CLASSIC BANCSHARES INC
Form 10QSB
November 15, 2004

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, 2004

OR

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

For the transition period from ____________ to ___________

Commission File Number 0-27170

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) 326-2800

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

As of November 8, 2004, there were 1,408,478 shares of the Registrant's common stock outstanding.

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

CLASSIC BANCSHARES, INC.

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CLASSIC BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS

	September 30, 2004 (Unaudited)	March 31, 2004
	(In Thouands)	
ASSETS		
Cash and due from banks	$ 10,455	$ 9,155
Federal funds sold	57	58
Cash and cash equivalents	10,512	9,213
Securities available for sale	47,604	50,916

Loans receivable, net	257,943	257,455
Foreclosed assets, net	757	856
Accrued interest receivable	1,491	1,446
Federal Home Loan Bank stock	2,954	2,894
Premises and equipment, net	8,801	8,288
Goodwill	7,681	7,681
Other intangible assets	756	811
Prepaid expenses and other assets	1,367	1,899
TOTAL ASSETS	$ 339,866	$ 341,459
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Non-interest bearing demand deposits	$ 30,100	$ 29,165
Savings, NOW, and money market demand deposits	90,342	109,772
Other time deposits	121,828	121,304
Total deposits	242,270	260,241
Securities sold under agreements to repurchase	11,673	9,168
Advances from Federal Home Loan Bank	46,727	34,218
Other short-term borrowings	9	12
Accrued expenses and other liabilities	2,208	2,287
Accrued interest payable	303	306
Total Liabilities	303,190	306,232
Stockholders' Equity		
Common stock, $.01 par value, 1,684,443 shares issued	17	17
Additional paid-in capital	31,169	31,100
Retained earnings	8,043	6,207
Accumulated other comprehensive income (loss)	872	1,350
Unearned ESOP shares (58,741 and 61,061 shares)	(534)	(555)
Unearned RRP shares (210 and 310 shares)	(3)	(4)
Treasury stock, at cost (217,014 shares)	(2,888)	(2,888)
Total Stockholders' Equity	36,676	35,227
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 339,866	$ 341,459

See accompanying notes.

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

	THREE MONTHS ENDED SEPTEMBER 30,	SIX MONTHS E SEPTEMBER

	2004	2003	2004	
		(In Thousands)		
INTEREST INCOME				
Loans	$ 3,961	$ 3,946	$ 7,906	$
Securities	558	463	1,110	
Dividends on Federal Home Loan Bank stock	31	28	60	
Other interest	1	18	2	
Total Interest Income	4,551	4,455	9,078	
INTEREST EXPENSE				
Deposits	931	1,122	1,928	
Federal Home Loan Bank advances	318	313	594	
Securities sold under repurchase agreements	38	18	63	
Other short-term borrowings	1	1	--	
Total Interest Expense	1,288	1,454	2,585	
Net Interest Income	3,263	3,001	6,493	
Provision for loss on loans	126	46	261	
Net interest income after provision for loss on loans	3,137	2,955	6,232	
NON-INTEREST INCOME				
Service charges and other fees	541	451	1,058	
Gain on sale of securities	--	1	17	
Secondary market commissions	10	49	35	
Other income	59	78	105	
Total Non-Interest Income	610	579	1,215	
NON-INTEREST EXPENSES				
Employee compensation and benefits	1,093	1,016	2,172	
Occupancy and equipment expense	329	312	651	
Advertising	47	143	91	
Communications	65	74	136	
Franchise and deposit taxes	87	63	167	
Directors fees	25	25	49	
Professional fees	99	79	189	
Stationery and supplies	89	111	158	
Other operating expenses	427	440	830	
Total Non-Interest Expense	2,261	2,263	4,443	
INCOME BEFORE INCOME TAXES	1,486	1,271	3,004	
Income tax expense	449	366	915	
NET INCOME	$ 1,037	$ 905	$ 2,089	$

Basic earnings per share	$ 0.74	$ 0.64	$ 1.48	$
Diluted earnings per share	$ 0.67	$ 0.59	$ 1.34	$

See accompanying notes.

