CLASSIC BANCSHARES INC
Form 10QSB
November 14, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-QSB

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2002

OR

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

For the transition period from ____________ to ___________

Commission File Number 0-27170

CLASSIC BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	61-1289391
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
344 SEVENTEENTH STREET, ASHLAND, KENTUCKY	41101
(Address of principal executive offices)	(ZIP Code)

Registrant's telephone number, including area code: (606) 326-2801

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

As of November 8, 2002, there were 1,322,500 shares of the Registrant's common stock issued and 1,105,486 outstanding

Transitional Small Disclosure (check one): Yes [ ] No [X]

CLASSIC BANCSHARES, INC.

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CLASSIC BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30, 2002

	(UNAUDITED)
ASSETS	
Cash and due from bank	$ 7,327,183
Federal funds sold	--
Securities available for sale	27,175,656
Mortgage-backed and related securities available for sale	8,362,174
Loans receivable, net	174,476,604
Real estate acquired in the settlement of loans	75,500
Accrued interest receivable	1,148,881
Federal Home Loan Bank stock	1,908,300
Premises and equipment, net	5,854,619
Cost in excess of fair value of net assets acquired (goodwill), net of accumulated amortization	5,554,549
Other assets	1,261,561
TOTAL ASSETS	$ 233,145,027
LIABILITIES AND STOCKHOLDERS' EQUITY	
Liabilities	
Non-interest bearing demand deposits	$ 20,309,459
Savings, NOW, and money market demand deposits	61,834,214
Other time deposits	91,276,445
Total deposits	173,420,118
Securities sold under agreements to repurchase	5,328,859
Advances from Federal Home Loan Bank	27,956,015
Other short-term borrowings	456,480
Accrued expenses and other liabilities	561,552
Accrued interest payable	355,317
Accrued income taxes	56,411
Deferred income taxes	1,013,899
Total Liabilities	$ 209,148,651
Commitments and contingencies	
Stockholders' Equity	
Common stock, $.01 par value, 1,322,500 shares issued and 1,105,486 shares outstanding	$ 13,225
Additional paid-in capital	20,373,556
Retained earnings - substantially restricted	6,350,846
Accumulated other comprehensive income (loss)	807,714
Unearned ESOP shares	(643,310)
Unearned RRP shares	(17,653)
Treasury stock, at cost	(2,888,002)
Total Stockholders' Equity	$ 23,996,376
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 233,145,027

See accompanying Accountant's Review Report and notes to consolidated financial statements.

CLASSIC BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30, 2002	2001	SIX MONT SEPTEM 2002
INTEREST INCOME			
Loans	$ 3,058,586	$ 3,083,549	$ 6,065,897
Investment securities	383,356	344,400	769,719
Mortgage-backed securities	113,530	45,756	241,162
Other interest earning assets	1,299	3,479	3,600
TOTAL INTEREST INCOME	3,556,771	3,477,184	7,080,378
INTEREST EXPENSE			
Interest on deposits	1,021,308	1,419,955	1,997,277
Interest on FHLB Advances	246,346	184,595	509,938
Interest on other borrowed funds	17,621	37,454	34,778
TOTAL INTEREST EXPENSE	1,285,275	1,642,004	2,541,993
NET INTEREST INCOME	2,271,496	1,835,180	4,538,385
Provision for loss on loans	50,000	70,500	210,000
NET INTEREST INCOME AFTER PROVISION FOR LOSS ON LOANS	2,221,496	1,764,680	4,328,385
NON-INTEREST INCOME			
Service charges and other fees	341,321	292,984	644,656
Gain on sale of securities	--	775	4,189
Other income	54,615	51,215	107,082
TOTAL NON-INTEREST INCOME	395,936	344,974	755,927
NON-INTEREST EXPENSES			
Employee compensation and benefits	851,311	673,870	1,609,996
Occupancy and equipment expense	231,195	238,913	475,805
Federal deposit insurance premiums	6,667	3,170	13,717
(Gain) loss on foreclosed real estate	(1,918)	6,185	13,319
Other general and administrative expenses	526,840	451,684	1,074,764
TOTAL NON-INTEREST EXPENSE	1,614,095	1,373,822	3,187,601
INCOME BEFORE INCOME TAXES	1,003,337	735,832	1,896,711

Income tax expense	275,132	191,937	512,979
NET INCOME	728,205	543,895	1,383,732
Basic earnings per share	$ 0.70	$ 0.51	$ 1.32
Diluted earnings per share	$ 0.64	$ 0.50	$ 1.22

See accompanying Accountant's Review Report and notes to consolidated financial statements.

