performance:

Selected Peer Group:

	<u>Median</u>	<u>Low</u>	<u>High</u>	<u>Colonial(1)</u>
Return on Average Equity (GAAP)	15.34%	10.33%	23.85%	13.94%
Return on Average Assets (GAAP)	1.35	1.04	1.83	1.04
Return on Average Tangible Equity (Cash)	21.15	12.81	27.32	20.36
Return on Average Tangible Assets (Cash)	1.38	1.08	1.90	1.09
Net Interest Margin	3.82	3.38	4.47	3.64
Efficiency Ratio	62	50	69	57
Leverage Ratio	7.52	7.35	10.05	7.28
Equity / Assets	9.01	7.01	11.34	8.24
Tangible Equity / Assets	7.25	5.85	8.84	5.58
Loans / Deposits	102	75	112	115(2)
Non-Performing Assets / Assets	0.34	0.19	0.47	0.22
Loan Loss Reserve / Non-Performing Assets	245	149	464	358
Loan Loss Reserve / Total Loans	1.36	0.80	1.51	1.12(2)

(1) Balance sheet data and capital ratios pro forma for the acquisition of Union Bank of Florida and forward equity offering of 8.4 million shares.

(2) Includes loans held for sale.

KBW's analysis showed the following concerning BancGroup's market performance:

Table of Contents**Selected Peer Group:**

	<u>Median</u>	<u>Low</u>	<u>High</u>	<u>Colonial</u>
Price / Stated Book Value Per Share	219%	153%	328%	180%(1)
Price / Tangible Book Value Per Share	285	223	400	273(1)
Price / 2004 GAAP Estimated Earnings Per Share	15.3x	11.9x	19.4x	15.0x
Price / 2004 Cash Estimated Earnings Per Share	15.1	11.8	19.1	14.6
Price / 2005 GAAP Estimated Earnings Per Share	14.0	11.8	16.9	13.7
Price / 2005 Cash Estimated Earnings Per Share	13.9	11.7	16.7	13.4
Dividend Yield	2.8%	2.0%	4.1%	2.9%

(1) Stated and tangible book value per share pro forma for the acquisition of Union Bank of Florida and forward equity offering of 8.4 million shares.

KBW also compared the financial performance of FFLC to those of a group of comparable banks. The comparisons were based on:

various financial measures including:

earnings performance

operating efficiency

capital

asset quality

various measures of market performance including:

price to book value

price to earnings

dividend yield

To perform this analysis, KBW used the financial information as of and for the quarter ended December 31, 2004 for FFLC and as of and for the quarter ended September 30, 2004 for the peer group. The 8 companies in the peer group included all publicly traded banks and thrifts in Florida with assets greater than \$750 million and First Call estimates. This peer group includes BankAtlantic Bancorp, Inc., BankUnited Financial Corporation, Capital City Bank Group, Inc., Commercial Bankshares, Inc., Fidelity Bankshares, Inc., Harbor Florida Bancshares, Inc., Seacoast Banking Corporation of Florida and TIB Financial Corp. KBW has adjusted throughout its analysis the financial data to exclude certain

non-recurring income and expenses and any extraordinary items.

KBW's analysis showed the following concerning FFLC's financial performance:

Selected Peer Group:

	<u>Median</u>	<u>Low</u>	<u>High</u>	<u>FFLC</u>
Return on Average Equity (GAAP)	13.26%	8.07%	16.28%	12.62%
Return on Average Assets (GAAP)	1.11	0.67	1.75	1.00
Return on Average Tangible Equity (Cash)	15.50	8.55	16.52	12.62
Return on Average Tangible Assets (Cash)	1.13	0.68	1.76	1.00
Net Interest Margin	3.95	1.90	4.96	3.44
Efficiency Ratio	64	40	79	50
Leverage Ratio	7.77	6.90	10.62	7.79
Equity / Assets	8.26	5.66	10.91	7.93
Tangible Equity / Assets	7.32	5.28	10.78	7.93
Loans / Deposits	97	62	164	112
Non-Performing Assets / Assets	0.17	0.00	0.45	0.29
Loan Loss Reserve / Non-Performing Assets	276	137	578	212
Loan Loss Reserve / Total Loans	0.92	0.42	1.20	0.69

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KBW's analysis showed the following concerning FFLC's market performance:

Selected Peer Group:

	<u>Median</u>	<u>Low</u>	<u>High</u>	<u>FFLC</u>
Price / Stated Book Value Per Share	242%	180%	315%	224%
Price / Tangible Book Value Per Share	286	191	316	224
Price / 2004 GAAP Estimated Earnings Per Share	20.1x	18.5x	25.6x	19.1x
Price / 2004 Cash Estimated Earnings Per Share	19.3	18.4	24.8	19.1
Price / 2005 GAAP Estimated Earnings Per Share	17.2	15.9	21.5	17.3
Price / 2005 Cash Estimated Earnings Per Share	16.7	15.9	20.9	17.3
Dividend Yield	1.8%	0.0%	2.8%	1.5%

Contribution Analysis. KBW analyzed the relative contribution of each of FFLC and BancGroup to the pro forma balance sheet and income statement items of the combined entity, including assets, gross loans, deposits, equity, tangible equity, latest twelve months' earnings and estimated 2005 earnings. This analysis excluded any purchase accounting adjustments. The pro forma ownership analysis assumed the aggregate deal value was in the form of 65% BancGroup stock and 35% cash and was based on BancGroup's closing price of \$20.00 on January 14, 2005. The results of KBW's analysis are set forth in the following table:

<u>Category</u>	<u>BancGroup</u>	<u>FFLC</u>
Assets	94.8%	5.2%
Gross Loans	93.9	6.1
Deposits	93.7	6.3
Equity	95.0	5.0
Tangible Equity	92.6	7.4
2005 Estimated Earnings (GAAP)	95.2	4.8
2005 Estimated Earnings (Cash)	95.1	4.9
Estimated Pro Forma Ownership	95.3	4.7

Financial Impact Analysis. KBW performed pro forma merger analyses that combined projected income statement and balance sheet information. Assumptions regarding the accounting treatment, acquisition adjustments and cost savings were used to calculate the financial impact that the Merger would have on certain projected financial results of the pro forma company. This analysis indicated that the Merger is expected to be dilutive to BancGroup's estimated 2005 and 2006 GAAP earnings per share, dilutive to BancGroup's estimated 2005 cash earnings per share and accretive to BancGroup's estimated 2006 cash earnings per share. This analysis was based on First Call's 2005 and 2006 consensus earnings estimates for BancGroup and FFLC and estimated cost savings equal to 20.0% of FFLC's projected non-interest expenses. For all of the above analyses, the actual results achieved by pro forma company following the Merger will vary from the projected results and the variations may be material.

