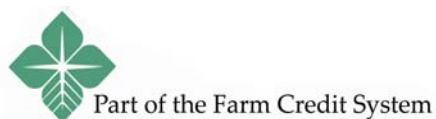


**FEDERAL LAND BANK ASSOCIATION OF NORTH
MISSISSIPPI, FLCA**

**2008
Quarterly Report
Third Quarter**



For the Quarter Ended September 30, 2008

REPORT OF MANAGEMENT

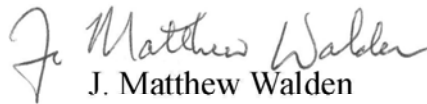
The undersigned certify that this report has been prepared in accordance with all applicable statutory or regulatory requirements and that the information contained herein is true, accurate and complete to the best of his or her knowledge and belief.



Gary L. Gaines
President and CEO
November 10, 2008



Abbott R. Myers
Chairman, Board of Directors
November 10, 2008



J. Matthew Walden
Chief Financial Officer
November 10, 2008

FEDERAL LAND BANK ASSOCIATION OF NORTH MISSISSIPPI, FLCA MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the Federal Land Bank Association of North Mississippi, FLCA (Federal Land Credit Association), referred to as the Association, for the quarter and the nine months ended September 30, 2008. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2007 Annual Report of the Association.

Results of Operations:

For the third quarter of 2008, the Association had net income of \$1,094,611, compared with net income of \$1,230,827 for the second quarter of 2008 and net income of \$542,890 for the third quarter of 2007 reflecting an decrease of 11.1 percent and an increase of 101.6 percent, respectively. The large change versus the third quarter of 2007 was primarily due to a charge off, related to a participation loan discussed below, taken in the third quarter of 2007.

Net interest income was \$2,474,973 for the third quarter of 2008, compared to \$2,465,925 for the second quarter of 2008 and \$2,383,363 for the third quarter of 2007.

Interest income for the third quarter of 2008 increased by \$130,627 (or 2.1 percent) compared to the second quarter of 2008 and increased \$145,650 (or 2.3 percent) over the third quarter of 2007, primarily due to growth in average loan volume.

Interest expense for the third quarter of 2008 increased by \$121,579 (or 3.2 percent) over the second quarter of 2008 and \$54,040 (or 1.4 percent) over the third quarter of 2007, primarily due to an increase in average debt volume.

Average loan volume as of September 30, 2008, was \$378,296,152, compared to \$336,538,296 as of December 31, 2007, and \$332,592,902 as of September 30, 2007. The average spread on the loan portfolio for the third quarter of 2008 was 1.92 percent, compared to 1.97 for the second quarter of 2008 and 1.98 percent for the third quarter of 2007.

The Association recorded \$0 in recoveries and \$0 in charge-offs for the quarter ended September 30, 2008, and \$0 in recoveries and \$1,304,119 in charge-offs for the same period in 2007. The Association's allowance for loan losses was 0.09 percent and 0.05 percent of total loans outstanding as of September 30, 2008, and September 30, 2007, respectively.

The Association's return on average assets for the nine months ended September 30, 2008, was 1.18 and 1.68 percent for the same period in 2007. The Association's return on average equity for the nine months ended September 30, 2008, was 7.46 and 8.92 percent for the same period in 2007. The decreases in both ratios are results of significant investments in new employees and office buildings coupled with increased expenses related to the defined benefit pension plan (DB Plan). The investment in new employees is to assist in managing the Association's growth and the increase in new business opportunities as well as for succession plans. Generally, the Association expects to see returns approximately three to four years after a new employee is hired. The increase in DB Plan expenses is due to a five year plan to fully fund the Association's Accumulated Benefit Obligation for employees participating in the DB Plan. This is the first year of the plan. After the plan is completed, the Association will resume the regular required contributions to the DB Plan. See Note 5, "Employee Benefit Plans," to the financial statements for more information on the Association's employee benefit plans.