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

	THREE MONTHS ENDED SEPTEMBER 30,		SIX S
	2004	2003	2004
		(In Thousands)	
Net Income	$ 1,037	$ 905	$ 2,
Other comprehensive income, net of tax: Unrealized holding gains (losses) on securities during the period, net of tax	820	(672)	(
Reclassification adjustments for realized (gains) losses included in earnings, net of tax	--	1	
Other comprehensive income	820	(671)	(
Comprehensive Income	$ 1,857	$ 234	$ 1,
Accumulated Other Comprehensive Income	$ 872	$ 581	$

See accompanying notes.

CLASSIC BANCSHARES, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(In Thousands)

	COMMON SHARES OUTSTANDING	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	UNEARNED ESOP SHARES
Balances at April 1, 2004	1,406,058	$ 17	$ 31,100	$ 6,207	$ 1,350	$ (555
Net income for the six months ended September 30, 2004	--	--	--	2,089	--	--
Dividend paid ($.18 per share)	--	--	--	(253)	--	--
Commitment of shares to be released under ESOP (2,320)	2,320	--	69	--	--	21
RRP shares earned (100)	100	--	--	--	--	--
Change in unrealized gain (loss) on available for sale securities, net of applicable taxes and reclassifications	--	--	--	--	(478)	--
Balances at September 30, 2004	1,408,478	$ 17	$ 31,169	$ 8,043	$ 872	$ (534

See accompanying notes.

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

	SIX MONTHS ENDED SEPTEMBER 30, 2004	2003
OPERATING ACTIVITIES		
Net Income	$ 2,089	$ 1,650
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	394	346
Provision for loss on loans	261	92
Gain on sale of securities available for sale	(17)	(1)
Gain on sale of fixed assets	(2)	(13)

Loss on foreclosed real estate	10	15
Federal Home Loan Bank stock dividends	(60)	(49)
Net amortization of securities	95	74
ESOP shares earned	90	66
RRP shares earned	1	2
Decrease (increase) in:		
Accrued interest receivable	(45)	(7)
Other assets	472	(77)
Increase (decrease) in:		
Accrued interest payable	(2)	(207)
Accounts payable and accrued expenses	166	(374)
Net cash provided by operating activities	3,452	1,517
INVESTING ACTIVITIES		
Securities:		
Proceeds from sale, maturities or calls	1,662	2,237
Purchases	(2,087)	--
Mortgage-backed securities:		
Principal payments	2,932	1,889
Loan originations and principal payments, net	(979)	(12,888)
Proceeds from the sale of foreclosed assets	203	24
Purchases of software	(5)	(46)
Purchases of premises and equipment	(787)	(195)
Proceeds from sale of fixed assets	17	245
Net cash acquired in acquisition	--	3,564
Net cash provided by investing activities	956	(5,170)

See accompanying notes.

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

	SIX MONTHS ENDED SEPTEMBER 30,	
	2004	2003
FINANCING ACTIVITIES		
Net (decrease) increase in deposits	$ (17,868)	$ 14,065
Net proceeds from FHLB borrowings	12,509	(7,155)
Increase in securities sold under agreements to repurchase	2,506	4,899
Net increase in short-term borrowings	(3)	264
Dividends paid	(253)	(185)
Net cash (used) provided by financing activities	(3,109)	11,888

Increase in cash and cash equivalents	1,299	8,235
Cash and cash equivalent at beginning of period	9,213	8,148
Cash and cash equivalents at end of period	$ 10,512	$ 16,383
Additional cash flows and supplementary information		
Cash paid during the period for:		
Interest on deposits and borrowings	$ 2,588	$ 2,678
Taxes	$ 300	$ 600
Assets acquired in settlement of loans	$ 113	$ 425

See accompanying notes.

CLASSIC BANCSHARES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, 2004, and the results of operations for all interim periods presented. Operating results for the six months ended September 30, 2004 are not necessarily indicative of the results that may be expected for the fiscal year ended March 31, 2005.

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, 2004.

STOCK OPTION PLANS

Employee compensation expense under stock option plans is reported using the intrinsic value method. No stock-based compensation cost is reflected in net income, as all options granted had an exercise price equal to or greater than the market price of the underlying common stock at date of grant. The following table illustrates the effect on net income and earnings per share if expense was measured using the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation.