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CLASSIC BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,		
	2002	2001	2
NET INCOME	$ 728,205	$ 543,895	$ 1,3
Other comprehensive income, net of tax:			
Unrealized holding gains (losses) on securities during the period, net of tax	638,129	259,848	1,1
Reclassification adjustments for realized gains (losses) included in earnings, net of tax	--	(511)	
Other comprehensive income	638,129	259,337	1,1
COMPREHENSIVE INCOME (LOSS)	$ 1,366,334	$ 803,232	$ 2,5
ACCUMULATED OTHER COMPREHENSIVE INCOME	$ 807,714	$ 54,479	$ 8

See accompanying Accountant's Review Report and notes to consolidated financial statements.

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CLASSIC BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	COMMON STOCK	ADDITIONAL PAID - IN CAPITAL	RETAINED EARNINGS	NET UN GAIN (AVAI FOR SECU
BALANCES AT APRIL 1, 2001	$ 13,225	$ 20,317,385	$ 3,275,716	$ (1
Net income for the year ended March 31, 2002	--	--	2,199,887	
Dividend paid ($.32 per share)	--	--	(339,489)	
ESOP shares earned	--	22,519	--	
RRP shares earned	--	--	--	
RRP shares granted	--	1,250	--	
Tax benefit from RRP	--	32,402	--	
Purchased 24,000 treasury shares	--	--	--	
Change in unrealized gain (loss) on available for sale securities, net of applicable deferred income taxes of $79,757	--	--	--	(1
BALANCES AT MARCH 31, 2002	13,225	20,373,556	5,136,114	(3
Net income for the six months ended September 30, 2002	--	--	1,383,732	
Dividend paid ($.08 per share)	--	--	(169,000)	
RRP shares earned	--	--	--	
Purchased 15,100 shares	--	--	--	
Change in unrealized gain (loss) on available for sale securities, net of applicable deferred income taxes of $416,095	--	--	--	1,1
BALANCES AT SEPTEMBER 30, 2002	$ 13,225	$ 20,373,556	$ 6,350,846	$ 8

	UNEARNED RRP SHARES	TREASURY STOCK	TOTAL
BALANCES AT APRIL 1, 2001	$ (58,434)	$ (2,227,192)	$ 20,460,307
Net income for the year ended March 31, 2002	--	--	2,199,887
Dividend paid ($.32 per share)	--	--	(339,489)
ESOP shares earned	--	--	68,529
RRP shares earned	43,810	--	43,810
RRP shares granted	(4,188)	2,938	--
Tax benefit from RRP	--	--	32,402

Purchased 24,000 treasury shares	--	(329,668)	(329,668)
Change in unrealized gain (loss) on available for sale securities, net of applicable deferred income taxes of $79,757	--	--	(154,823)
BALANCES AT MARCH 31, 2002	(18,812)	(2,553,922)	21,980,955
Net income for the six months ended September 30, 2002	--	--	1,383,732
Dividend paid ($.08 per share)	--	--	(169,000)
RRP shares earned	1,159	--	1,159
Purchased 15,100 shares	--	(334,080)	(334,080)
Change in unrealized gain (loss) on available for sale securities, net of applicable deferred income taxes of $416,095	--	--	1,133,610
BALANCES AT SEPTEMBER 30, 2002	$ (17,653)	$ (2,888,002)	$ 3,996,376

See accompanying Accountant's Review Report and notes to consolidated financial statements.

CLASSIC BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	SIX MONTHS ENDED SEPTEMBER 30,	
OPERATING ACTIVITIES	2002	
Net Income	$ 1,383,732	$ 9
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	197,308	2
Provision for loss on loans	210,000	1
Gain on sale of securities available for sale	(4,189)	
Loss (gain) on foreclosed real estate	11,547	(
Federal Home Loan Bank stock dividends	(42,400)	(
Deferred income tax (benefit) expense	(42,843)	
Net amortization of mortgage-backed and investment Securities	37,429	
RRP shares earned	1,159	
Decrease (increase) in:		
Accrued interest receivable	9,263	(
Other assets	(39,523)	1
Increase (decrease) in:		
Accrued interest payable	(18,959)	(
Accrued income taxes	56,411	
Accounts payable and accrued expenses	57,920	(2

NET CASH PROVIDED BY OPERATING ACTIVITIES	1,816,855	1,1
INVESTING ACTIVITIES		
Securities:		
Proceeds from sale, maturities or calls	1,447,800	6
Purchased	(1,408,175)	(1,3
Mortgage-backed securities:		
Principal payments	975,902	6
Purchase of Federal Home Loan Bank Stock	(385,600)	
Loan originations and principal payments, net	(14,446,941)	(8,5
Proceeds from sale of foreclosed real estate	66,566	2
Purchases of software	--	
Purchases of premises and equipment	(680,322)	(1
NET CASH USED BY INVESTING ACTIVITIES	(14,430,770)	(8,5

See accompanying Accountant's Review Report and notes to consolidated financial statements.

