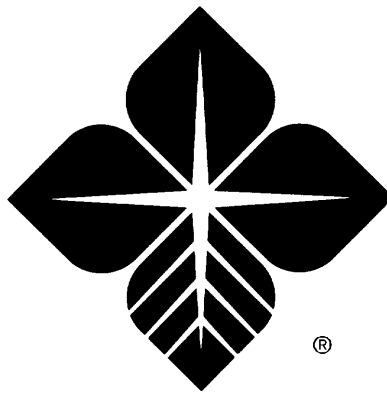


LEGACY AG CREDIT, ACA

2009 Quarterly Report Second Quarter



For the Quarter Ended June 30, 2009

REPORT OF MANAGEMENT

The undersigned certify that we have reviewed this report, that it 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.

s/s

Lee E. Warren, Chief Executive Officer
July 15, 2009

s/s

John O. Powell, Chairman, Board of Directors
July 15, 2009

s/s

Wayne Bawcum, C.P.A., Chairman, Audit Committee
July 15, 2009

s/s

Daryl D. Belt, Chief Financial Officer
July 15, 2009

**LEGACY AG CREDIT, ACA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following commentary reviews the financial performance of the Legacy Ag Credit, ACA (Agricultural Credit Association), referred to as the Association, for the quarter and six months ended June 30, 2009. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2008 Annual Report of the Association.

The association is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended, and the regulations of the Farm Credit Administration (FCA) promulgated thereunder.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The consolidated financial statements were prepared under the oversight of the Association's audit committee.

Loan Portfolio:

Total loans outstanding at June 30, 2009, including nonaccrual loans and sales contracts, were \$299,571,912 compared to \$297,926,871 at December 31, 2008, reflecting an increase of 0.6 percent. Nonaccrual loans as a percentage of total loans outstanding were 1.8 percent at June 30, 2009, compared to 0.2 percent at December 31, 2008.

The Association recorded \$0 in recoveries and \$0 in charge-offs for the quarter ending June 30, 2009, and \$0 in recoveries and \$0 in charge-offs for the same period in 2008. The Association's allowance for loan losses was 0.7 percent and 0.1 percent of total loans outstanding as of June 30, 2009, and December 31, 2008, respectively.

The association is participating in loans to two ethanol enterprises. Both of these loans were classified as nonaccrual and required specific allowances during the 2nd quarter of 2009. One entity is in bankruptcy while the other is in default of the credit agreement. The association holds \$4.5 million in total loans to these entities and set up a specific allowance of \$1.9 million based on the expected recoverable value of collateral.

Risk Exposure:

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.

	<u>June 30, 2009</u>		<u>December 31, 2008</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Nonaccrual	\$ 5,263,854	60.3%	\$ 515,688	100.0%
90 days past due and still accruing interest	222,205	2.5%	-	0.0%
Formally restructured	-	0.0%	-	0.0%
Other property owned, net	3,247,710	37.2%	-	0.0%
Total	<u>\$ 8,733,769</u>	<u>100.0%</u>	<u>\$ 515,688</u>	<u>100.0%</u>

Two properties represent the majority of the "Other property owned" increase as compared to December 31, 2008. One is a poultry house operation and the other is a medium sized tract of rural property.

Results of Operations:

The Association had net income (loss) of \$(702,766) and \$712,688 for the three and six months ended June 30, 2009, as compared to net income of \$1,469,322 and \$2,888,824 for the same periods in 2008 reflecting a decrease of 147.8 and 75.3 percent, respectively. Net interest income was \$2,104,520 and \$4,210,130, respectively, for the three and six months ended June 30, 2009, compared to \$2,037,372 and \$4,064,073 for the same periods in 2008. Interest income for the first six months of 2009 decreased by \$569,290 or 6.0 percent from the same periods of 2008, primarily due to declines in yields on earning assets. Interest expense for the first six months of 2009 decreased by \$715,347, or 13.1 percent, from the same periods of 2008 due to a decrease in interest rates. Average loan volume for the second quarter of 2009 was \$300,381,821, compared to \$276,489,392 in the second quarter of 2008. The average spread on the loan portfolio for the second quarter 2009 was 2.30 percent, compared to 2.34 percent in the second quarter of 2008.

The Association's return on average assets for the six months ended June 30, 2009, was 0.46 and 2.07 percent for the same period in 2008. The Association's return on average equity for the six months ended June 30, 2009, was 2.83 and 12.74 percent for the same period in 2008.

The primary component in the change of net income, as compared to the previous quarter and for the six month ended June 30, 2008, was the provision expense recognized on the two ethanol participation loans discussed in the "Loan Portfolio" section above.

Liquidity and Funding Sources:

The Association secures the majority of its lendable funds from the Farm Credit Bank of Texas (The Bank), which obtains its funds through the issuance of Systemwide obligations and with lendable equity. The following schedule summarizes the Association's borrowings.