	THREE MONTHS ENDED SEPTEMBER 30, 2004	THREE MONTHS ENDED SEPTEMBER 30, 2003
	(IN THOUSANDS, EXCEPT PER SHARE DATA)	
Net income as reported	$ 1,037	$ 905
Deduct:		
Stock-based compensation expense determined under fair value based method	--	429
Pro forma net income	$ 1,037	$ 476
Basic earnings per share as reported	$ 0.74	$ 0.64
Pro forma basic earnings per share	0.74	0.34
Diluted earnings per share as reported	0.67	0.59
Pro forma diluted earnings per share	0.67	0.31

	SIX MONTHS ENDED SEPTEMBER 30, 2004	SIX MONTHS ENDED SEPTEMBER 30, 2003
	(IN THOUSANDS, EXCEPT PER SHARE DATA)	
Net income as reported	$ 2,089	$ 1,650
Deduct:		
Stock-based compensation expense determined under fair value based method	--	430
Pro forma net income	$ 2,089	$ 1,220
Basic earnings per share as reported	$ 1.48	$ 1.28
Pro forma basic earnings per share	1.48	.94
Diluted earnings per share as reported	1.34	1.16
Pro forma diluted earnings per share	1.34	.86

Options to purchase 60,000 shares of common stock were granted on September 18, 2003 at an exercise price of $34.991 per share.

PRINCIPLES OF CONSOLIDATION

The financial statements include the accounts of Classic Bancshares, Inc. (the "Company") and its wholly owned subsidiary, Classic Bank. All significant intercompany balances and transactions have been eliminated.

(2) 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.

	For the Three Months Ended September 30, 2004 (In thousands, except per share data)			For the Th Septemb (In thousands, e	
	Income	Shares	Per-Share Amount	Income	Sh
Basic EPS	$ 1,037	1,408	$ 0.74	$ 905	
Effect of Dilutive Securities-Options	--	148	(0.07)	--	
Diluted EPS	$ 1,037	1,556	$ 0.67	$ 905	

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	For the Six Months Ended September 30, 2004 (In thousands, except per share data)			For the Si Septemb (In thousands, e	
	Income	Shares	Per-Share Amount	Income	Sh
Basic EPS	$ 2,089	1,408	$ 1.48	$ 1,650	
Effect of Dilutive Securities-Options	--	149	(0.14)	--	
Diluted EPS	$ 2,089	1,557	$ 1.34	$ 1,650	

Options to purchase 319,935 shares of common stock were outstanding at September 30, 2004. Options to purchase 319,935 shares of common stock were outstanding at September 30, 2003 but 66,000 of those shares were not included in the computation of diluted earnings per share due to their anti-dilutive effect.

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

FINANCIAL CONDITION

The Company's total assets decreased $1.6 million from $341.5 million at March 31, 2004 to $339.9 million at September 30, 2004. The decrease was due primarily to a decrease in securities of $3.3 million partially offset by an increase in cash and cash equivalents of $1.3 million and an increase in loans of approximately $488,000.

Net loans receivable increased approximately $488,000 from $257.5 million at March 31, 2004 to $257.9 million at September 30, 2004. The Company experienced little growth in loans during the period due to a slowing of loan demand within the Company's market area as a result of management's assessment of a temporary softening of the local economy which could be attributable to higher energy prices and increases in interest rates.

Securities decreased approximately $3.3 million from $50.9 million at March 31, 2004 to $47.6 million at September 30, 2004 primarily due to the maturities, calls and principal repayments of $4.6 million and a decline in the market value of these available for sale securities offset by purchases of $2.1 million.

Deposits decreased approximately $17.9 million from $260.2 million at March 31, 2004 to $242.3 million at September 30, 2004. The decrease was due primarily to the loss of one public fund account, which amounted to $15.2 million at June 30, 2004. Retention of the deposit was based upon pricing and management felt the cost to retain the deposit was too high. Management chose to replace the deposit with FHLB borrowings at a lower cost. The remainder of the decrease was due to the outflow of deposits in the normal course of business as well as pricing discipline in an environment of soft loan demand and rising interest rates. Borrowings from FHLB increased $12.5 million and repurchase agreements increased $2.5 million.