Other Analyses. KBW reviewed the relative financial and market performance of BancGroup and FFLC to a variety of relevant industry peer groups and indices. KBW also reviewed earnings estimates, historical stock performance, stock liquidity and research coverage for BancGroup.

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The FFLC Board has retained KBW as an independent contractor to act as financial adviser to FFLC regarding the Merger. As part of its investment banking business, KBW is continually engaged in the valuation of banking businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes. As specialists in the securities of banking companies, KBW has experience in, and knowledge of, the valuation of banking enterprises. In the ordinary course of its business as a

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broker-dealer, KBW may, from time to time, purchase securities from, and sell securities to BancGroup. As a market maker in securities, KBW may from time to time have a long or short position in, and buy or sell, debt or equity securities of BancGroup for KBW's own account and for the accounts of its customers.

FFLC and KBW have entered into an agreement relating to the services to be provided by KBW in connection with the Merger. FFLC has agreed to pay KBW at the time of closing a cash fee equal to 1.0 % of the market value of the aggregate consideration offered in exchange for the outstanding shares of common stock of FFLC in the transaction. Pursuant to the KBW engagement agreement, FFLC also agreed to reimburse KBW for reasonable out-of-pocket expenses and disbursements incurred in connection with its retention and to indemnify against certain liabilities, including liabilities under the federal securities laws.

Recommendation of the Board of Directors of FFLC

The Board of Directors of FFLC has determined that the Agreement is in the best interest of FFLC shareholders. THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE SHAREHOLDERS OF FFLC VOTE IN FAVOR OF THE APPROVAL AND ADOPTION OF THE AGREEMENT.

BancGroup's Reasons for the Merger

The Executive Committee of the Board of Directors of BancGroup has unanimously approved the merger and the Agreement, and BancGroup's Board of Directors has ratified such approval. The merger will allow BancGroup to expand its banking operations in FFLC's market area. BancGroup currently operates a commercial bank with 144 branches in Florida. The Board of Directors of BancGroup believes that the combination with FFLC is consistent with its current expansion strategy.

In approving the merger and the Agreement, the Board of Directors of BancGroup took into account: (i) the financial performance and condition of FFLC and First Federal Savings Bank of Lake County (the Bank), including its capital and asset quality; (ii) similarities in the philosophies of BancGroup and FFLC, including the commitment of FFLC to delivering high quality personalized financial services to its customers; and (iii) the extensive knowledge of, and experience in, the Lake County, Florida, market area that has been demonstrated by the management of FFLC.

Interests of Certain Persons in the Merger

Certain members of the management and Boards of Directors of FFLC and First Federal Savings Bank of Lake County may be deemed to have certain interests in the merger in addition to their interest as shareholders of FFLC generally. The Board of Directors of FFLC was aware of these interests and considered them, among other matters, in unanimously approving the Agreement.

Conversion or Cash-out of Options. As of the date of this Proxy Statement-Prospectus, FFLC had outstanding options (the FFLC Options) which entitle the holders thereof to acquire up to 194,309 shares of FFLC common stock. Each holder of a FFLC Option will either receive options to purchase two shares of BancGroup common stock for every share of FFLC he or she could currently purchase at an exercise price of

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half his or her current exercise price or will exchange his or her FFLC Options for a cash payment equal to \$42.00 multiplied by the number of shares of FFLC common stock that would have issued if such FFLC Option had been exercised less the aggregate exercise price. See Proposal 1: The Merger Treatment of FFLC Options.

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Employees. Pursuant to agreements with FFCL and Colonial BancGroup, Stephen T. Kurtz, President and CEO, Paul K. Mueller, Executive Vice President and Sandra L. Rutschow, Vice President and Corporate Secretary are expected to be paid \$1,105,835, \$637,421 and \$176,776, respectively, at the completion of the merger. Pursuant to similar agreements, eight non-executive officers will also receive an aggregate amount of \$2,511,283 at the completion of the merger.

BancGroup has also entered into an employment agreement with Stephen T. Kurtz that will become effective when and if the merger is completed. The agreement provides for a term of four years, and a base compensation of approximately \$300,000. The agreement also provides that Mr. Kurtz will receive a signing bonus of \$500,000 on the closing date. The employment agreement also provides that Mr. Kurtz will be eligible to receive options to purchase 10,000 shares of BancGroup common stock and annual incentive payments of not less than \$75,000. Mr. Kurtz will also be provided employee benefits, fringe benefits and perquisites, including a car allowance of \$1000 a month on the basis typically provided by BancGroup to its senior regional executives. The employment agreement also provides that Mr. Kurtz will not compete against BancGroup or solicit its customers in Lake, Sumter, Marion and Citrus Counties, Florida, during the term of the employment agreement.

Dwight L. Hart, Jay R. Bartholomew, Joseph D. Cioppa and Michael J. Cox have each entered into employment agreements with Colonial Bank that become effective at the completion of the merger. The employment agreements provide for one year of employment at their current level of salary and bonus.

On the Effective Date, all employees of FFCL will, at BancGroup's option, either become employees of BancGroup or its subsidiaries or be entitled to severance benefits in accordance with Colonial Bank's severance policy. All employees of FFCL who become employees of BancGroup or its subsidiaries on the Effective Date will be entitled, to the extent permitted by applicable law, to participate in all benefit plans of BancGroup to the same extent as BancGroup's employees.

