

RENZ D. JENNINGS
CHAIRMAN

MARCIA WEEKS
COMMISSIONER

CARL J. KUNASEK
COMMISSIONER



ARIZONA CORPORATION COMMISSION

JAMES MATTHEWS
EXECUTIVE SECRETARY

SECURITIES DIVISION
1300 West Washington, Third Floor
Phoenix, AZ 85007-2996
TELEPHONE: (602) 542-4242
FAX: (602) 594-7470

May 10, 1996

Mr. Keith D. Pisani
Housley Kantarian & Bronstein, P.C.
Suite 700
1220 19th Street, N.W.
Washington D.C. 20036

RE: First Lancaster Bancshares, Inc.
A.R.S. § 44-1844(A)(6)

Dear Mr. Pisani:

On the basis of the facts set forth in your letter of April 10, 1996, and in reliance upon your opinion as counsel, the Securities Division will not recommend enforcement action for violation of the Securities Act of Arizona should the transaction within Arizona be limited to the Subscription Offering.

As this position is premised upon the facts set forth in your letter, it should not be relied on for any other set of facts or by any other person. Please also note that this position applies only to the registration requirements of the Act; the anti-fraud provisions of the Act continue to be applicable.

We have attached a photocopy of your letter. By doing this we are able to avoid having to recite or summarize the facts set forth therein.

Very truly yours,

A handwritten signature in black ink, appearing to read "Dee Rid dell Harris".

DEE RIDDELL HARRIS
Director of Securities

DRH:GC
Attachment

HOUSLEY KANTARIAN & BRONSTEIN, P. C.

SUITE 700
1220 19TH STREET, N.W.
WASHINGTON, D.C. 20036

TELEPHONE
(202) 822-0644
TELECOPIER
(202) 822-0140

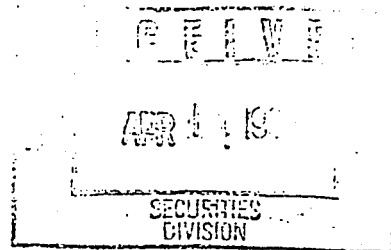
ALLAN D. HOUSLEY*
HARRY K. KANTARIAN
LEONARD S. VOLIN
GARY R. BRONSTEIN
JAMES C. STEWART
J. MARK POERIO*
HOWARD S. PARRIS
K. SCOTT FIFE
CYNTHIA R. CROSS
PAUL D. BORJA*
JOEL E. RAPPOPORT
NEIL H. SEIDMAN
JOAN S. GULFOYLE*
DANIEL L. HOGANS*
KATHLEEN H. KIM
KEITH D. PISANI*

* Via FedEx *

April 10, 1996

* NOT ADMITTED IN DC

Dee R. Harris, Director
Corporation Commission
Securities Division
1300 West Washington Street, Third Floor
Phoenix, Arizona 85007



Re: First Lancaster Bancshares, Inc.
No-Action Request

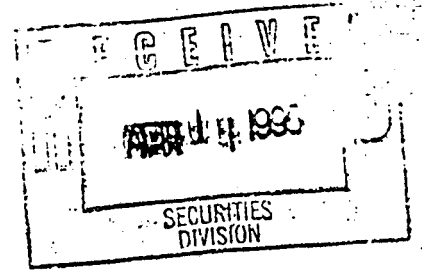
Dear Mr. Harris:

On behalf of First Lancaster Federal Savings Bank, Lancaster, Kentucky (the "Bank"), and First Lancaster Bancshares, Inc. (the "Company"), we are filing a no-action request pursuant to Section 44-1844(6) of the Arizona Blue Sky Act (the "Act"). The Company, a Delaware corporation, was incorporated on February 20, 1996 in order to become a holding company for the Bank. The Bank will convert from a federally chartered mutual savings bank to a federally chartered stock savings bank (the "Conversion") and simultaneously become a wholly-owned subsidiary of the Company. In connection with the reorganization of the Bank, up to \$9,588,120 (958,812 shares at \$10.00 per share) of the common stock of the Company, par value \$.01 per share (the "Common Stock"), will be sold to certain persons, including residents of the State of Arizona.

The purpose of this letter is to request that the Securities Division confirm that, with respect to the facts and circumstances discussed herein:

(i) The proposed sale of Common Stock of the Company is exempt from registration in the State of Arizona pursuant to Section 44-1844(6) of the Act. We request that this exemption apply to certain depositors and borrowers of the Bank residing in Arizona in the Subscription Offering as described below.

Dee R. Harris, Director
Corporation Commission
Securities Division
April 10, 1996
Page 2



(ii) The Company will not be subject to broker-dealer registration pursuant to Section 44-1842 due to the sale of the Common Stock being an exempt transaction pursuant to Section 44-1844(6) of the Act.

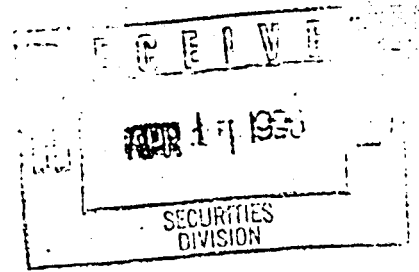
(iii) For purposes of the proposed sale of the Common Stock, officers and directors of the Company will not be subject to registration as salesmen pursuant to Section 44-1842 due to the sale of the Common Stock being an exempt transaction pursuant to Section 44-1844(6) of the Act.