Total stockholders' equity was $36.7 million at September 30, 2004 compared to $35.2 million at March 31, 2004. The increase was due primarily to net income recorded for the period offset by a decrease in the market value of available for sale securities 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 and the failure to achieve anticipated merger cost savings or difficulty in merger integration, 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, 2004 AND 2003

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 $1.0 million for the three months ended September 30, 2004 compared to net income of $905,000 for the three months ended September 30, 2003. The increase in net income of $132,000 between the two periods was primarily the result of an increase in net interest income of $262,000, an increase in non-interest income of $31,000 and a decrease in non-interest expense of $2,000 offset by an increase in provision for loss on loans of $80,000 and an increase in income taxes of $83,000.

The Company reported net income of $2.1 million for the six months ended September 30, 2004 compared to net income of $1.7 million for the six months ended September 30, 2003. The increase in net income of $439,000 between the two periods was primarily the result of an increase in net interest income of $1.0 million and an increase in non-interest income of $140,000 offset by an increase in provision for loss on loans of $169,000, an increase in non-interest expense of $302,000 and an increase in income taxes of $270,000.

INTEREST INCOME. Total interest income increased $96,000 for the three months ended September 30, 2004 and $965,000 for the six months ended September 30, 2004 as compared to the three and six months ended September 30, 2003. 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 $7.2 million for the three months ended September 30, 2004 and an increase of $42.7 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 for the three months was due primarily to an increase in the average balance of loans. The increase in the average balance of interest-earning assets for the six months was due primarily to an increase in the average balance of loans and securities primarily as a result of the acquisition of First Federal Financial Bancorp, Inc. ("First Federal") completed in June 2003. The average tax equivalent yield on

interest-earning assets was 6.0% for the three and six months ended September 30, 2004 compared to 6.1% and 6.3% for the three and six months ended September 30, 2003.

INTEREST EXPENSE. Interest expense decreased $166,000 and $75,000 for the three and six months ended September 30, 2004 as compared to the same periods in 2003. Interest expense decreased for the three-month period primarily due to a decrease in the average rate paid on interest-bearing liabilities and a decrease in the average balance of interest-bearing liabilities. The average rate paid on interest-bearing liabilities was 1.9% for the three months ended September 30, 2004 compared to 2.2% for the same period in 2003 due primarily to a disciplined deposit pricing structure and replacing some higher costing deposits with lower costing FHLB borrowings. The average balance of interest-bearing liabilities decreased $1.7 million for the three months ended September 30, 2004 primarily as a result of a decline in the average balance of interest-bearing deposits.

Interest expense decreased for the six-month period 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 1.9% for the six months ended September 30, 2004 compared to 2.3% for the six months ended September 30, 2003 due primarily to a disciplined pricing structure and replacing some higher costing deposits with lower costing FHLB borrowings. The average balance of interest-bearing liabilities increased $33.5 million for the six months ended September 30, 2004 compared to the same period in 2003. The increase in these balances is primarily the result of an increase in the average balance of interest-bearing deposits and FHLB borrowings due primarily to the acquisition of First Federal.

The resulting interest rate spread was 4.1% for the three and six months ended September 30, 2004 compared to 3.9% and 4.0% for the three and six months ended September 30, 2003. The resulting net interest margin was 4.4% for the three and six months ended September 30, 2004 compared to 4.1% and 4.3% for the three and six months ended September 30, 2003.

PROVISION FOR LOAN LOSSES. The Company's provision for loan losses totaled $126,000 and $261,000 for the three and six months ended September 30, 2004 compared to $46,000 and $92,000 for the three and six months ended September 30, 2003. The provision for the three and six-month period increased as result of specific consumer credits identified during the periods requiring additional coverage. Management does not feel that this is necessarily a trend in the total consumer portfolio but is specific to the credits identified. 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, the level of non-performing loans, charge-off history and the economy in the Company's market area. 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 $31,000 and $140,000 for the three and six months ended September 30, 2004 compared to the same period in

2003. Non-interest income increased for the three-month period due to an increase in service charges and other fees on deposits of $90,000, offset by a decrease in gain on sale of securities of $1,000, a decrease in secondary market commissions of $39,000 and a decrease in other income $19,000.