Loan Portfolio:

Total loans outstanding at September 30, 2008, including nonaccrual loans and sales contracts, were \$396,825,216 compared to \$355,615,476 at December 31, 2007, reflecting an increase of 11.6 percent. The following table reflects the credit quality of the Association's loan volume:

	September, 30 2008	December, 31 2007	September, 30 2007
Acceptable	97.9%	97.3%	98.2%
Special mention	0.9%	1.6%	1.0%
Substandard	1.2%	1.1%	0.8%
Total	100.0%	100.0%	100.0%

Nonaccrual loans as a percentage of total loans outstanding were 0.52 percent, 0.60 percent, and 0.29 percent at September 30, 2008, December 31, 2007, and September 30, 2007, respectively.

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned. The following table illustrates the Association's components and trends of high-risk assets.

	September 30, 2008		December 31, 2007		September 30, 2007	
	Amount	%	Amount	%	Amount	%
Nonaccrual	\$ 2,051,886	81.0%	\$ 2,151,356	86.5%	\$ 989,181	82.0%
90 days past due and still accruing interest	264,903	10.5%	131,437	5.3%	-	0.0%
Formally restructured	215,328	8.5%	207,362	8.2%	216,906	18.0%
Total	\$ 2,532,117	100.0%	\$ 2,490,155	100.0%	\$ 1,206,087	100.0%

Twelve associations in the district, along with two other Farm Credit associations, participated in a loan to one borrower with the original funded balance of \$68.5 million. The Association owned approximately 5.56% of the loan. During the second quarter of 2007, the loan was deemed to be nonaccrual due to its significant under collateralized position and a credit default. The lead lending association is currently pursuing collection efforts, and in the third quarter of 2007 liquidated part of the loan's collateral, which was applied to the outstanding balance for all participants. In addition, in the second half of 2007 the Association, along with the four other Capital Markets of the South (CMS) member associations, repurchased, on a pro-rata basis, the portions of the loan held by all other non-CMS participants. As of December 31, 2007, total net charge-offs of \$28.9 million were recognized, and total specific reserves of \$1.46 million remain on the books related to this loan. The Association's portion of charge-offs and specific reserves was \$4.8 million and \$279 thousand, respectively. The loan has a remaining book balance of \$10.7 million at December 31, 2007. The Association's portion of the loan's remaining book balance is \$2.04 million. As part of loan repurchase transactions noted above, the Association received a general release from the non-CMS participants for claims related to the loan, and agreed to indemnify the non-CMS participants from any liability arising from legal proceedings related to the loan. For more information on impaired loans and the allowance for loan losses, see Note 2, "Loans and Allowance for Loan Losses," to the financial statements, included in this quarterly report.

For information on the Capital Markets of the South, see Note 4, "Capital Markets," to the financial statements included in this quarterly report.

Legal Proceedings:

In relation to the participation loan described in "Loan Portfolio" section of Management's Discussion and Analysis, above, there are two separate lawsuits as of the date of this report. The overall character of the lawsuits is of collection of the principal and interest from the borrower and control of the loan's collateral. These legal proceedings are described in more detail in Note 6, "Commitments and Contingencies," to the financial statements included in this quarterly report.

These legal proceedings have the potential to be very lengthy and the outcome is unknown at this time – in particular, those dealing with the counterclaims of the borrower. However, in mid-September the Kentucky Court, where the lawsuit on the debt is pending, granted summary judgment in favor of FLBA of South Alabama (the named lead lender) for the debt plus interest, costs and fees. This allowed FLBA of South Alabama to have a foreclosure sale of its real estate collateral located in Bell and Harlan counties. The sale was conducted on October 10, 2008, resulting in a purchase by a third party of such collateral for \$7,001,000. We expect that sale to be consummated in the fourth quarter of this year. Proceedings have been commenced in Muhlenberg county to have a foreclosure sale conducted there as well. The FLBA of South Alabama has been and will remain vigorous in pursuit of collection of the loan balances outstanding and other potential sources of recovery, and in defense of the counter-claims asserted by the borrower and others. The legal counsel believes that the Group's claims are supported by facts and applicable law, and have a reasonable chance of success, and at the same time believe that the claims of the borrower and other defendants are without merit and the Group will likely be successful in its defense against such claims. Although FLBA of South Alabama, FLCA, has been the only member of the old CMS group participants to be named a defendant and to be countersued in these lawsuits, the remaining members (including the Association) could potentially be brought in as defendants.