Indemnification. Under the Agreement, BancGroup has agreed for a period of six years to indemnify the directors and executive officers of FFCL against certain claims and liabilities arising out of or pertaining to matters existing or occurring at or prior to the Effective Date, to the extent that FFCL would have been authorized under Delaware law, or under its Certificate of Incorporation or Bylaws, to indemnify such persons.

Affiliate Agreements. FFCL's directors have entered into affiliate agreements with BancGroup regarding various issues associated with the merger. These agreements provide that the director will, among other things:

agree to vote his or her shares for the merger;

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

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

Additionally, FFCL's directors who are not also employees of FFCL agreed generally not to compete with Colonial Bank, N.A. for a period of two years after the effective date of the Merger.

Conversion of FFLC Common Stock

The Agreement provides for the merger of FFLC with and into BancGroup, with BancGroup to be the surviving corporation. On the Effective Date, each share of FFLC common stock outstanding and held by the FFLC shareholders will be converted by operation of law and without any action by any holder thereof into either (i) two (2) shares of BancGroup common stock or (ii) \$42.00 cash (the Merger Consideration). Accordingly, based upon the 5,412,202 shares of FFLC common stock outstanding as of the date of this Proxy Statement-Prospectus, and assuming the exercise of no FFLC Options and that no FFLC shareholder elects to receive cash in the merger, the number of shares of BancGroup common stock that may be issued in the Merger would be approximately 10,824,404 million shares. Assuming

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that the maximum number of shares of FFLC common stock are converted into the right to receive cash, then BancGroup would pay approximately \$79,559,369 in cash and issue approximately 7,035,862 shares of its common stock in the merger.

No fractional shares of BancGroup common stock will be issued in connection with the Merger. Each shareholder of FFLC otherwise entitled to receive a fractional share of BancGroup common stock will receive instead a cash payment (without interest) equal to such fractional interest multiplied by \$42.00.

The Agreement provides that if, prior to the Effective Date, BancGroup common stock is changed into a different number of shares or a different class of shares by reason of any recapitalization or reclassification, stock dividend, combination, stock split, or reverse stock split of the BancGroup common stock, an appropriate and proportionate adjustment will be made in the number of shares of BancGroup common stock into which the FFLC common stock will be converted in the Merger.

Election of Consideration

The Agreement allows each FFLC shareholder to choose how many shares of his or her FFLC common stock will be converted to BancGroup common stock and how many shares of his or her FFLC common stock will be converted to cash. You may elect to receive only stock, only cash or some combination of both. If you do not make an election by the election deadline, then all of your FFLC common stock will be converted to BancGroup common stock. The board of directors of FFLC believed that allowing this choice would grant FFLC shareholders the opportunity to receive the form of consideration that was best suited to each shareholder's needs. If an FFLC shareholder elects to receive only cash as his or her consideration, and other FFLC shareholders opt to receive stock in exchange for at least 65% of FFLC's outstanding shares, then such FFLC shareholder will receive \$42.00 cash for each share of FFLC common stock that such shareholder owns. Any FFLC shareholder who elects to receive cash in the merger should understand that such cash payment will be recognized as income to that shareholder and may have to pay income taxes on that income (see Certain Federal Income Tax Consequences). No income will be recognized by an FFLC shareholder if such shareholder elects to receive BancGroup common stock and no cash as his or her merger consideration.

You will be sent an election form in a few days. You should follow the instructions on the election form or the instructions given to you by your broker to elect the number of shares of FFLC common stock that you desire to be converted into cash and the number of shares of your FFLC common stock that you desire to be converted into BancGroup common stock. Enclosed with your Election Form will be a return envelope addressed to BancGroup's Transfer Agent, SunTrust Bank (the Exchange Agent). You should complete your election form and mail it and your FFLC stock certificate(s) to SunTrust Bank in the envelope provided. In the event an election form is received by the Exchange Agent without FFLC stock certificates, it will be returned.

The Agreement places a maximum amount on BancGroup's obligation to pay cash. Assuming there are 5,412,202 shares of FFLC common stock outstanding at the completion of the merger, the maximum cash amount will be \$79,559,369. If all of the holders of FFLC stock options exercised their stock options prior to the merger, then there would be 5,606,511 shares outstanding at the time of the merger, and the maximum cash amount would be \$82,415,712. If FFLC shareholders elect to receive more cash than the maximum cash amount, then the FFLC shareholders electing to receive cash would have their cash consideration reduced and their stock consideration increased on a pro rata basis.

As an example, if there are 5,412,202 shares of FFLC common stock outstanding at the time of the completion of the merger (in which case BancGroup is not obligated to pay more than \$79,559,369 of the total merger consideration in cash), and the FFLC shareholders make an aggregate cash election of \$113,656,242, then that would be \$34,096,873 more than BancGroup is required to pay in cash, and would represent approximately 811,830 shares of FFLC common stock. The electing shareholders who had elected cash would have their cash portion of the

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merger consideration reduced on a pro rata basis and would instead receive an aggregate of 1,623,660 shares of BancGroup common stock. On an individual basis, each electing shareholder who had

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elect some portion of his or her merger consideration to be paid in cash would in fact receive cash for 70% of the FFLC common stock that he or she had originally elected to be paid in cash and the remaining 30% of FFLC common stock that the electing shareholder had requested cash for would be paid in BancGroup common stock. Thus, if an FFLC shareholder who owned 1,000 shares of FFLC common stock had elected to receive 100 shares in cash and 900 shares in BancGroup common stock, that shareholder would actually receive 70 shares in cash (or \$2,940) and 930 FFLC shares in BancGroup common stock (1,860 shares of BancGroup common stock).

The deadline to make an election is 5:00 p.m. on May 11, 2005. If the Exchange Agent has not **received** your completed election form, including your FFLC certificates, by the deadline, then each share of your FFLC common stock will be converted into two shares of BancGroup common stock. You may change your election at any time prior to the election deadline, but once the election deadline has passed, all elections are final. You may, at any time prior to the election deadline, revoke your election by providing written notice to the Exchange Agent. The Exchange Agent's address and phone number are SunTrust Bank, 58 Edgewood Avenue, Room 225, Atlanta, GA 30303 and (404) 588-7817.