The increase for the six-month period is primarily the result of an increase in service charges and other fees on deposits of $208,000 and an increase in gain on sale of securities of $16,000, offset by a decrease secondary market commissions of $52,000, and a decrease in other income of $32,000. The increase in service charges and other fees on deposits for the periods is the primarily result of increased deposit accounts.

NON-INTEREST EXPENSE. Non-interest expenses decreased $2,000 for the three months ended September 30, 2004 compared to the same period in 2003. Non-interest expenses decreased for the three-month period due to a decrease in advertising expense of $96,000 reflecting a 2003 advertising campaign utilizing a national celebrity, a decrease in communications expense of $9,000, a decrease in stationery and supplies of $22,000, and a decrease in other operating expenses of $13,000 offset by an increase in employee compensation and benefits of $77,000, an increase in occupancy and equipment expense of $17,000, an increase in franchise and deposit taxes of $24,000, and an increase in professional fees of $20,000.

Non-interest expense increased $302,000 for the six-month period due to an increase in employee compensation and benefits of $254,000, an increase in occupancy and equipment expense of $66,000, an increase in communications expense of $10,000, an increase in franchise and deposit taxes of $41,000, an increase in professional fees of $44,000, an increase in ATM expense of $13,000, an increase in postage expense of $13,000, an increase in charitable contributions of $19,000 and an increase in other operating expense of $39,000 offset by a decrease in advertising expense of $148,000, and a decrease in stationery and supplies of $49,000.

Employee compensation and benefits increased primarily due to an increase in the number of employees as a result of the First Federal acquisition and an increase in ESOP expense attributable to the increase in the Company's stock price between the periods. Occupancy and equipment expense increased primarily due the additional locations from the acquisition of First Federal. Professional fees increased primarily as a result of the Company's efforts to upgrade its corporate governance and comply with new regulatory requirements.

INCOME TAX EXPENSE. Income tax expense increased $83,000 and $270,00 for the three and six months ended September 30, 2004 primarily due to an increase in income before income taxes for the period.

NON-PERFORMING ASSETS AND ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is calculated based upon management's evaluation and assessment of pertinent factors underlying the types and qualities of the Company's loans. The assessment includes internal risk grading of all commercial credits and based upon this evaluation, a specific allocation allowance may be assigned to individual loans. Consumer and residential mortgage loans are not specifically graded unless apparent weakness is determined through payment history at which time a specific allowance allocation may be made.

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Additionally, a general reserve is assigned to each lending segment in recognition of probable incurred losses based upon historical loss and peer loss information, while taking into consideration current delinquency trends, current economic trends both local and national, strength of supervision and administration of the loan portfolio, trends of non-performing assets to the allowance and concentrations within commercial credits. These factors are weighed quarterly and adjusted as deemed appropriate by management. The Company has not materially changed any aspect of its overall approach in the determination of the allowance for loan losses and there have been no material changes in assumptions or estimations as compared to prior years that have impacted the basis of the current year allowance.

The Company's allowance for loan losses as of September 30, 2004 was $2.2 million or .9% of total loans. The March 31, 2004 allowance for loan loss was $2.2 million, or .9% of total loans and 91% of total non-performing loans. Activity in the allowance for loan losses is summarized as follows:

	SIX MONTHS ENDED SEPTEMBER 30,	
	2004	2003
	(IN THOUSANDS)	
Balance at beginning of year	$ 2,209	$ 1,975
Acquisition of First Federal	--	885
Provision for losses	261	92
Charge-offs	279	343
Recoveries	53	21
Ending balance	$ 2,244	$ 2,630

The ratio of non-performing assets to total assets is an indicator of 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, 2004	MARCH 31, 2004
	(IN THOUSANDS)	
Non-Accruing Loans	$ 1,331	$ 507
Accruing Loans Delinquent 90 Days or More	1,132	969
Foreclosed Assets	683	856
Total Non-Performing Assets	$ 3,146	$ 2,332
Total Non-Performing Assets as a Percentage of Total Assets	.9%	.7%

Total non-performing assets increased $814,000 from March 31, 2004 to September 30, 2004 due partially to a commercial credit that was part of the First Federal portfolio at the time of acquisition. This problem credit was identified through pre-acquisition due diligence and reserved for appropriately. The remainder of the increase was due to 1-4 family mortgages.

