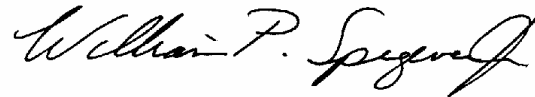


FIRST QUARTER 2008

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William P. Spigener, Jr.
Chief Executive Officer



Alisa D. Gunter
Chief Financial Officer



Thomas H. Coward
Chairman of the Board

April 22, 2008

Management's Discussion and Analysis of Financial Condition and Results of Operations

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of AgSouth Farm Credit, ACA (Association) for the period ended March 31, 2008. This information should be read in conjunction with the accompanying financial statements, notes to the financial statements, and the 2007 Annual Report of AgSouth Farm Credit. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a wide range of agricultural commodities produced in our region, including poultry (broilers, turkeys and eggs), timber, field crops and grains, and beef cattle. Loans to producers of these commodities total \$994,920 or 72.85 percent of the Association's portfolio. Farm size varies, and many of the Association customers have diversified farming operations. These factors, along with the numerous opportunities for non-farm income in the area, reduce to some degree the level of income dependency on any given commodity.

During the first quarter of 2008 the Association originated \$18,575 in loans for the secondary market. As of March 31, 2008, the Association held \$817 in qualifying loans for sale. The Association has seen some decline in housing activity due to the issues around the mortgage industry.

Georgia Region

The housing market slowdown has hurt the general economy in Georgia with the effects beginning to show up more significantly in the first quarter 2008. While unemployment ran below the national average for much of 2007, it has increased to 5.3%, slightly above the national average. Regionally unemployment varies with coastal Georgia running well below the state average at 4.6% and some regions in central Georgia running 6%. AgSouth's territory in the coastal region of Georgia continues to experience strong economic development and growth. The slow down in the housing sector along with the tightening

in underwriting standards has slowed our secondary housing market loans but overall loan demand is slightly above first quarter 2007. Ag loan demand has been very strong. The slow down in housing and related industries has begun to reflect some signs of stress with borrowers dependant on those industries for income. Some decline in credit quality is anticipated.

Significant rains during the first quarter have replenished most of state's soil moisture levels. Rains have actually delayed some corn planting and land preparation for peanuts and cotton. The winter wheat crop is rated good to excellent at this time. All commodity prices are very high, however input cost are at all time highs. Increased cost has created the need for more operating credit either through increases in direct operating loans or higher levels of open account credit when available. The open account credit market has become very tight with many input providers not extending credit as they have in the past. Operating loans will be monitored very closely for cost overruns and the producer's ability to cover these costs.

The forest products industry continues to experience problems brought on by a slow down in housing. Most saw mills are operating at or near the break even point with less efficient mills in the red. Poultry integrators have experienced very tight margins with high feed cost however most are cutting production and overall supply and demand functions should put these integrators back in a profitable position by the end of the second quarter.

Volume, closings, and net interest margins are all up in the region during the first quarter and delinquencies are down, all pointing to very strong results during this period.

South Carolina Region

South Carolina agriculture is progressing at a typical pace at the end of the first quarter. Planting of corn and some vegetables within South Carolina have been normal through the first quarter. Additionally, peaches are being managed for the beginning of the upcoming harvest, and if an early spring cold snap can be avoided, prospects for an excellent crop exist. The state's wheat crop appears to be in excellent condition, with the greatest concern to production is excessive cold weather. The risk of freeze is diminishing daily and hopefully freezing conditions will not occur as we move into April. There do not appear to be any significant moisture concerns in the state at this time.

Preparation for planting peanuts, cotton and soybeans is now beginning. Soybean plantings within the region are expected to increase with the primary limiting factor being the availability of seed. Currently, corn, soybean and wheat prices are very high and are either at or exceeding all time highs. An opportunity exists here if the crop is produced and input costs are managed carefully. Many row croppers are now hedging and/or forward pricing crops through contracts for 2008 where contracts are available, and this could lead to strong profits assuming production is at typical levels. Crop insurance mitigates some of the risk associated with production, and in most instances, crop insurance is assigned to the association. Additionally, most farmers using brokerage services to forward price are assigning the brokerage accounts to AgSouth.