Liquidity and Funding Sources:

The Association secures the majority of its lendable funds from the Bank, which obtains its funds through the issuance of System wide obligations and with lendable equity. The following schedule summarizes the Association's borrowings.

	September 30, 2008	December 31, 2007	September 30, 2007
Note payable to the Bank	\$ 346,640,075	\$ 306,221,087	\$ 289,836,519
Accrued interest on note payable	1,330,126	1,361,246	1,304,860
Total	\$ 347,970,201	\$ 307,582,333	\$ 291,141,379

Capital Resources:

The Association's capital position increased by \$1,313,943 at September 30, 2008, compared to September 30, 2007 due to a large charge off taken in the second half of 2007 which impacted net income for the year and a 50 basis point patronage declared in October 2007. The Association's debt as a percentage of members' equity was 5.45 percent as of September 30, 2008, compared to 5.13 percent as of December 31, 2007.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of seven percent of risk-adjusted assets as defined by the FCA. The Association's permanent capital ratio at September 30, 2008, was 14.3 percent, which is in compliance with the FCA's minimum permanent capital standard. The Association's core surplus ratio and total surplus ratio at September 30, 2008, were 13.7 and 13.7 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

Capital Distributions:

On October 29, 2008, the board of directors approved a 35 basis point, or .35 percent, patronage distribution (to be based on 2008 average daily balance loan volume) to be paid in January 2009. The following patronage distributions were declared in 2007, 2006, and 2005, respectively.

<u>Date Declared</u>	<u>Date Paid</u>	<u>Patronage</u>	<u>Dividend</u>	<u>Special Distribution</u>
December 2007	January 2008	\$ 489,465	\$ 296,154	\$ 824,633
December 2006	January 2007	1,418,300	-	-
December 2005	January 2006	665,500	-	-

Relationship with the Farm Credit Bank of Texas:

The Association's financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder's investment in the Association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the 2007 Annual Report of Federal Land Bank Association of North Mississippi, FLCA more fully describe the Association's relationship with the Bank.

The Tenth Farm Credit District's (District) annual and quarterly stockholder reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9260. Copies of the District's quarterly and annual stockholder reports also can be requested by e-mail at fcf@farmcreditbank.com. The District makes its annual and quarterly stockholder reports available on its Web site at www.farmcreditbank.com.

The Association's quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Federal Land Bank Association of North Mississippi, FLCA, P.O. box 667, Senatobia, MS 38668-0667 or calling (662) 562-9671. Copies of the Association's quarterly stockholder reports can also be found at the Association's website, www.mslandbank.com, or can be requested by e-mailing Jessica.stanford@farmcreditbank.com.

FEDERAL LAND BANK ASSOCIATION OF NORTH MISSISSIPPI, FLCA
Consolidated Statement of Income
(Unaudited)

	For the Three Months Ended September 30,		For the nine Months Ended September 30,	
	2008	2007	2008	2007
<u>INTEREST INCOME</u>				
Loans	\$ 6,404,355	\$ 6,258,705	\$ 18,975,013	\$ 18,222,223
<u>INTEREST EXPENSE</u>				
Note payable to the Bank	3,929,382	3,875,342	11,638,484	11,220,201
Net interest income	2,474,973	2,383,363	7,336,529	7,002,022
<u>PROVISION FOR LOSSES</u>				
Provision for loan losses	1,015	687,279	10,098	2,381,304
Net interest income after provision for loan losses	2,473,958	1,696,084	7,326,431	4,620,718
<u>NONINTEREST INCOME</u>				
Income from the Bank:				
Patronage income	64,520	69,600	200,143	206,733
Loan fees	165,397	144,849	968,604	606,824
Financially related services income	1,677	1,578	4,454	3,189
Gain (loss) on sale of premises and equipment, net	-	-	13,311	6,295
Other noninterest income	935	6,667	45,188	59,743
Total noninterest income	232,529	222,694	1,231,700	882,783
<u>NONINTEREST EXPENSES</u>				
Salaries and employee benefits	959,992	710,898	2,919,543	2,187,406
Purchased services	144,777	166,054	554,681	345,803
FCSIC insurance expense	125,354	126,950	399,356	371,269
Travel	114,033	91,903	284,065	225,574
Advertising	58,771	60,882	181,371	200,953
Occupancy and equipment	63,907	49,809	182,167	147,965
Supervisory and exam expense	32,016	41,279	110,998	138,484
Public and member relations	18,353	27,920	94,987	77,953
Directors' expense	7,664	18,005	72,277	67,283
Communications	11,543	11,676	45,270	38,594
Training	39,431	19,099	70,639	67,031
Other insurance expense	10,331	34,078	53,917	40,484
Other noninterest expense	25,704	17,335	85,163	85,069
Total noninterest expenses	1,611,876	1,375,888	5,054,434	3,993,868
Net income	\$ 1,094,611	\$ 542,890	\$ 3,503,697	\$ 1,509,633