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CLASSIC BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	SIX MONTHS ENDE SEPTEMBER 30	
	2002	
FINANCING ACTIVITIES		
Net increase in deposits	$ 14,545,682	$
Net proceeds from FHLB borrowings	554,858	
(Decrease) increase in securities sold under agreements to repurchase	(67,082)	
Net increase in short-term borrowings	10,674	
Purchase of treasury stock	(334,080)	
Dividends paid	(169,000)	
NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES	14,541,052	
Increase (decrease) in cash and cash equivalents	1,927,137	
Cash and cash equivalent at beginning of period	5,400,046	
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 7,327,183	$
ADDITIONAL CASH FLOWS AND SUPPLEMENTARY INFORMATION		
Cash paid during the period for:		
Interest on deposits and borrowings	$ 1,028,138	$
Taxes	$ 450,000	$

Assets acquired in settlement of loans	$ 76,000	$
Net unrealized (loss) gain on securities available for sale	$ 1,133,610	$

See accompanying Accountant's Review Report and notes to consolidated financial statements.

CLASSIC BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) PRINCIPLES OF CONSOLIDATION

The financial statements for fiscal year 2003 are presented for Classic Bancshares, Inc. (the "Company") and its wholly owned subsidiary, Classic Bank. The consolidated balance sheets for September 30, 2002 and March 31, 2002 are for the Company and Classic Bank. The consolidated statements of income include the operations of the Company and Classic Bank for the three and six months ended September 30, 2002 and 2001.

(2) BASIS OF PRESENTATION

The accompanying Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and Regulation S-B. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements.

In the opinion of management, the Consolidated Financial Statements contain all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial condition of Classic Bancshares, Inc. as of September 30, 2002, and the results of operations for all interim periods presented. Operating results for the six months ended September 30, 2002 are not necessarily indicative of the results that may be expected for the fiscal year ended March 31, 2003.

Certain financial information and footnote disclosures normally included in annual financial statements prepared in conformity with generally accepted accounting principles have been omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The unaudited interim consolidated financial statements presented herein should be read in conjunction with the annual consolidated financial statements of the Company as of and for the fiscal year ended March 31, 2002.

(3) EARNINGS PER SHARE

Earnings per share are presented pursuant to the provisions of SFAS No. 128, "Earnings Per Share." Basic earnings per share are calculated based on the weighted average number of common shares outstanding during the respective periods.

Diluted earnings per share are computed taking into consideration common shares outstanding and dilutive potential common shares to be issued under the Company's stock option plans and recognition and retention plan.

The weighted average number of shares used in the basic earnings per share computations was 1,047,618 and 1,061,039 for the three-month periods ended September 30, 2002 and 2001, respectively and 1,051,259 and 1,060,440 for the six-month periods ended September 30, 2002 and 2001. The weighted average number of shares used in the diluted earnings per share computations was 1,132,189 and 1,093,560 for the three-month periods ended September 30, 2002 and 2001, respectively and 1,135,830 and 1,092,961 for the six-month period ended September 30, 2002 and 2001, respectively.

Options to purchase 187,850 shares of common stock were outstanding at September 30, 2002 but 7,000 of those shares were not included in the computation of diluted earnings per share due to their anti-dilutive effect. Options to purchase 180,750 shares of common stock were outstanding at September 30, 2001 but 10,550 of those shares were not included in the computation of diluted earnings per share due to their anti-dilutive effect.

(4) GOODWILL AND OTHER INTANGIBLES

In July 2001, the Financial Accounting Standards Board issued Statement No. 142, Goodwill and Other Intangible Assets. This Statement addresses financial accounting and reporting for acquired goodwill and other intangible assets and how they should be accounted for after they have been initially recognized in the financial statements. This Statement provides specific guidance for testing goodwill for impairment. This Statement specifically relates to the Company in that it changes the accounting for goodwill that the Company currently has on its balance sheet. The Statement outlines that goodwill

should not be amortized but should be tested for impairment on an annual basis and between annual tests in certain circumstances. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. The annual goodwill impairment test may be performed any time during the fiscal year provided the test is performed at the same time every year.

The Statement is effective for fiscal years beginning after December 15, 2001. However, early application is permitted for entities with fiscal years beginning after March 15, 2001. An entity has six months from the date it initially applies this statement to complete the impairment test. The Company adopted Statement No. 142 effective April 1, 2001. As a result of the adoption of Statement No. 142, the Company will discontinue the amortization of its goodwill and will only record impairment losses if deemed necessary in future periods.