On the opposite side of grain crops are the protein farms or meat producers. These operations are being tested on the feed side of the equation. Poultry integrators are starting to struggle with their bottom lines, but AgSouth is not actively financing any integrators within the state. Significant lending does exist with the South Carolina poultry growers. Integrators could be forced to look at modified growing strategies if high grain prices persist. Should cutbacks become necessary, older grower houses and less efficient operations will most likely be the ones considered for such a move. Hogs and beef are also feeling the effects of higher grain, but beef cattle producers are using the lowest cost feeds available and are using grazing and hay where possible. As to hogs, AgSouth has only a minimal number of hog farmers financed within the state. Even though the few hog farms financed have performed as expected, the working capital of these entities is now being tested given high feed costs. Most hogs financed are either contract growers or niche producers, but these operations are reasonably well capitalized with acceptable liquidity for the current time. There are a small number of dairy operations financed in the region and milk prices are currently holding at favorable levels. Assuming feed costs do not continue to move significantly higher these operations have an opportunity to profit during the spring and early summer.

The timber industry continues to deal with issues as the slower economy, and reduced housing starts, have impacted the performance of sawmills and timber prices within the region. Most mills anticipate some seasonal improvement as late spring and early summer approach but no long term positives are anticipated. The number of loans and total loan volume associated with sawmills in South Carolina is not significant, but this industry will dictate close monitoring until improvement is evident. Financing of timberland within the region is substantial. As to timber prices, obvious reductions have been noted, but a high percentage of the timberland financed in South Carolina is repaid from non-farm income. Repayment in this specific sector of our business has remained acceptable through early 2008.

A minimal number of loans in South Carolina rely to some degree on real estate sales to generate some portion of repayment. A few of these loans are showing signs of some stress at this point, and these loan assets are being closely monitored for performance. Acreage has continued to move or sell, but activity has been more obvious in smaller to moderate size tracts than in the large parcels. Real estate sales do not appear to be occurring at the pace noted over the past few years. Lifestyle farm lending has continued throughout the state as this is a sector emphasized from a marketing perspective, but some signs of slower closings exist in some locations.

Total Association Performance

The gross loan volume of the Association as of March 31, 2008, was \$1,363,921, an increase of \$40,081 or 3.03 percent as compared to \$1,323,840 at December 31, 2007. Net loans outstanding at March 31, 2008 were \$1,359,970 as compared to \$1,319,870 at December 31, 2007. Net loans accounted for 94.77 percent of total assets at March 31, 2008, as compared to 94.04 percent of total assets at December 31, 2007.

The increase in gross and net loan volume during the reporting period is primarily attributed to new loans and draws on annual operating credits to farmer/borrowers during the planting season. The Association continues to actively make large loans, some of which are participated with AgFirst Farm Credit bank and others.

The Association typically structures loans to meet the needs of the borrower. Many term loans are made for ten years or less allowing the borrower to build equity faster and thus reducing the risk in the loan portfolio.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level and credit administration remains satisfactory. Nonaccrual loans increased from \$2,251 at December 31, 2007, to \$3,822 at March 31, 2008. This increase is the result of transfers to nonaccrual status exceeding payments and payoffs on existing nonaccrual accounts. There was one significant account transferred to nonaccrual status in January 2008 which totaled \$1,128. Association staff is working diligently to work out this and all other nonaccrual debt situations. Other property owned decreased to \$0 from \$40 during the comparative reporting periods.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at March 31, 2008, was \$3,951 compared to \$3,970 at December 31, 2007, and was considered by management to be adequate to cover possible losses. The slight decrease in the allowance account came from charge-offs exceeding recoveries during the reporting period.