	June 30, 2009	December 31, 2008
Note payable to the Bank	\$ 258,555,599	\$ 254,829,769
Accrued interest on note payable	789,460	882,874
Total	\$ 259,345,059	\$ 255,712,643

Capital Resources:

The Association's capital position increased by \$699,066 at June 30, 2009, compared to December 31, 2008. The Association's debt as a percentage of members' equity was 5.30:1 as of June 30, 2009, compared to 5.34:1 as of December 31, 2008.

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 June 30, 2009, was 14.9 percent, which is in compliance with the FCA's minimum permanent capital standard. The Association's core surplus ratio and total surplus ratio at June 30, 2009, were 14.6 and 14.6 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

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 December 31, 2008 Annual Report of Legacy Ag Credit, ACA 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 fcdb@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 Legacy Ag Credit, ACA, 303 Connally Street Sulphur Springs, Texas 75482 or calling 903-885-9566. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing sherry.jennings@legacyaca.com.

LEGACY AG CREDIT, ACA

CONSOLIDATED BALANCE SHEET

	June 30, 2009 (unaudited)	December 31, 2008
<u>ASSETS</u>		
Cash	\$ 192,376	\$ 1,197,517
Investments	-	-
Loans	299,571,912	297,926,871
Less: allowance for loan losses	2,237,425	285,392
Net loans	297,334,487	297,641,479
Accrued interest receivable	2,995,101	2,438,582
Investment in and receivable from the Bank:		
Capital stock	4,783,045	4,783,045
Other property owned, net	3,247,710	-
Premises and equipment	502,429	440,133
Other assets	206,997	74,756
Total assets	<u>\$ 309,262,145</u>	<u>\$ 306,575,512</u>
<u>LIABILITIES</u>		
Note payable to the Bank	\$ 258,555,599	\$ 254,829,769
Accrued interest payable	789,605	882,874
Drafts outstanding	199,430	716,644
Dividends Payable	-	1,000,411
Other liabilities	651,215	778,584
Total liabilities	<u>260,195,849</u>	<u>258,208,282</u>
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	1,202,395	1,201,265
Unallocated retained earnings	47,725,929	47,017,870
Accumulated other comprehensive income (loss)	137,972	148,095
Total members' equity	<u>49,066,296</u>	<u>48,367,230</u>
Total liabilities and members' equity	<u>\$ 309,262,145</u>	<u>\$ 306,575,512</u>

LEGACY AG CREDIT, ACA

CONSOLIDATED STATEMENT OF INCOME
(unaudited)

	Quarter Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
<u>INTEREST INCOME</u>				
Loans	\$ 4,461,924	\$ 4,634,201	\$ 8,942,250	\$ 9,511,540
Total interest income	<u>4,461,924</u>	<u>4,634,201</u>	<u>8,942,250</u>	<u>9,511,540</u>
<u>INTEREST EXPENSE</u>				
Note payable to the Bank	2,357,404	2,596,742	4,732,120	5,447,354
Advance conditional payments	-	87	-	113
Total interest expense	<u>2,357,404</u>	<u>2,596,829</u>	<u>4,732,120</u>	<u>5,447,467</u>
Net interest income	<u>2,104,520</u>	<u>2,037,372</u>	<u>4,210,130</u>	<u>4,064,073</u>
<u>PROVISION FOR LOSSES</u>				
Provision (negative provision) for loan losses	1,955,458	(9,454)	1,952,767	6,337
Provision for acquired property losses	<u>7,680</u>	<u>-</u>	<u>7,680</u>	<u>-</u>
Net interest income after provision for loan losses	<u>141,382</u>	<u>2,046,826</u>	<u>2,249,683</u>	<u>4,057,736</u>
<u>NONINTEREST INCOME</u>				
Income from the bank:				
Patronage income	43,539	44,129	87,728	94,254
Loan fees	115,648	91,193	212,928	172,234
Financially related services income	494	525	830	1,081
Gain (loss) on other property owned, net	(21,271)	(1,137)	(21,271)	546
Other noninterest income	927	80	15,825	13,289
Total noninterest income	<u>139,337</u>	<u>134,790</u>	<u>296,040</u>	<u>281,404</u>
<u>NONINTEREST EXPENSES</u>				
Salaries and employee benefits	543,342	440,360	997,065	756,610
Directors' expense	65,118	70,787	103,383	103,990
Purchased services	94,778	64,601	186,980	142,181
Travel	36,186	17,946	55,855	38,815
Occupancy and equipment	24,750	20,456	42,189	34,875
Communications	8,128	7,260	14,577	12,060
Advertising	16,770	7,655	24,052	17,423
Public and member relations	20,145	22,410	46,753	55,810
Supervisory and exam expense	24,979	21,198	49,957	42,397
Insurance Fund premiums	123,214	101,171	245,046	199,018
Other noninterest expense	<u>26,085</u>	<u>19,491</u>	<u>67,178</u>	<u>47,137</u>
Total noninterest expenses	<u>983,495</u>	<u>793,335</u>	<u>1,833,035</u>	<u>1,450,316</u>
Income before income taxes	<u>(702,776)</u>	<u>1,388,281</u>	<u>712,688</u>	<u>2,888,824</u>
Net income	<u>\$ (702,776)</u>	<u>\$ 1,388,281</u>	<u>\$ 712,688</u>	<u>\$ 2,888,824</u>