FEDERAL LAND BANK ASSOCIATION OF NORTH MISSISSIPPI, FLCA
Consolidated Balance Sheet
(Unaudited)

	September 30, 2008	December 31, 2007
<u>ASSETS</u>		
Cash	\$ 414,398	\$ 1,513,133
Loans	396,825,216	355,615,476
Less: allowance for loan losses	347,878	337,779
Net loans	396,477,338	355,277,697
Accrued interest receivable	10,132,036	8,628,516
Investment in and receivable from the Bank:		
Capital stock	5,643,725	5,643,725
Other	-	6,250
Premises and equipment	2,479,238	1,993,434
Other assets	271,076	216,505
Total assets	\$ 415,417,811	\$ 373,279,260
 <u>LIABILITIES</u>		
Note payable to the Bank	\$ 346,640,075	\$ 306,221,087
Accrued interest payable	1,330,126	1,361,246
Drafts outstanding	1,469,739	1,138,942
Dividends Payable	-	296,154
Patronage distributions payable	-	489,465
Special distributions payable	-	824,633
Other liabilities	1,527,305	2,101,645
Total liabilities	350,967,245	312,433,172
 <u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	2,287,570	2,145,585
Unallocated retained earnings	61,895,079	58,400,708
Accumulated other comprehensive income	267,917	299,795
Total members' equity	64,450,566	60,846,088
Total liabilities and members' equity	\$ 415,417,811	\$ 373,279,260

FEDERAL LAND BANK ASSOCIATION OF NORTH MISSISSIPPI, FLCA
Consolidated Statement of Changes in Members' Equity
(Unaudited)

	Capital Stock/ Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Income	Total Members' Equity
Balance at December 31, 2006	\$ 1,987,920	\$ 59,521,495	\$ -	\$ 61,509,415
Net income	-	966,743	-	966,743
Capital stock/participation certificates issued	293,335	-	-	293,335
Capital stock/participation certificates retired	(175,760)	-	-	(175,760)
Balance at September 30, 2007	\$ 2,105,495	\$ 60,488,238	\$ -	\$ 62,593,733
Balance at December 31, 2007	\$ 2,145,585	\$ 58,400,708	\$ 299,795	\$ 60,846,088
Net income	-	3,503,697	-	3,503,697
Amortization of costs included in net periodic pension costs	-	-	(31,878)	(31,878)
Effects of accounting change regarding measurement date of postretirement benefits plans pursuant to FASB Statement No. 158	-	(9,326)	-	(9,326)
Capital stock/participation certificates issued	361,810	-	-	361,810
Capital stock/participation certificates retired	(219,825)	-	-	(219,825)
Balance at September 30, 2008	\$ 2,287,570	\$ 61,895,079	\$ 267,917	\$ 64,450,566

FEDERAL LAND BANK ASSOCIATION OF NORTH MISSISSIPPI, FLCA

**NOTES TO THE FINANCIAL STATEMENTS
(UNAUDITED)**

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Federal Land Bank Association of North Mississippi, FLCA (Federal Land Credit Association), referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves the counties of Alcorn, Attala, Benton, Bolivar, Calhoun, Chickasaw, Choctaw, Clay, Coahoma, Desoto, Itawamba, Lafayette, Lee, Lowndes, Marshall, Monroe, Noxubee, Oktibbeha, Panola, Pontotoc, Prentiss, Quitman, Sunflower, Tallahatchie, Tate, Tippah, Tishomingo, Tunica, Union, Webster, Winston, and Yalobusha in the state of Mississippi. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

The accompanying financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform to generally accepted accounting principles, except for the inclusion of a statement of cash flows. Generally accepted accounting principles require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the Association has elected not to include a statement of cash flows in these financial statements.