If any portion of the merger consideration is to be paid to a person other than the person named on the FFLC common stock certificate, no payment can be made on that stock certificate unless it is properly endorsed or otherwise be in proper form for transfer and the person requesting such payment shall pay to the Exchange Agent any transfer or other similar taxes required as a result of such payment to a person other than the registered holder of such FFLC stock certificate, or establish to the reasonable satisfaction of the Exchange Agent that such tax has been paid or is not payable. The Exchange Agent (or, subsequent to the six month anniversary of the completion of the merger, BancGroup) shall be entitled to deduct and withhold from the merger consideration (including cash in lieu of fractional shares of BancGroup common stock) otherwise payable in connection with the merger to any holder of FFLC common stock such amounts as the Exchange Agent or BancGroup, as the case may be, is required to deduct and withhold under the Internal Revenue Code, or any provision of state, local or foreign tax law, with respect to the making of such payment. To the extent the amounts are so withheld by the Exchange Agent or BancGroup, as the case may be, such withheld amounts shall be treated for all purposes as having been paid to the holder of shares of FFLC common stock in respect of whom such deduction and withholding was made by the Exchange Agent or BancGroup, as the case may be.

The Exchange Agent or BancGroup, as the case may be, in the exercise of its reasonable discretion, shall have the right to make all determinations, not inconsistent with the terms of the Agreement, governing (A) the validity of the election form and compliance by any FFLC shareholder with the election procedures, (B) the manner and extent to which elections are to be taken into account in making the determinations prescribed by the Agreement, (C) the issuance and delivery of BancGroup stock certificates into which shares of FFLC common stock are converted in the merger and (D) the method of payment of cash for shares of FFLC common stock converted into the right to receive cash and cash in lieu of fractional shares of BancGroup common stock where the holder of the applicable FFLC stock certificate has no right to receive whole shares of BancGroup common stock.

Surrender of FFLC Common Stock Certificates

On the Effective Date and subject to the conditions described at Conditions to Consummation of the merger, FFLC shareholders will automatically, and without further action by such shareholders or by BancGroup, become owners of BancGroup common stock and/or be entitled to receive a cash payment, as described herein. Outstanding certificates representing shares of the FFLC common stock will represent shares of BancGroup common stock or rights to a cash payment. Thereafter, upon surrender of the certificates formerly representing shares of FFLC common stock, the holders will be entitled to receive certificates for the BancGroup common stock and/or a cash payment. Dividends on the shares of BancGroup common stock will accumulate without interest and will not be distributed to any former shareholder of FFLC unless and until such shareholder surrenders for cancellation his certificate for FFLC common stock. No interest will be paid on any cash payment owed as consideration for the merger. SunTrust Bank, transfer agent for BancGroup common stock, will act as the Exchange Agent with respect to the

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shares of FFLC common stock surrendered in connection with the merger. The Exchange Agent will mail a detailed explanation of these arrangements to FFLC shareholders promptly following the Effective Date. **Stock certificates should not be sent to the Exchange Agent unless accompanied with an Election Form or until such notice is received.**

Treatment of FFLC Options

Conversion of Options. As of the date of this Proxy Statement-Prospectus, FFLC had granted to its directors, executive officers and employees options (the FFLC Options), which entitle the holders thereof to acquire up to 194,309 shares of FFLC common stock. Option holders who own FFLC Options may allow their options to be converted into options to purchase BancGroup common stock. For each share of FFLC common stock the holder currently has an option to purchase, such holder will have an option to purchase two shares of BancGroup common stock, each for half of the exercise price of his or her current FFLC Option.

Cash-out of Options. Alternatively, holders of FFLC Options may exchange his or her FFLC Options for the right to receive a cash payment on the Effective Date. The amount of such cash payment is equal to \$42.00 multiplied by the number of shares of FFLC common stock that would have been issued if such FFLC Options had been exercised less the aggregate exercise price.

The FFLC Options are issuable pursuant to the FFLC Bancorp, Inc. Incentive Stock Option Plans for Officers and Employees and the FFLC Bancorp, Inc. Stock Option Plan for Outside Directors (the Option Plans). The Option Plans are not qualified under Section 401(a) of the Internal Revenue Code of 1986, as amended, nor subject to the Employee Retirement Income Security Act of 1974. FFLC Options are not transferable except under the laws of descent and distribution.

The FFLC Options held by employees are incentive stock options under Section 422 of the Internal Revenue Code. Upon exercise of such an option, ordinary income would not normally result to the optionee even if the price of the options is lower than the fair market value of the stock subject to the option at the date of exercise provided certain timing requirements are met. However, income could be recognized for alternative minimum tax purposes upon a exercise. No income for regular federal income tax purposes would be realized until the holder actually sells the stock obtained through the exercise of incentive stock options as long as such stock is held long enough. The foregoing statements concerning federal income tax treatment are necessarily general and may not apply in a particular instance. Holders of FFLC options should contact their own professional tax advisors for advice concerning their particular tax situation.

Other Matters. It is not anticipated that BancGroup will make any reports to option holders regarding the amount or status of FFLC Options held. Option holders may obtain such information from BancGroup at the address given above on page of this Proxy Statement-Prospectus.

Certain Federal Income Tax Consequences

The merger is intended to qualify as a reorganization for federal income tax purposes under Section 368(a)(1)(A) of the Internal Revenue Code of 1986, as amended (the Code). The obligation of each of FFLC and BancGroup to consummate the merger is conditioned on the receipt of an opinion from PricewaterhouseCoopers LLP, BancGroup's tax advisor, to the effect that the merger will constitute such a reorganization. BancGroup has received this opinion. In delivering its opinion, PricewaterhouseCoopers LLP received and relied upon certain representations contained in certificates of officers of BancGroup and FFLC and certain other information, data, documentation and other materials as it deemed necessary. The tax opinion is based upon customary assumptions contained therein, including the assumption that consideration other than

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BancGroup common stock (including cash in lieu of fractional shares, cash consideration in exchange for outstanding options and cash paid to FFLC shareholders electing to receive cash in the merger) will represent no more than 50% of the total fair market value of all consideration paid to FFLC shareholders in the transaction.