OTHER ASSETS OF CONCERN. Other than the non-performing assets set forth in the table above, as of September 30, 2004, 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, 2004 and March 31, 2004, cash and cash equivalents totaled $10.5 million and $9.2 million, respectively. The Company's primary sources of funds include principal and interest payments on loans (both scheduled and prepayments), maturities of and interest payments on investment securities and principal and interest 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, 2004 maturing within one year totaled $80.0 million. Management believes based on experience that most of these funds will remain with the Company.

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 other assets, and the liquidity goals 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 subsidiary of the Company has the ability to borrow funds from the FHLB and other third parties. At

September 30, 2004, the Company had $46.7 million in borrowings outstanding with the FHLB and additional borrowing capacity of $72.6 million. The Company at times utilizes repurchase agreements for the generation of additional funds from our established relationship business customers. At September 30, 2004, the Company had $11.7 million of repurchase agreements with existing relationship based business customers.

At September 30, 2004, the Company had outstanding commitments to fund loans of $33.2 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, 2004, the capital requirements applicable to Classic Bank and its actual capital ratios. As of September 30, 2004, 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)	$ 18,695	8.0%	$ 28,151	12.1
Tier 1 Capital (to Adjusted Total Assets)	13,145	4.0	25,907	7.9

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, 2004, the capital requirements applicable to the Company and its actual capital ratios. As of September 30, 2004, the Company was in compliance with its capital requirements.

	REGULATORY CAPITAL REQUIREMENT		ACTUAL CAPITAL CLASSIC BANCSHARES, INC.	
	AMOUNT	PERCENT	AMOUNT	PERCENT
	(Dollars in Thousands)			
Total Capital (to Risk Weighted Assets)	$ 18,703	8.0%	$ 29,610	12.7
Tier 1 Capital (to Adjusted Total Assets)	13,149	4.0	27,366	8.3

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.

ITEM 3 - CONTROLS AND PROCEDURES

The Company has adopted disclosure controls and procedures designed to facilitate the Company's financial reporting. The disclosure controls currently consist of communications among the Chief Executive Officer, the Chief Operating and 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 contain certain elements of its internal controls adopted in connection with applicable accounting and regulatory guidelines. Finally, the Chief Executive Officer, Chief Operating and 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's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of these disclosure controls as of the end of the period covered by this report and found them to be adequate.

The Company maintains internal control over financial reporting. There have not been any significant changes in such internal control over financial reporting in the last quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings
None.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
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 26, 2004. 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 OF V	
	For	Withhel

Election of the following directors for the terms indicated:

C. Cyrus Reynolds (three years)	1,187,985	210
David B. Barbour (three years)	1,188,095	100
Jeffrey P. Lopez	1,187,136	1,059

	For	Agains
The ratification of the appointment of Crowe Chizek and Company LLC as the Company's auditors for the fiscal year ending March 31, 2005.	1,187,129	1,010

Item 5. Other Information
None.

Item 6. Exhibits

Exhibit 31.1 Certification of David B. Barbour pursuant to Rule 13a-14 under the Securities Exchange Act of 1934.

Exhibit 31.2 Certification of Lisah M. Frazier pursuant to Rule 13a-14 under the Securities Exchange Act of 1934.

Exhibit 32.1 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 32.2 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

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 12, 2004

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

Date: November 12, 2004	/s/ Lisah M. Frazier
	Lisah M. Frazier, Chief Operating Officer, Treasurer and Chief Financial Officer (Principal Financial Officer)

INDEX TO EXHIBITS

Exhibit Number	
11	Statement regarding computation of Per Share Earnings in the Notes to the Consolidated Financial Statements in Part I of this Report . For such computation, see Note 2 "Earnings Per Share."
31.1	Certification of David B. Barbour pursuant to Rule 13a-14 under the Securities Exchange Act of 1934
31.2	Certification of Lisah M. Frazier pursuant to Rule 13a-14 under the Securities Exchange Act of 1934
32.1	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
32.2	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