The preparation of these financial statements requires the use of management's estimates. The results for the quarter and the nine months ended September 30, 2008, are not necessarily indicative of the results to be expected for the year ended December 31, 2008. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

The allowance for loan losses is maintained at a level considered adequate by management to provide for estimated losses inherent in the loan portfolio. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition and prior loan loss experience. An analysis of the allowance for loan losses follows:

	September 30, 2008	December 31, 2007	September 30, 2007
Balance at beginning of quarter	\$ 346,863	\$ 175,323	\$ 792,163
(Provision Reversal) provision for loan losses	1,015	2,647,472	687,279
Charge-offs	-	(2,485,016)	(1,304,119)
Balance at end of quarter	<u>\$ 347,878</u>	<u>\$ 337,779</u>	<u>\$ 175,323</u>

The following table presents information concerning impaired loans:

	September 30, 2008	December 31, 2007	September 30, 2007
Impaired loans with related allowance	\$ 2,051,886	\$ 2,054,254	\$ 892,079
Impaired loans with no related allowance	480,231	435,901	331,623
Total impaired loans	<u>\$ 2,532,117</u>	<u>\$ 2,490,155</u>	<u>\$ 1,223,702</u>
Allowance on impaired loans	\$ 289,207	\$ 289,207	\$ 130,230
Average impaired loans	\$ 2,498,672	\$ 1,469,008	\$ 1,072,157
Interest income on impaired loans for the quarter	\$ 9,688	\$ 8,730	\$ 6,087

NOTE 3 — CAPITAL:

The Association's board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the institution's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected dividends, equity retirements and other actions that may decrease the Association's permanent capital. In addition to factors that must

be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures, and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan and lease portfolios; sufficiency of liquid funds; needs of an institution's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the Association's goals and objectives with the board.

NOTE 4 — CAPITAL MARKETS:

Until the second quarter of 2007, the Association participated in the Capital Markets of the South (CMS), a venture created for the purpose of expanding the participants' lending opportunities. Created in 2003, the CMS group was comprised of the Association, the Federal Land Bank Association of North Alabama, FLCA, the Federal Land Bank Association of South Alabama, FLCA, Land Bank South, FLCA, and the Louisiana Federal Land Bank Association, FLCA. Existing CMS loans will continue to be serviced as in the past, with revenue and expenses continuing to be shared accordingly as noted below, until such time as all of the loans are fully matured or paid off.

Pursuant to the terms of the alliance, each of the five CMS participating associations will continue to generally share equally in the costs of operating the venture. The Association's pro-rata share of income from CMS operations are recorded in the statement of income in their respective line items.

As of September 30, 2008 and 2007, the Association had CMS-related loan volume outstanding of \$28,475,306 and \$26,709,923, respectively. In addition, the Association had remaining commitments on CMS loans to lend an additional \$11,740,429 as of September 30, 2008.

NOTE 5 — EMPLOYEE BENEFIT PLANS:

Employee Benefit Plans: Employees of the Association participate in either the defined benefit retirement plan (DB Plan) or the defined contribution plan (DC Plan) and are eligible to participate in the Thrift Plus Plan of the District. The DB Plan is closed to new participants. Participants generally include employees hired prior to January 1, 1996. The DB Plan is noncontributory and provides benefits based on salary and years of service. The "Projected Unit Credit" actuarial method is used for financial reporting and funding purposes for the DB Plan.

Participants in the DC Plan generally include employees who elected to transfer from the DB Plan prior to January 1, 1996, and employees hired on or after January 1, 1996. Participants in the DC Plan direct the placement of their employers' contributions, 5.0 percent of salaries for the quarter ended March 31, 2008, made on their behalf into various investment alternatives.