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Neither FFLC nor BancGroup intends to seek a ruling from the IRS as to the federal income tax consequences of the merger. Shareholders of FFLC should be aware that the opinion from PricewaterhouseCoopers LLP will not be binding on the IRS or the courts. Shareholders of FFLC also should be aware that some of the tax consequences of the merger are governed by provisions of the Code as to which there are no final regulations and little or no judicial or administrative guidance. There can be no assurance that future legislation, administrative rulings, or court decisions will not adversely affect the accuracy of the statements contained herein.

The tax opinion states that, provided the assumptions therein are satisfied, the merger will constitute a reorganization as defined in Section 368(a) of the Code, and the following federal income tax consequences will result to FFLC shareholders who exchange their shares of FFLC common stock for shares of BancGroup common stock:

(i) No gain or loss will be recognized by BancGroup or FFLC as a result of the Merger;

(ii) The FFLC shareholders will not recognize any gain or loss related to BancGroup common stock received in exchange for their shares of FFLC common stock. To the extent that both cash and stock are received by a shareholder in the merger, gain (but not loss) will be recognized. FFLC shareholders receiving dividends from FFLC prior to the completion of the merger will be taxed on those distributions in accordance with Section 301 of the Internal Revenue Code.

(iii) The tax basis of the BancGroup common stock received by each FFLC shareholder will equal the tax basis of such shareholder's FFLC shares surrendered in the merger, decreased by the fair market value of the consideration (other than BancGroup common stock) and the amount of cash received by such FFLC shareholder in the merger and increased by (i) the amount of gain, if any, recognized by such FFLC shareholder on the receipt of such other consideration and (ii) the amount, if any, which is treated as a dividend;

(iv) The holding period of the BancGroup common stock received by the FFLC shareholders will include the holding period during which the FFLC common stock surrendered in exchange therefore was held, provided that such stock is held as a capital asset in the hands of the FFLC shareholders on the date of the exchange under Internal Revenue Code Section 1223(1); and

(v) The cash received by a FFLC shareholder in lieu of a fractional share interest of BancGroup common stock will be treated as having been received as a distribution in full payment in exchange for the fractional share interest of BancGroup stock which he or she would otherwise be entitled to receive and will qualify for either capital gain or loss treatment, provided that such stock is held as a capital asset in the hands of the FFLC shareholder on the date of the exchange under Internal Revenue Code Section 1223(1).

Each FFLC shareholder will be required to report on such shareholder's federal income tax return for the fiscal year of such shareholder in which the merger occurs that such shareholder has received BancGroup common stock in a reorganization.

THE FOREGOING DISCUSSION IS INTENDED ONLY AS A SUMMARY OF MATERIAL FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER TO THE SHAREHOLDERS OF FFLC, TO FFLC AND TO BANCGROUP AND DOES NOT PURPORT TO BE A COMPLETE DESCRIPTION OF ALL POTENTIAL TAX EFFECTS OF THE MERGER. THE DISCUSSION DOES NOT ADDRESS THE TAX CONSEQUENCES THAT MAY BE RELEVANT TO A PARTICULAR SHAREHOLDER SUBJECT TO SPECIAL TREATMENT UNDER CERTAIN FEDERAL INCOME TAX LAWS, SUCH AS DEALERS IN SECURITIES, BANKS, INSURANCE COMPANIES, TAX-EXEMPT ORGANIZATIONS, NON-UNITED STATES PERSONS, STOCKHOLDERS WHO DO NOT HOLD THEIR SHARES OF

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FFLC COMMON STOCK AS CAPITAL ASSETS WITHIN THE MEANING OF SECTION 1221 OF THE CODE, AND SHAREHOLDERS WHO ACQUIRED THEIR SHARES OF FFLC COMMON STOCK PURSUANT TO THE EXERCISE OF OPTIONS OR OTHERWISE AS COMPENSATION, NOR ANY CONSEQUENCES ARISING UNDER THE LAWS OF ANY STATE, LOCALITY OR FOREIGN JURISDICTION; MOREOVER, THE TAX

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CONSEQUENCES TO HOLDERS OF FFLC OPTIONS ARE NOT DISCUSSED. THE DISCUSSION IS BASED UPON THE CODE, TREASURY REGULATIONS THEREUNDER AND ADMINISTRATIVE RULINGS AND COURT DECISIONS AS OF THE DATE HEREOF. ALL OF THE FOREGOING IS SUBJECT TO CHANGE, AND ANY SUCH CHANGE COULD AFFECT THE CONTINUING VALIDITY OF THIS DISCUSSION. FFLC SHAREHOLDERS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS CONCERNING THE PARTICULAR FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE MERGER TO THEM.

Other Possible Consequences

If the merger is consummated, the shareholders of FFLC, a Delaware business corporation, will become shareholders of BancGroup, a Delaware business corporation. For a discussion of the differences, if any, in the rights, preferences, and privileges attaching to FFLC common stock as compared with BancGroup common stock, see Comparative Rights of Stockholders.

Conditions to Consummation of the Merger

The parties' respective obligations to consummate the merger are subject to the satisfaction (or waiver, to the extent permitted by law) of various conditions set forth in the Agreement.

The obligations of FFLC and BancGroup to consummate the merger are conditioned upon, among other things, (i) the approval of the Agreement by the holders of at least a majority of the outstanding shares of FFLC common stock; (ii) the notification to, or approval of the merger by, the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Office of Thrift Supervision; (iii) the absence of pending or threatened litigation with a view to restraining or prohibiting consummation of the merger or to obtain divestiture, rescission or damages in connection with the merger; (iv) the absence of any investigation by any governmental agency which might result in any such proceeding; (v) consummation of the merger no later than September 30, 2005; and (vi) receipt of opinions of counsel regarding certain matters. The Agreement permits the parties to waive, in writing, conditions for the consummation of the merger other than those required by law.