LEGACY AG CREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	Capital Stock/ Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2007	\$ 1,225,080	\$ -	\$ 41,529,643	\$ 192,352	\$ 42,947,075
Adjustment to beginning balance due to FAS No. 158 accounting change	-	-	(1,017)	-	(1,017)
Balance at January 1, 2008	1,225,080	-	41,528,626	192,352	42,946,058
Comprehensive income					
Net income	-	-	2,888,824	-	2,888,824
Change in unrealized gains (losses) on investment securities	-	-	-	(2,738)	(2,738)
Total comprehensive income	-	-	2,888,824	(2,738)	2,886,086
Capital stock/participation certificates issued	76,645	-	-	-	76,645
Capital stock/participation certificates and allocated retained earnings retired	(93,865)	-	-	-	(93,865)
Patronage refunds:					
Adjustments from prior declarations	-	-	3,253	-	3,253
Balance at June 30, 2008	<u>\$ 1,207,860</u>	<u>\$ -</u>	<u>\$ 44,420,703</u>	<u>\$ 189,614</u>	<u>\$ 45,818,177</u>
Balance at December 31, 2008	\$ 1,201,265	\$ -	\$ 47,017,870	\$ 148,095	\$ 48,367,230
Comprehensive income					
Net income	-	-	712,689	-	712,689
Amortization of costs included in periodic retirement benefit costs	-	-	-	(10,123)	(10,123)
Total comprehensive income	-	-	712,689	(10,123)	702,566
Capital stock/participation certificates issued	65,675	-	-	-	65,675
Capital stock/participation certificates and allocated retained earnings retired	(64,545)	-	-	-	(64,545)
Patronage refunds:					
Adjustments from prior declarations	-	-	(4,630)	-	(4,630)
Balance at June 30, 2009	<u>\$ 1,202,395</u>	<u>\$ -</u>	<u>\$ 47,725,929</u>	<u>\$ 137,972</u>	<u>\$ 49,066,296</u>

LEGACY AG CREDIT, ACA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Legacy Ag Credit, ACA (Agricultural 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 Franklin, Gregg, Harrison, Hopkins, Kaufman, Marion, Rains, Upshur, Van Zandt and Wood in the state of Texas. 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.

Effective January 1, 2009, the Association adopted Financial Accounting Standards Board (FASB) Staff Position No. 157-2, "Effective Date of FASB Statement No. 157" (FSP 157-2). This FSP delayed the effective date of Statement of Financial Accounting Standard (SFAS) No. 157, "Fair Value Measurements" (SFAS 157) for nonfinancial assets and nonfinancial liabilities. The impact of adoption resulted in additional fair value disclosures but did not have an impact on our financial condition or results of operations.

In April 2009, the FASB issued FSP No. 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" (FSP 157-4). FSP 157-4 emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique and inputs used, the objective for fair value measurement is unchanged from what it would be if markets were operating at normal activity levels or transactions were orderly; that is, to determine the current exit price. It sets forth additional factors that should be considered to determine whether there has been a significant decrease in volume and level of activity when compared with normal market activity. The reporting entity shall evaluate the significance and relevance of the factors to determine whether, based on the weight of evidence, there has been a significant decrease in activity and volume. FSP 157-4 indicates that if an entity determines that either the volume or level of activity for an asset or liability has significantly decreased (from normal conditions for that asset or liability) or price quotations or observable inputs are not associated with orderly transactions, increased analysis and management judgment will be required to estimate fair value. It is further noted that a fair value measurement should include a risk adjustment to reflect the amount market participants would demand because of the risk (uncertainty) in the cash flows.

FSP 157-4 also requires a reporting entity to make additional disclosures in interim and annual periods. It is effective for interim periods ending after June 15, 2009, with early application permitted for periods ending after March 15, 2009. Revisions resulting from a change in valuation techniques or their application are accounted for as a change in accounting estimate. The Association adopted the FSP in second quarter 2009. The adoption did not have a material impact on the financial condition or results of operations of the Association.