(iv) No filings are required to be made in Arizona in connection with the proposed issuance of the Common Stock.

On December 7, 1995, the Board of Directors of the Bank adopted a Plan of Conversion (the "Plan") whereby the Bank will convert from a federally chartered mutual savings bank to a federally chartered stock savings bank, as a wholly owned subsidiary of the Company. The Bank has filed an Application for Approval of Conversion on Form AC with the Office of Thrift Supervision (the "OTS") for permission to convert to a stock savings bank. In connection with the Conversion of the Bank from a mutual savings bank to stock savings bank, the Bank has proposed that all of its shares of capital stock to be issued in the Conversion will be acquired by the Company.

The Company filed a Registration Statement on Form SB-2 with the Securities and Exchange Commission ("SEC") on March 15, 1996 (the "Registration Statement"), to register the shares of Common Stock to be sold in the Conversion. The *pro forma* market value of the Common Stock to be sold in the Conversion has been determined based on an independent appraisal prepared by RP Financial, LC. and is based upon a valuation range 15% below to 15% above the appraisal value of the Bank. Upon consummation of the Conversion, the Bank will become a wholly owned subsidiary of the Company, and, at such time, the Company's assets shall consist solely of the stock of the Bank (which it will acquire in the Conversion), the Company's initial capitalization and a note payable from the Company's Employee Stock Ownership Plan (the "ESOP") which will purchase shares of Common Stock in the Conversion with funds borrowed from the Company. The Conversion is subject to the approval of the members of the Bank at a Special Meeting of Members expected to be held in mid June 1996. A proxy statement seeking to obtain such approval by the members of the Bank will be delivered to all voting members promptly after effectiveness of the Registration Statement.

Dee R. Harris, Director
Corporation Commission
Securities Division
April 10, 1996
Page 3



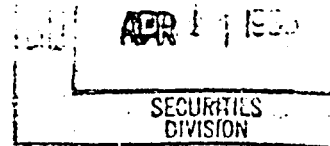
As part of the Conversion, the Company is conducting a Subscription Offering of the Common Stock for holders of non-transferable Subscription Rights in the following order of priority in accordance with regulations of the OTS: (i) depositors of the Bank as of June 30, 1994 with \$50.00 or more on deposit in the Bank on that date ("Eligible Account Holders"); (ii) the ESOP (a tax-qualified employee stock benefit plan of the Company, as defined in the Plan); (iii) depositors with \$50.00 or more on deposit in the Bank as of the last day of the calendar quarter preceding approval of the Plan of Conversion by the OTS (expected to be March 31, 1996); and (iv) certain depositors and borrowers as of the record date for the Special Meeting of Members (expected to be in mid May 1996) ("Other Members"). Subject to the prior rights of holders of Subscription Rights, the Company may offer the shares of Common Stock not subscribed for in the Subscription Offering for sale to the general public in a community offering (the "Community Offering").

The OTS conversion regulations generally require that the minimum amount of Common Stock offered in the Conversion must be sold in order for the Conversion to become effective. At least \$6,162,500 of the Common Stock must be sold in order for the Conversion to be completed. All shares of the Common Stock not sold in the Subscription Offering may be offered in the Community Offering. Regulations further require completion of the Community Offering within 45 days after the last day of the Subscription Offering period unless such period is extended by the Bank with the approval of the regulatory authorities.

We believe that the exemption pursuant to Section 44-1844(6) is applicable to these facts. The conversion of the Bank to stock form, the reorganization of the Bank into the holding company form of ownership and the concurrent stock offering by the Company must be approved by the OTS pursuant to applicable statutes and the rules and regulations of the OTS and by the depositor and borrower members of the Bank who currently hold voting rights in the Bank. The members of the Bank will also receive subscription rights to buy stock in the Conversion stock offering. Such members currently are comparable to stockholders, but if they approve the Conversion they will receive subscription rights in the Conversion and will lose their voting rights upon the consummation of the Conversion. In effect, they are exchanging their voting rights in the Bank in consideration for the right to buy shares of the Common Stock of the Company in the Conversion stock offering.

The offering of the Common Stock of the Company is expected to commence in mid May 1996 and the Conversion and the sale of such stock is expected to be consummated in mid June 1996. The offering of the Common Stock of the Company will be carried out by the officers and directors of the Company, who will be given no commissions or additional remuneration for their

Dee R. Harris, Director
Corporation Commission
Securities Division
April 10, 1996
Page 4



efforts. The Bank has engaged Trident Securities, Inc. to assist in the distribution and sale of Common Stock, on a best efforts basis, in the Subscription and Community Offerings. No firm commitment underwritten public offering is contemplated at this time.

In connection with this request, a check for \$200 in payment of the applicable fee and a copy of the Company's Registration Statement on Form SB-2 including exhibits is enclosed herein.

Kindly date-stamp the enclosed copy of this letter for our files and return it in the self-addressed, stamped envelope provided. Please do not hesitate to call the undersigned if you have any questions regarding this no-action request. Thank you for your prompt attention to this matter.

Sincerely,

Keith D. Pisani

KDP:sls:1834
Enclosures

cc: Virginia R. S. Stump
President, First Lancaster Bancshares, Inc.