The obligation of FFLC to consummate the merger is further subject to several other conditions, including: (i) the absence of any material adverse change in the financial condition or affairs of BancGroup; (ii) the shares of BancGroup common stock to be issued under the Agreement shall have been approved for listing on the NYSE; and (iii) the accuracy in all material respects of the representations and warranties of BancGroup contained in the Agreement and the performance by BancGroup of all of its covenants and agreements under the Agreement.

The obligation of BancGroup to consummate the merger is subject to several other conditions, including: (i) the absence of any material adverse change in the financial condition or affairs of FFLC; (ii) the accuracy in all material respects of the representations and warranties of FFLC contained in the Agreement, (iii) the performance by FFLC of all of its covenants and agreements under the Agreement, including certain restrictions on FFLC's conduct of its business; and (iv) the receipt of the applicable consents to the merger and the consents of the lessors of certain FFLC offices.

It is anticipated that the foregoing conditions, as well as certain other conditions contained in the Agreement, such as the receipt of certificates of officers of each party as to compliance with the Agreement and satisfaction of each party of all representations, warranties and covenants, will either be satisfied or waived by the parties. The Agreement provides that each of FFLC and BancGroup may waive all conditions to its

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respective obligation to consummate the Merger, other than the receipt of the requisite approvals of regulatory authorities and approval of the Agreement by the shareholders of FFLC. In making any decision regarding a waiver of one

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or more conditions to consummation of the Merger or an amendment of the Agreement, the Boards of Directors of FFLC and BancGroup would be subject to the fiduciary duty standards imposed upon such boards by relevant law that would require such boards to act in the best interests of their respective shareholders.

Amendment or Termination of Agreement

To the extent permitted by law, the Agreement may be amended by a subsequent writing signed by each of the parties upon the approval of the Boards of Directors of each of the parties. However, after approval of the Agreement by the holders of FFLC common stock, no amendment decreasing the consideration to be received by FFLC shareholders may be made without the further approval of such shareholders. The Agreement may be terminated at any time prior to or on the Effective Date, whether before or after approval of the Agreement by the shareholders of FFLC, by the mutual consent of the respective Boards of Directors of FFLC and BancGroup or by the Board of Directors of either BancGroup or FFLC under certain circumstances including, but not limited to: (i) a material breach which cannot or has not been cured within 30 days of notice of such breach being given by the non-breaching party, (ii) failure to consummate the transactions contemplated under the Agreement by September 30, 2005, provided that such failure to consummate is not caused by any breach of the Agreement by the party electing to terminate and (iii) if FFLC enters into a binding agreement with any third party to merge with, or sell control to, that third party. In that event, BancGroup will have the right to receive a payment of \$10,000,000 (the Termination Fee) from FFLC or its acquiror.

Commitment with Respect to Other Offers

Until the earlier of the Effective Date or, subject to certain limitations, the termination of the Agreement, neither FFLC nor any of its directors or officers (or any person representing any of the foregoing) may solicit or encourage inquiries or proposals with respect to, furnish any information relating to or participate in any negotiations or discussions concerning, any acquisition or purchase of all or of a substantial portion of the assets of, or of a substantial equity interest in, FFLC or any business combination involving FFLC (collectively, an Acquisition Proposal) other than as contemplated by the Agreement. FFLC is required to notify BancGroup immediately if any such inquiries or proposals are received by FFLC, if any such information is requested from FFLC, or if any such negotiations or discussions are sought to be initiated with FFLC. FFLC is required to instruct its officers, directors, agents or affiliates or their subsidiaries to refrain from doing any of the above. FFLC may communicate information about an Acquisition Proposal to its shareholders if and to the extent that FFLC's legal counsel advises FFLC that it is required to do so in order to comply with its legal obligations.

If FFLC enters into a letter of intent or a definitive agreement to be acquired by any party other than BancGroup prior to the closing of the merger or the termination of the Agreement, or, under certain circumstances, if FFLC is acquired by a party other than BancGroup within twelve months after the termination of the Agreement, then BancGroup shall be entitled to receive a payment of the Termination Fee. Such payment shall compensate BancGroup for its direct and indirect costs and expenses associated with pursuing the merger and BancGroup's loss as a result of the failure to complete the merger. The Termination Fee may also have the effect of increasing the likelihood that the Merger will be consummated by making it more difficult and expensive for any third party to acquire control of FFLC while BancGroup is seeking to consummate the Merger.

Regulatory Approvals

Section 8.2 of the Agreement provides that as a condition to closing, approvals, in form and substance reasonably satisfactory to BancGroup and FFLC, shall have been entered by the Board of Governors of the Federal Reserve System and other appropriate bank regulatory agencies granting the authority necessary for the consummation of the holding company merger and the possible merger of the Bank with and into

Colonial Bank (the Bank Merger), if such Bank Merger is desired by BancGroup.

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An application must be filed with the Federal Reserve pursuant to Section 4 of the Bank Holding Company Act of 1956, as amended (the BHCA) and the regulations promulgated pursuant thereto for its prior approval of BancGroup s acquisition of FFLC and the Bank. This application was filed on March 11, 2005.

In order to be in a position to consummate the Bank Merger should BancGroup decide to effect it, it will be necessary to obtain the prior approval of the Office of the Comptroller of the Currency (the OCC) and notice of the Bank Merger must be filed with the Office of Thrift Supervision (the OTS). With respect to the Bank Merger, an application was filed with the OCC, and a notification was filed with the OTS, on March 11, 2005.

Federal Reserve Approval. Pursuant to Section 4 of the BHCA, and the regulations promulgated pursuant thereto, the approval of the Federal Reserve must be obtained prior to BancGroup acquiring FFLC and the Bank. In evaluating an application filed pursuant to Section 4, the Federal Reserve will consider whether the performance of the activities can reasonably be expected to produce benefits to the public (such as greater convenience, increased competition and gains in efficiency) that outweigh possible adverse effects (such as undue concentration of resources, decreased or unfair competition and unsound banking practices). The Federal Reserve will also take into consideration, among other factors, the financial condition and managerial resources of BancGroup, its subsidiaries, FFLC and the Bank. The Federal Reserve will also consider the convenience and needs of the communities to be served and the compliance records of Colonial Bank and the Bank under the Community Reinvestment Act.