In April 2009, the FASB issued FSP No. 115-2, "Recognition and Presentation of Other-Than-Temporary Impairments" (FSP 115-2), which amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt securities in the financial statements. It does not change existing recognition and measurement guidance related to other-than-temporary impairments of equity securities.

FSP 115-2 changes existing impairment guidance under FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities (FSP 115) by eliminating the "ability and intent to hold" provision. In addition, impairment is now considered to be other than temporary if an entity (i) intends to sell the security, (ii) more likely than not will be required to sell the security before recovering its cost, or (iii) does not expect to recover the security's entire amortized cost basis (even if the entity does not intend to sell). The "probability" standard relating to the collectability of cash flows is also eliminated, and impairment is now considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to in FSP 115-2 as a "credit loss"). If an entity intends to sell an impaired debt security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and should be recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but an entity does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and should be

separated into (i) the estimated amount relating to credit loss, and (ii) the amount relating to all other factors. Only the estimated credit loss amount is recognized currently in earnings, with the remainder of the loss amount recognized in other comprehensive income. For held-to-maturity securities, the portion of the other-than-temporary impairment not related to a credit loss will be recognized in a new category of other comprehensive income and amortized over the remaining life of the debt security as an increase in the security's carrying amount. Disclosure requirements for impaired debt and equity securities are expanded and will now be required quarterly, as well as annually.

FSP 115-2 is effective for interim and annual periods ending after June 15, 2009, with early application permitted for periods ending after March 15, 2009. For securities held at the beginning of the interim period of adoption for which an other-than-temporary impairment was previously recognized, if an entity does not intend to sell and it is more likely than not that it will be required to sell before recovery of its amortized cost basis, the entity shall recognize the cumulative effect of initially applying this FSP adjustment to the opening balance of retained earnings with a corresponding adjustment to accumulated other comprehensive income. The Association adopted the FSP in the second quarter of 2009 and did not recognize an adjustment to beginning retained earnings or accumulated other comprehensive income since no impairment losses were previously recognized. The Association held no investments in debt securities during the first six months of 2009.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events" (SFAS 165), which sets forth general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Recognized subsequent events should be recognized in the financial statements since the conditions existed at the date of the balance sheet. Nonrecognized subsequent events are not recognized in the financial statements since the conditions arose after the balance sheet date but before the financial statements are issued or are available to be issued. This Standard, which includes a required disclosure of the date through which an entity has evaluated subsequent events, is effective for interim or annual periods ending after June 15, 2009.

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with 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 consolidated financial statements.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management's estimates. The results for the quarter and the six months ended June 30, 2009, are not necessarily indicative of the results to be expected for the year ended December 31, 2009. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — 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:

	June 30, 2009	June 30, 2008
Balance at beginning of quarter	\$ 281,967	\$ 100,276
Provision for loan losses	1,955,458	(9,454)
Charge-offs	-	-
Recoveries	-	-
Balance at end of quarter	<u>\$ 2,237,425</u>	<u>\$ 90,822</u>

The following table presents information concerning impaired loans:

	<u>June 30,</u> <u>2009</u>	<u>June 30,</u> <u>2008</u>
Impaired loans with related allowance	\$ 4,576,103	\$ 188,867
Impaired loans with no related allowance	909,956	196,356
Total impaired loans	<u>\$ 5,486,059</u>	<u>\$ 385,223</u>
Allowance on impaired loans	\$ 1,970,620	\$ 12,162
Average impaired loans	\$ 2,198,621	\$ 387,213
Interest income on impaired loans for the quarter	\$ (44,605)	\$ 15,493

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 — INCOME TAXES:

Legacy Ag Credit, ACA and its subsidiary, Legacy PCA, are subject to federal and certain other income taxes. The Associations are eligible to operate as cooperatives that qualify for tax treatment under Subchapter T of the Internal Revenue code. Under specified conditions, the Associations can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. During 2009, the Association did not participate in a patronage program.

The subsidiary, Legacy Land Bank, FLCA, is exempt from federal and other income taxes as provided in the Farm Credit Act of 1971.

NOTE 5 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs for the six months ended June 30, :

	<u>Other Benefits</u>	
	<u>2009</u>	<u>2008</u>
Service cost	\$ 6,417	\$ 2,270
Interest cost	8,728	3,793
Expected return on plan assets	-	-
Amortization of prior service costs	(10,123)	(5,122)
Amortizations of net (gain) loss	-	76
Net periodic benefit cost	<u>\$ 5,022</u>	<u>\$ 1,017</u>

The Association previously disclosed in its financial statements for the year ended December 31, 2008, that it expected to contribute \$11,630 to its retiree welfare defined pension plan in 2009. As of June 30, 2009, \$5,022 of contributions have been made. The Association presently anticipates contributing an additional \$5,022 to fund its retiree welfare defined pension plan in 2009 for a total \$10,044.