The structure of the District's retirement plans is characterized as multi-employer, since neither the assets, liabilities nor costs of any plan are segregated or separately accounted for by the associations. No portion of any surplus assets is available to the associations, nor are the associations required to pay for plan liabilities upon withdrawal from the plans. As a result, the associations recognize as pension cost the required contribution to the plans for the year. Contributions due and unpaid are recognized as a liability. The Association recognized pension costs for the DC Plan of \$51,827 for the nine months ended September 30, 2008, compared to \$40,299 for the same period in 2007. For the DB Plan, the Association recognized pension costs of \$621,734 for the nine months ended September 30, 2008, compared to \$180,357 for the same period in 2007.

Other Postretirement Benefits: The following table summarizes the components of net periodic benefit costs for the nine months ended September 30, 2008 and 2007:

	September 30, 2008	September 30, 2007
Service Cost	\$ 18,129	\$ 26,884
Interest Cost	41,726	52,952
Amortization of prior service costs	(32,261)	(46,582)
Amortization of net (gain) loss	384	1,414
Net periodic benefit cost	\$ 27,979	\$ 34,668

The Association anticipates accruing an additional amount of \$9,326 for the plan for 2008.

NOTE 6 — COMMITMENTS AND CONTINGENCIES:

As discussed in the “Legal Proceedings” and the “Loan Portfolio” sections of the Management’s Discussion and Analysis, as of September 30, 2008, the Association, through the now dissolved CMS group, was involved in two lawsuits related to a participation loan made to one borrower. This loan was originated by FLBA of South Alabama, FLCA. Both lawsuits have been initiated by the FLBA of South Alabama, FLCA, (South Alabama) in its capacity as the named lead lender. Although FLBA of South Alabama, FLCA (the named lead lender) has been the only member of CMS participants to be named a defendant and to be countersued in these lawsuits, the remaining members of CMS (including the Association) could potentially be brought in as defendants. The overall character of the lawsuits is of collection of the principal and interest from the borrower and control of the loan’s collateral.

An initial lawsuit brought in Texas State Court, the domicile state of the borrower, was commenced for the purpose of obtaining access to collateral for the loan. Such suit was successful and has now been dismissed.

Of the two remaining lawsuits; one of the lawsuits was filed in the borrower’s domicile state of Texas in United States Federal District Court and involved civil complaints by South Alabama against the borrower and other related individuals as well as third parties for damages incurred as a consequence of alleged wrongful acts by the respective parties and an effort to recover assets acquired with the proceeds of the loan from such parties. The borrower and all related defendants in this action have agreed to an injunction precluding the transfer of any assets acquired with proceeds of the loan. The remaining lawsuit was filed in the state of Kentucky, where the primary real estate collateral is located, for the purpose of gaining access to and foreclosing the lien of its mortgages on the real estate and commencing an action for collection of the debt. The Kentucky state court has appointed a receiver to protect the collateral and preserve the status quo pending resolution of the suit. The borrower and other related individuals have responded by filing a counterclaim seeking damages against South Alabama, alleging various claims, including breach of contract. These legal proceedings have the potential to be very lengthy and the outcome is unknown at this time. However, the Kentucky Court has recently ordered the Receiver to sell all mining equipment that was seized by direction of the court. The proceeds of such sales, some \$750,000 to date, have been impounded subject to resolution of the claims by South Alabama that it and the other members, are entitled to the proceeds.

These legal proceedings have been lengthy and the outcome as to the counterclaims is unknown at this time. However, the Kentucky Court has granted summary judgment in favor of FLBA of South Alabama for the debt plus interest, costs, and fees. The Judgment on the debt dispenses with a major portion of the action in Kentucky and allows for the realization on the real estate collateral through foreclosure sales.

NOTE 7 — SUBSEQUENT EVENT:

In connection with the legal proceedings described in Note 6, “Commitments and Contingencies,” above, the FLBA of South Alabama (the named lead lender) conducted its first foreclosure sale on October 10th, at which a third party purchased the property located in Bell and Harlan counties; one of two primary parcels of real estate collateral in Kentucky, for \$7,001,000. This sale is expected to be consummated in the fourth quarter of 2008. The other primary parcel of real estate collateral, located in Muhlenberg County, is expected to be sold at foreclosure in the near future.