The Federal Reserve s regulations provide for the publication of notice and public comment on the application and authorize the Federal Reserve to permit interested parties to intervene in the proceedings. If an interested party is permitted to intervene, such intervention could delay the regulatory approval required for consummation of the transaction.

OCC Approval. Pursuant to Section 18(c) of the Federal Deposit Insurance Act (the Bank Merger Act) and OCC regulations promulgated pursuant thereto, the OCC s prior approval of the Bank Merger must be obtained in order for BancGroup to directly merge the Bank with and into Colonial Bank. The OCC is prohibited from approving the Bank Merger if it would result in a monopoly or would be in furtherance of any combination or conspiracy to monopolize or to attempt to monopolize the business of banking in any part of the United States. In addition, the OCC is prohibited from approving the Bank Merger if its effect, in any section of the country, would be substantially to lessen competition, or to tend to create a monopoly, or which in any other manner would be in restraint of trade, unless it finds that the anti-competitive effects of the Bank Merger are clearly outweighed in the public interest by the probable effect of the Bank Merger in meeting the convenience and needs of the community to be served. The OCC is required to take into consideration the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the communities to be served. The OCC will consider the compliance records of the applicant bank and target bank under the Community Reinvestment Act and the effectiveness of the institutions in combating money laundering activities.

The Bank Merger Act and the OCC regulations promulgated pursuant thereto provide for the publication of notice and public comment on the application and authorize the OCC to permit interested parties to intervene in the proceedings. If an interested party is permitted to intervene, such intervention could delay the regulatory approval required for consummation of the Bank Merger. The Bank Merger Act imposes a waiting period which prohibits consummation of the Bank Merger, in ordinary circumstances, for a period ranging from 15 to 30 days following the OCC s approval of the Bank Merger. During such period, the United States Department of Justice, should it object to the Bank Merger for antitrust reasons, may challenge the consummation of the Bank Merger.

The Agreement provides that the obligation of each of BancGroup and FFLC to consummate the transaction is conditioned upon the receipt of all necessary regulatory approvals. There can be no assurance that the applications necessary for Colonial BancGroup to consummate the transaction will be approved, and, if such approvals are received, that such approvals will not be conditioned upon terms and conditions that

would cause the parties to abandon the transaction.

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Any approval received from bank regulatory agencies reflects only their view that the transaction does not contravene applicable competitive standards imposed by law, and that the transaction is consistent with regulatory policies relating to safety and soundness. THE APPROVAL OF THE BANK REGULATORY AGENCIES IS NOT AN ENDORSEMENT OR RECOMMENDATION OF THE TRANSACTION.

BancGroup is not aware of any governmental approvals or actions that may be required for consummation of the transaction except for the approvals described above. Should any such approval or action be required, it is presently contemplated that such approval or action would be sought.

Conduct of Business Pending the Merger

The Agreement contains certain restrictions on the conduct of the business of FFLC pending consummation of the Merger. The Agreement prohibits FFLC from taking, without the prior written consent of BancGroup, any of the following actions, prior to the Effective Date, subject to certain limited exceptions previously agreed to by BancGroup and FFLC:

- (i) Issuing, delivering or agreeing to issue or deliver any stock, bonds or other corporate securities (whether authorized and unissued or held in the treasury), except shares of FFLC common stock issued upon the exercise of FFLC Options;
- (ii) Borrowing or agreeing to borrow any funds or incurring or becoming subject to, any liability (absolute or contingent) except borrowings, obligations and liabilities incurred in the ordinary course of business and consistent with past practice;
- (iii) Paying any material obligation or liability (absolute or contingent) other than current liabilities reflected in or shown on the most recent balance sheet and current liabilities incurred since that date in the ordinary course of business and consistent with past practice;
- (iv) Declaring or making or agreeing to declare or make, any payment of dividends or distributions of any assets of any kind whatsoever to shareholders, or purchasing or redeeming or agreeing to purchase or redeem, any of its outstanding securities, provided that FFLC may continue to make its normal quarterly cash dividends of no more than \$0.14 per share at times consistent with past practice;
- (v) Except in the ordinary course of business, selling or transferring or agreeing to sell or transfer, any of its assets, property or rights or canceling, or agreeing to cancel, any debts or claims;
- (vi) Except in the ordinary course of business, entering or agreeing to enter into any agreement or arrangement granting any preferential rights to purchase any of its assets, property or rights or requiring the consent of any party to the transfer and assignment of any of its assets, property or rights;
- (vii) Waiving any rights of value which in the aggregate are material considering the business as a whole;

(viii) Except in the ordinary course of business, making or permitting any amendment or termination of any contract, agreement or license to which it is a party if such amendment or termination is material considering its business as a whole;

(ix) Except in accordance with past practice, making any accrual or arrangement for or payment of bonuses or special compensation of any kind or any severance or termination pay to any present or former officer or employee;

(x) Except in accordance with past practice, increasing the rate of compensation payable to or to become payable to any of its officers or employees or making any material increase in any profit-sharing, bonus, deferred compensation, savings, insurance, pension, retirement or other employee benefit plan, payment or arrangement made to, for or with any of its officers or employees;

(xi) Failing to operate its business in the ordinary course so as to preserve its business intact and to preserve the goodwill of its customers and others with whom it has business relations;

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(xii) Entering into any other material transaction other than in the ordinary course of business; and

(xiii) Agreeing in writing, or otherwise, to take any action described in clauses (i) through (xii) above.

The Agreement provides that, prior to the Effective Date, no director or officer of FFLC or any of its subsidiaries shall, directly or indirectly, own, manage, operate, join, control, be employed by or participate in the ownership, proposed ownership, management, operation or control of or be connected in any manner with, any business, corporation or partnership which is competitive to the business of FFLC or its subsidiaries.