The changes in the carrying amount of goodwill for the six months ended September 30, 2002, are as follows:

($000s)	BANKING SEGMENT
Balance as of April 1, 2002	$5,555
Goodwill acquired	--
Impairment losses	--
Goodwill written off related to disposal of reporting unit	--
Balance as of September 30, 2002	$5,555

The transitional goodwill impairment test was performed in the second quarter of the Company's 2002 fiscal year. The fair value of that reporting unit was estimated using a multiple of earnings as determined by current industry information. The testing indicated that the fair value of the reporting unit exceeded the carrying amount of the net assets (including goodwill). The Banking segment will be tested for impairment in the third quarter of the Company's 2003 fiscal year. The fair value of the reporting unit will be estimated using a multiple of earnings as determined by current industry information.

(5) EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)

The Company has an Employee Stock Ownership Plan (ESOP), which covers substantially all employees. The ESOP borrowed $1,058,000 from the Company, and purchased 105,800 common shares, equal to 8% of the total number of shares issued in the conversion. The loan is for a term of twenty-five years. The Company's subsidiary bank makes scheduled discretionary contributions to the ESOP sufficient to service the debt. Shares are allocated to participants' accounts under the shares allocated method. The cost of shares committed to be released and unallocated shares is reported as a reduction of stockholders' equity. Compensation expense is recorded based on the average fair market value of the ESOP shares when committed to be released. Furthermore, ESOP shares that have not been committed to be released are not considered outstanding. The expense under the ESOP was $25,985 and $16,414 for the three months ended September 30, 2002 and 2001, respectively and $48,855 and $32,447 for the six months ended September 30, 2002 and 2001, respectively. As of September 30, 2002, the Company considered 64,331 shares as unearned ESOP shares with a fair value of $1,444,231.

(6) STOCK OPTION AND INCENTIVE PLAN AND RECOGNITION AND RETENTION PLAN

On July 29, 1996, the shareholders of the Company ratified the adoption of the Company's 1996 Stock Option and Incentive Plan and the Recognition and Retention Plan ("RRP"). Pursuant to the Stock Option Plan, 132,250 shares of the Company's common stock are reserved for issuance, of which the Company has granted options on 106,774 shares at $10.8125 per share, options on 19,000 shares at $13.375 per share, options on 4,500 shares at $13.875 per share, options on 626 shares at $13.75 per share, options on 200 shares at $13.625 per share, options on 450 shares at $12.313 per share and options on 400 shares at $16.75 per share. Pursuant to the Recognition and Retention Plan, 52,900 shares of the Company's common stock are reserved for issuance, of which the Company has granted awards on 52,786 shares. At the end of the quarter, 300 of the stock options remain ungranted due to forfeitures and 114 RRP shares remain ungranted. Ungranted RRP shares are included in treasury stock at cost.

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On July 27, 1998, the shareholders of the Company ratified the adoption of the Company's 1998 Premium Price Stock Option Plan. Pursuant to the Premium Price Stock Option Plan, 50,000 shares of the Company's common stock is reserved for issuance of which the Company has granted options on 5,000 shares at $16.295 per share, options on 5,550 shares at $14.988 per share, options on 24,000 shares at $11.275 per share and options on 14,350 shares at $13.544 per share. At the end of the quarter, 1,100 of the stock options remain ungranted due to forfeitures.

On August 13, 2001, the shareholders of the Company ratified the adoption of the Company's 2001 Premium Price Stock Option Plan. Pursuant to the

Premium Price Stock Option Plan, 50,000 shares of the Company's common stock is reserved for issuance, of which the Company has granted options on 7,000 shares at $22.549 per share. At the end of the quarter, 43,000 of the stock options remain ungranted.

(7) CASH DIVIDEND

On October 21, 2002, the Board declared a cash dividend of $.08 per share payable on November 18, 2002 to shareholders of record on November 4, 2002.

(8) CONSTRUCTION OF NEW FACILITY

In April 2002, the Company acquired land in Greenup, Kentucky for the purpose of constructing a new branch bank. The total estimated cost of the new branch, including land, improvements and furnishings, totals approximately $925,000. At the September 30, 2002, the Company had spent approximately $613,000 towards the purchase of land and the construction of the new facility.

PART I - ITEM 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FINANCIAL CONDITION

The Company's total assets increased $17.7 million from $215.4 million at March 31, 2002 to $233.1 million at September 30, 2002. The increase was due primarily to an increase in loans of $14.2 million, an increase in cash and cash equivalents of approximately $1.9 million, an increase in investment securities of approximately $1.4 million, an increase in FHLB stock of $400,000 and an increase in premise and equipment of approximately $500,000 offset by a decrease in mortgage-backed securities of approximately $700,000.

Net loans receivable increased $14.2 million from $160.3 million at March 31, 2002 to $174.5 million at September 30, 2002. Consistent with the Company's strategic plan, the growth in loans was primarily in the areas of consumer and commercial business loans. Consumer loans increased approximately $7.8 million, commercial business loans increased approximately $4.0 million, commercial real estate loans increased approximately $1.4 million and 1-4 family mortgage loans increased approximately $1.0 million.