The Agreement also provides that: (i) at the request of BancGroup, FFLC will consult with BancGroup and advise BancGroup in advance of all loan requests outside the ordinary course of business or in excess of \$1,000,000 that are not single-family residential loan requests; and (ii) FFLC will consult with BancGroup respecting business issues that FFLC believes should be brought to the attention of BancGroup.

Indemnification

BancGroup has agreed to indemnify for six years present and former directors and officers of FFLC and the Bank against liabilities arising out of actions or omissions occurring at or prior to the Effective Date to the maximum extent provided in the Delaware General Corporation Law and the Certificate of Incorporation and Bylaws of FFLC.

Appraisal Rights

FFLC is a Delaware corporation, and under Delaware law FFLC stockholders are not entitled to appraisal rights in connection with the merger. Pursuant to Section 262 of the Delaware General Corporation Law, appraisal rights are not available to stockholders of a corporation (i) if the shares are designated as a national market system security on an interdealer quotation system by the National Association of Securities Dealers (as is FFLC common stock) and (ii) stockholders are permitted by the terms of the merger or consolidation to accept in exchange for their shares (a) shares of stock of the surviving or resulting corporation, (b) shares of stock of another corporation listed on a national securities exchange (as is BancGroup common stock), (c) cash in lieu of fractional shares of such stock. Because the terms of the merger agreement and the circumstances of the companies satisfy these conditions, rights of appraisal are not available in connection with the merger.

Delisting and Deregistration of FFLC Common Stock after the Merger

When the merger is completed, the FFLC common stock will be delisted from The Nasdaq National Market and will be deregistered under the Securities Exchange Act of 1934.

Resale of BancGroup Common Stock Issued in the Merger

The issuance of the shares of BancGroup common stock pursuant to the merger (including any shares to be issued pursuant to FFLC Options) has been registered under the Securities Act of 1933 (the Securities Act). As a result, shareholders of FFLC who are not affiliates of FFLC (as such term is defined under the Securities Act) may resell, without restriction, all shares of BancGroup common stock which they receive in connection with the merger. Under the Securities Act, only affiliates of FFLC are subject to restrictions on the resale of the BancGroup common stock which they receive in the merger.

The BancGroup common stock received by affiliates of FFLC (primarily officers, directors and principal shareholders) who do not also become affiliates of BancGroup after the consummation of the merger may not be sold except pursuant to an effective registration statement under the Securities Act covering such shares or in compliance with Rule 145 under the Securities Act or another applicable exemption from the registration requirements of the Securities Act. Generally, Rule 145 permits BancGroup common stock held by such shareholders to be sold in accordance with certain provisions of Rule 144 under the Securities Act. In general,

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these provisions of Rule 144 permit a person to sell on the open market in brokers or certain other transactions within any three-month period a number of shares that does not exceed the greater of 1% of the then outstanding shares of BancGroup common stock or the average weekly trading volume in BancGroup common stock reported on the NYSE during the four calendar weeks preceding such sale. Sales under Rule 144 are also subject to the availability of current public information about BancGroup. The restrictions on sales will cease to apply under most circumstances once the former FFLC affiliate has held the BancGroup common stock for at least one year. BancGroup common stock held by affiliates of FFLC who become affiliates of BancGroup, if any, will be subject to additional restrictions on the ability of such persons to resell such shares.

FFLC has provided BancGroup with the identity of those persons who may be deemed to be affiliates of FFLC. FFLC has obtained from each such person a written undertaking to the effect that no sale or transfer will be made of any shares of BancGroup common stock by such person except pursuant to Rule 145 or pursuant to an effective registration statement or an exemption from registration under the Securities Act.

Accounting Treatment

BancGroup will account for the merger as a purchase transaction in accordance with generally accepted accounting principles. Under this accounting treatment, and in accordance with Statement of Financial Accounting Standards No. 141, *Business Combinations*, the purchase price will be assigned to the fair value of the net tangible and identifiable intangible assets acquired, with any amounts in excess thereof being assigned to goodwill. The valuation of intangibles, if any, will be made as of the Effective Date of the merger. In accordance with Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, qualifying intangibles, such as core deposit intangibles, will be amortized by charges to future earnings over their expected useful lives. The remaining goodwill will be capitalized and evaluated for impairment on an annual basis, or if circumstances arise in which it is more likely than not the fair value of the related reporting unit has been reduced. If such goodwill were to be deemed impaired, such impairment would be measured and any such amount would be charged against current earnings.

NYSE Listing of BancGroup Common Stock Issued in the Merger

Sales of BancGroup common stock to be issued in the merger in exchange for shares of FFLC common stock will be listed on the NYSE.

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BancGroup. BancGroup common stock is listed for trading on the NYSE under the symbol CNB. The following table indicates the high and low sales prices of the BancGroup common stock as reported on the NYSE and dividends paid since January 1, 2002.

	Price Per Share of Common Stock		Dividends Per Share
	High	Low	
2002			
First Quarter	\$ 15.19	\$ 13.47	\$.13
Second Quarter	16.11	14.41	.13
Third Quarter	14.65	12.03	.13
Fourth Quarter	12.85	11.01	.13
2003			
First Quarter	12.79	10.63	.14
Second Quarter	14.24	11.20	.14
Third Quarter	15.06	13.79	.14
Fourth Quarter	18.10	14.44	.14
2004			
First Quarter	18.83	16.45	.145
Second Quarter	18.60	16.62	.145
Third Quarter	20.89	17.80	.145
Fourth Quarter	22.70	20.43	.145
2005			
First Quarter (through March 17, 2005)	21.49	19.73	.1525

FFLC. FFLC common stock is traded on the NASDAQ National Market automated securities exchange under the symbol FFLC. The following table indicates the high and low sales prices of the FFLC common stock as reported on the NASDAQ National Market and dividends paid since January 1, 2002.

	Price Per Share of Common Stock		Dividends Per Share
	High	Low	
2002			
First Quarter	\$ 16.90	\$ 13.53	\$.09
Second Quarter	18.90	16.53	.09