Investment securities increased approximately $1.4 from $25.8 million at March 31, 2002 to $27.2 million at September 30, 2002 primarily due to an increase in the market value of these available for sale securities. Purchases of investment securities during the period of $1.4 million were offset by sales, maturities and calls of $1.4 million. Mortgage-backed securities decreased approximately $700,000 from $9.1 million at March 31, 2002 to $8.4 million at September 30, 2002. The decrease was primarily due to principal repayments during the period partially offset by an increase in the market value of these available for sale securities.

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Net deposits increased $14.5 million from $158.9 million at March 31, 2002 to $173.4 million at September 30, 2002. Savings, NOW and money market accounts increased approximately $4.3 million and other time deposits consisting primarily of certificates of deposit increased approximately $10.2 million. The increase in deposits was used to fund loan growth. In the first quarter of the 2003 fiscal year, the Company funded loan growth primarily utilizing short-term, variable rate borrowings, however during the second quarter of the fiscal year the Company was able to increase deposits at attractive rates to fund growth. Several factors contributed to the increased deposits in the second quarter, including the attraction of a large public fund deposit account, deposits from equity fund disintermediation and an increase in certificate of deposit accounts through competitive market pricing in order to lengthen liability maturities.

Total stockholders' equity was $22.0 million at March 31, 2002 compared to $24.0 million at September 30, 2002. The increase was due to net income recorded for the period and an increase in the market value of available for sale securities offset by the purchase of treasury stock and cash dividends paid.

FORWARD-LOOKING STATEMENTS

When used in this Form 10-QSB and in future filings by the Company with the Securities and Exchange Commission (the "SEC"), in the Company's press releases or other public or shareholder communications, and in oral statements made with the approval of an authorized executive officer, the words or phrases "will likely result", "are expected to", "will continue", "is anticipated", "estimate", "project" or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties, including changes in economic conditions in the Company's market area including unemployment levels and plant closings, changes in real estate values in the Company's market area, changes in policies by regulatory agencies, fluctuations in interest rates, demand for loans in the Company's market area and competition, that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. The Company wishes to advise readers that the factors listed above could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements.

The Company does not undertake - and specifically declines any obligation - to publicly release the result of any revisions, which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

RESULTS OF OPERATIONS - COMPARISON OF OPERATING RESULTS FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2002 AND 2001

GENERAL. The Company's results of operations depend primarily upon the level of net interest income, which is the difference between the interest income earned on its interest-earning assets such as loans and investments, and the costs of the Company's interest-bearing liabilities, primarily deposits and borrowings. Results of operations are also dependent upon the level of the Company's non-interest income, including fee income and service charges, and affected by the level of its non-interest expenses, including its general and administrative expenses. Net interest income depends upon the volume of interest-earning assets and interest-bearing liabilities and the interest rates earned or paid on them, respectively.

The Company reported net income of $728,000 for the three months ended September 30, 2002 compared to net income of $544,000 for the three months ended September 30, 2001. The increase in net income of $184,000 between the two periods was primarily the result of an increase in net interest income of $436,000, an increase in non-interest income of $51,000 and a decrease in provision for loss on loans of $21,000 partially offset by an increase in non-interest expense of $241,000 and an increase in income taxes of $83,000.

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The Company reported net income of $1.4 million for the six months ended September 30, 2002 compared to net income of $957,000 for the six months ended September 30, 2001. The increase in income of $427,000 between the two periods was primarily the result of an increase in net interest income of $1.1 million and an increase in non-interest income of $78,000 partially offset by an increase in provision for loss on loans of $70,000, an increase in non-interest expenses of $456,000 and an increase in income taxes of $193,000.

INTEREST INCOME. Total interest income increased $80,000 for the three months ended September 30, 2002 and increased $194,000 for the six months ended September 30, 2002 as compared to the three and six months ended September 30, 2001. The increase in interest income for the three and six-month period was due to an increase in the average balance of interest-earning assets of $32.8 million for the three-month period and an increase of $33.0 million for the six-month period offset by a decrease in the yield earned on interest-earning assets. The increase in the average balance of interest-earning assets was due primarily to an increase in the average balance of loans and an increase in the average balance of mortgage-backed securities. The average balance of loans increased $25.9 million for the three-month period and $25.4 million for the six-month period. The average balance of mortgage-backed securities increased $6.7 million for the three-month period and $5.6 million for the six-month period. The average yield on interest-earning assets was 7.0% for the three and six months ended September 30, 2002 compared to 8.1% for the same periods in 2001. Tax equivalent adjustments were made to the yield. The decrease in the yield was due to the repricing of assets during the period in a declining interest rate environment.

INTEREST EXPENSE. Interest expense decreased $356,000 and $874,000 for the three and six months ended September 30, 2002 as compared to the same period in 2001. Interest expense decreased for the periods primarily due to a decrease in the average rate paid on interest-bearing liabilities offset by an increase in the average balance of interest-bearing liabilities. The average rate paid on interest-bearing liabilities was 2.8% for the three and six months ended September 30, 2002 compared to 4.3% and 4.5% for the three and six months ended September 30, 2001. The decrease in the average rate paid on interest-bearing liabilities was due to a significant decline in interest rates in the past twelve months. Most of the Company's interest-bearing liabilities have repriced to lower interest in the past twelve months. All of the Company's borrowings during the period of the interest rate decreases were short-term with variable rates allowing the cost of the borrowings to decrease as rates decreased. Within the past nine months, some of the borrowings have been restructured to long-term, fixed rate borrowings. At September 30, 2002, the Company's FHLB borrowings had an average remaining maturity of 3.2 years and an average cost of 3.6%.

The average balance of interest-bearing liabilities increased $31.2 million for the three months ended September 30, 2002 compared to the same period in 2001 and the average balance of interest-bearing liabilities increased $30.0 million for the six months ended September 30, 2002 compared to the same period in 2001. The increase in these balances is primarily the result of an increase in the average balance of interest-bearing transaction accounts, an increase in the average balance of certificate of deposit accounts and an increase in the average balance of FHLB borrowings.

The resulting interest rate spread was 4.2% for the three and six months ended September 30, 2002 compared to 3.8% and 3.6% for the same periods in 2001.

PROVISION FOR LOAN LOSSES. The Company's provision for loan losses totaled $50,000 and $210,000 for the three and six months ended September 30, 2002 compared to $71,000 and $141,000 for the three and six months ended September 30, 2001 based on management's overall assessment of the loan portfolio. The provision recorded for the three and six-month period was based on management's evaluation of the Company's current portfolio including factors such as the quality of the portfolio, the increase in loans that are not secured by 1-4 family real estate and overall growth in the loan portfolio. Management continually monitors the Company's allowance for loan losses and makes adjustments as economic conditions, portfolio quality and portfolio diversity

dictates. Although the Company maintains its allowance for loan losses at a level which the Board considers to be adequate to provide for probable incurred losses on existing loans, there can be no assurance that future losses will not exceed estimated amounts or that additional provisions for loan losses will not be required for future periods.

NON-INTEREST INCOME. Non-interest income increased approximately $51,000 and $78,000 for the three and six months ended September 30, 2002 compared to the same period in 2001. The increase for the three and six-month period is primarily the result of an increase in service charges and other fees on deposits of $48,000 and $56,000, respectively. The increase in service charges and other fees on deposits for the periods is the result of an increased core deposit base. Non-interest income also increased for the three and six-month period due to an increase in other income of $3,000 and $19,000, respectively. Non-interest income also increased for the six-month period due to an increase of $3,000 in the gain recorded on the sale of securities.

NON-INTEREST EXPENSE. Non-interest expenses increased $241,000 and $456,000 for the three and six months ended September 30, 2002 compared to the same periods in 2001. Non-interest expenses increased $241,000 for the three-month period due to an increase in employee compensation and benefits of $177,000, an increase in stationary, printing and supplies expense of $15,000, an increase in communications expense of $13,000, an increase in marketing and advertising expense of $23,000, an increase in federal deposit insurance premiums of $3,000 and an increase in other general administrative expenses of $26,000 offset by a decrease in occupancy and equipment expense of $8,000 and a decrease in the loss on foreclosed real estate of $8,000.

Non-interest expenses increased $456,000 for the six-month period due to an increase in employee compensation and benefits of $278,000, an increase in federal deposit insurance premiums of $7,000, an increase in the loss on foreclosed real estate of $23,000, an increase in stationary, printing and supplies of $47,000, an increase in marketing and advertising of $54,000, an increase in taxes paid on capital and deposits of $21,000, an increase in professional fees of $13,000 and an increase in other general and administrative expenses of $13,000.

Employee compensation and benefits increased for the two periods primarily due to the hiring of staff for our new Greenup County banking office which opened in August 2002; an increase in costs related to incentive-based compensation programs; and an increase in ESOP expense due to the increase in the average market price of the Company's stock. Stationary, printing and supplies expense also increased due to expenses related to the opening of the new Greenup County office.

Advertising increased due to the undertaking of an aggressive advertising campaign utilizing the endorsement of a national celebrity. The increase for the six-month period in the loss reported on foreclosed real estate was due to the write-down of a piece of foreclosed real estate.

INCOME TAX EXPENSE. Income tax expense increased $83,000 and $193,000 for the three and six months ended September 30, 2002 primarily due to an increase in income before income taxes for each period.

NON-PERFORMING ASSETS AND ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is calculated based upon an evaluation and assessment of pertinent factors underlying the types and qualities of the Company's loans. Management considers such factors as the payment status of a loan, the borrower's ability to repay the loan, the estimated fair value of the underlying collateral, anticipated economic conditions that may affect the borrower's repayment ability and the Company's historical charge-offs. The Company's allowance for loan losses as of September 30, 2002 was $1.8 million or 1.0% of the total loans. The March 31, 2002 allowance for loan loss was $1.6 million, or 1.0% of total loans. The Company recorded a provision for loan losses of $210,000 for the six-month period, and had net charge-offs of $15,000 for the six-month period. The allowance for loan losses at September 30, 2002 was allocated as follows: $362,000 to one-to-four family real estate loans, $20,000 to commercial real estate, $69,000 to commercial business loans, $38,000 to consumer loans and $1.3 million remained unallocated.

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The ratio of non-performing assets to total assets is one indicator of other exposure to credit risk. Non-performing assets of the Company consist of non-accruing loans, accruing loans delinquent 90 days or more, and foreclosed assets, which have been acquired as a result of foreclosure or deed-in-lieu of foreclosure. For all periods presented the Company had no troubled debt restructurings. The following table sets forth the amount of non-performing assets at the periods indicated.

	September 30, 2002	March 31, 2002
	(Dollars in Thousands)	
Non-Accruing Loans	$388	$412
Accruing Loans Delinquent 90 Days or More	343	244
Foreclosed Assets	80	82
Total Non-Performing Assets	$810	$738
Total Non-Performing Assets as a Percentage of Total Assets	.3%	.3%

Total non-performing assets increased $72,000 from March 31, 2002 to

September 30, 2002 due primarily to an increase in accruing 1-4 family real estate loans delinquent 90 days or more. Management continually pursues collection of these loans in order to decrease the level of non-performing assets.

OTHER ASSETS OF CONCERN. Other than the non-performing assets set forth in the table above, as of September 30, 2002, there were no loans with respect to which known information about the possible credit problems of the borrowers or the cash flows of the security properties have caused management to have concerns as to the ability of the borrowers to comply with present loan repayment terms and which may result in the future inclusion of such items in the non-performing asset categories.

LIQUIDITY AND CAPITAL RESOURCES

The Company's most liquid assets are cash and cash equivalents. The levels of these assets are dependent on the Company's operating, financing, and investing activities. At September 30, 2002 and March 31, 2002, cash and cash equivalents totaled $7.3 million and $5.4 million, respectively. The Company's primary sources of funds include principal and interest payments on loans (both scheduled and prepayments), maturities of investment securities and principal payments from mortgage-backed securities, deposits and Federal Home Loan Bank of Cincinnati advances and other borrowings. While scheduled loan and mortgage-backed security repayments and proceeds from maturing investment securities are relatively predictable, deposit flows and early repayments are more influenced by interest rates, general economic conditions and competition. Certificates of deposit as of September 30, 2002 maturing within one year totaled $63.8 million.

Liquidity management is both a short- and long-term responsibility of management. The Company adjusts its investments in liquid assets based upon management's assessment of expected loan demand, projected purchases of investment and mortgage-backed securities, expected deposit flows, yields available on interest-bearing deposits, and liquidity of its asset/liability management program. Excess liquidity is generally invested in interest-bearing overnight deposits and other short-term liquid asset funds. If funds are required beyond the funds generated internally, the subsidiaries of the Company have the ability to borrow funds from the FHLB and other third parties. At September 30, 2002, the Company had $28.0 million in borrowings outstanding with the FHLB. On a limited basis, the Company at times utilizes repurchase agreements for the generation of additional funds from our established relationship business customers. At September 30, 2002, the Company had $5.3 million of repurchase agreements with existing relationship based business customers.

At September 30, 2002, the Company had outstanding commitments to fund loans of $14.7 million. The Company anticipates that it will have sufficient funds available to meet its current commitments principally through the use of current liquid assets and through its borrowing capacity with the FHLB.

Classic Bank is subject to the regulatory capital requirements of the Federal Deposit Insurance Corporation (the "FDIC"). The following table summarizes, as of September 30, 2002, the capital requirements applicable to Classic Bank and its actual capital ratios. As of September 30, 2002, Classic Bank was in compliance with its capital requirements.

	REGULATORY CAPITAL REQUIREMENT		ACTUAL CAPITAL CLASSIC BANK	
	AMOUNT	PERCENT	AMOUNT	PERCENT
	(Dollars in Thousands)			
Total Capital (to Risk Weighted Assets)	$13,457	8.0%	$17,979	10.7%
Tier 1 Capital (to Adjusted Total Assets)	8,871	4.0	16,156	7.3

The Company is subject to the regulatory capital requirements of the Federal Reserve Board that generally parallels the capital requirements for FDIC insured banks. The following table summarizes, as of September 30, 2002, the capital requirements applicable to the Company and its actual capital ratios. As of September 30, 2002, the Company was in compliance with its capital requirements.

	REGULATORY CAPITAL REQUIREMENT		ACTUAL CAPITAL CLASSIC BANK	
	AMOUNT	PERCENT	AMOUNT	PERCENT
	(Dollars in Thousands)			
Total Capital (to Risk Weighted Assets)	$13,495	8.0%	$19,456	11.5%
Tier 1 Capital (to Adjusted Total Assets)	8,963	4.0	17,633	7.9

IMPACT OF INFLATION AND CHANGING PRICES

The consolidated financial statements and related data presented herein have been prepared in accordance with generally accepted accounting principles which require the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation. The primary impact of inflation on the operations of the Company is reflected in increased operating costs. Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates, generally, have a more significant impact on a financial institution's performance than does inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

DISCLOSURE AND INTERNAL CONTROLS

The Company has adopted interim disclosure controls and procedures designed to facilitate the Company's financial reporting. The interim disclosure controls currently consist of communications among the Chief Executive Officer, the Chief Financial Officer and each department head to identify any transactions, events, trends, risks or contingencies which may be material to the Company's operations. The Company's disclosure controls also include certain internal controls adopted in connection with applicable accounting guidelines. Finally, the Chief Executive Officer, Chief Financial Officer, the Audit Committee and the Company's independent auditors also meet on a quarterly basis and discuss the Company's material accounting policies. The Company has evaluated the effectiveness of these interim disclosure controls within the 90 days prior to the filing of this report.

The Company maintains internal controls and has evaluated such controls within 90 days of the filing of this report. There have not been any significant changes in such internal controls subsequent to the date of their evaluation

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings
None.

Item 2. Changes in Securities
None.

Item 3. Defaults Upon Senior Securities
None.

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

The annual meeting of Shareholders (the "Meeting") of Classic Bancshares, Inc. was held on August 6, 2002. The matters approved by shareholders at the Meeting and the number of votes cast for, against or withheld (as well as the number of abstentions as to each matter are as follows:

PROPOSAL	NUMBER	
	For	With
Election of the following directors for the terms indicated:		
C. Cyrus Reynolds (three years)	870,922	0
David B. Barbour (three years)	870,922	0
Jeffery P. Lopez, M.D. (three years)	870,922	0
The ratification of the appointment of Smith, Goolsby, Artis & Reams, P.S.C. as the Company's auditors for the fiscal year ending March 31, 2003	870,922	0

Item 5. Other Information
None.

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits

Exhibit 28 Accountant's Review Report

Exhibit 99.1 Certification of David B. Barbour pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 99.2 Certification of Lisah M. Frazier pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

b. Reports on Form 8-K

The Registrant filed the following current reports on Form 8-K during the three months ended September 20, 2003:

Press release, dated July 22, 2002 announcing earnings for the quarter ending June 30, 2002 and declaring a cash dividend.

Presentation for analysts and investors presented on July 25, 2002 at the 2002 Keefe, Bruyette & Woods Community Bank Investor Conference and on August 6, 2002 at the Company's Annual Meeting of Stockholders.

Certification of Principal Executive Officer and Principal Financial Officer CERTIFICATION FOR QUARTERLY REPORT ON FORM 10-QSB

I, David B. Barbour, certify that:

1) I have reviewed this quarterly report on Form 10-QSB of Classic Bancshares, Inc.;

2) Based on my knowledge, this quarterly report does not contain any untrue statements of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3) Based on my knowledge, the financial statements and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as a date within 90 day prior to the filing date of this quarterly report (the "Evaluation

Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether material or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6) The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 13, 2002 /s/ David B. Barbour

David B. Barbour, President, Chief Executive Officer and Director (Duly Authorized Officer)

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Certification of Principal Executive Officer and Principal Financial Officer CERTIFICATION FOR QUARTERLY REPORT ON FORM 10-QSB

I, Lisah M. Frazier, certify that:

7) I have reviewed this quarterly report on Form 10-QSB of Classic Bancshares, Inc.;

8) Based on my knowledge, this quarterly report does not contain any untrue statements of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

9) Based on my knowledge, the financial statements and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

10) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and

we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as a date within 90 day prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

11) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether material or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

12) The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 13, 2002 /s/ Lisah M. Frazier

Lisah M. Frazier, Chief Operating Officer, Treasurer and Chief Financial Officer (Principal Financial Officer)

SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CLASSIC BANCSHARES, INC.
REGISTRANT

Date: November 13, 2002 /s/ David B. Barbour

David B. Barbour, President, Chief Executive Officer and Director (Duly Authorized Officer)

Date: November 13, 2002 /s/ Lisah M. Frazier

Lisah M. Frazier, Chief Operating Officer, Treasurer and Chief Financial Officer (Principal Financial Officer)

INDEX TO EXHIBITS

Exhibit Number	
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