Premises and equipment, net decreased \$3 from \$11,681 at December 31, 2007 to \$11,678 at March 31, 2008.

RESULTS OF OPERATIONS

For the three months ended March 31, 2007

Net income for the three months ended March 31, 2008, totaled \$9,901 as compared to \$8,333 for the same period in 2007. Net interest income before the provision for loan loss increased \$447 for the three months ended March 31, 2008, as compared to the same period in 2007 due primarily to the increase in loan volume, and focused repricing activities. Net interest income after the provision for loan losses increased \$447 as no provision expense was recorded in the quarter ending March 31, 2008. The Association's Asset/Liability Committee made the decision that no provision was needed after analyzing the risk in the current portfolio. The analysis includes reviewing historical trends, loan size, loan performance and credit quality reports.

At March 31, 2008, interest income on accruing loans increased \$69 compared to the same period in 2007. The increase was due to a higher loan volume base. Nonaccrual income was \$47 for the three months ended March 31, 2008, as compared to \$153 for the same period in 2007.

Interest expense decreased \$378 for the three months ended March 31, 2008. The decrease is linked to the lower debt expense obtained from AgFirst Farm Credit Bank (Bank).

Noninterest income increased \$146 over the same period last year primarily due to, higher equity in earnings from other Farm Credit institutions, loan fees, fees from financially related services and other noninterest income. Fees for financially related services increased \$50 from \$134 at March 31, 2007 compared to \$184 at March 31, 2008. The equity in earnings from other Farm Credit institutions increased \$55 from \$2,788 at March 31, 2007 to \$2,843 at March 31, 2008. The increase is the result of the higher average Notes Payable note balance and participations sold to other Associations. Other noninterest income increased \$35 from \$55 at March 31, 2007 compared to \$90 at March 31, 2008. Other noninterest income includes a refund from the Farm Credit Captive Insurance Company in March, 2008. In previous years, this income was not received until the second quarter. The 2007 refund recorded in March totaled \$152.

The Association's activity in the secondary market generated gains on the sale of rural home loans of \$154, compared to \$256 at the same period last year. The decline in gains is reflective of the decrease in housing activity within the territory.

Noninterest expense for the three months ended March 31, 2008, decreased \$907 compared to the same period of 2007. Salaries and employee benefit expense decreased \$935

between the two reporting periods. The decrease is the result of deferrals of personnel expense related to new loan closings and other loan modifications. Occupancy and equipment expense at March 31, 2008 was \$519 compared to \$630 for the same period in 2007. The \$111 decrease is because of the timing of payment of property taxes on the Association's buildings and equipment. Other operating expenses increased \$118 from March 31, 2007, \$1,230, compared to \$1,348 at March 31, 2008. The increase is the result of higher expenditures on Advertising and Public & Member Relations between the two reporting periods.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances the funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at March 31, 2008 was \$1,179,366 as compared to \$1,149,999 at December 31, 2008. The increase is related to the increase in loan volume between the two reporting periods.

As of March 31, 2008, the Association had invested \$110,000 of its lendable equity in fixed rate notes. These fixed rate notes will mature later in 2008 and in early 2009.

CAPITAL RESOURCES

Total members' equity at March 31, 2008, decreased to \$214,146 from the December 31, 2007 total of \$216,247. The decrease is primarily attributed to the revolvment of allocated equities during the reporting period and the retirement of capital stock, and participation certificates, offset by the earnings of the Association during the reporting period. In February 2008, the Association revolved \$11,839 in allocated surplus from the fiscal year 2002 series of equities. The checks and notices were mailed in late February to 12,558 customers. The revolvment is reflected in the change in allocated retained earnings during the two reporting periods. At December 31, 2007, allocated retained earnings totaled \$102,123. At March 31, 2008, the allocated retained earnings had declined to \$90,439.

Total capital stock and participation certificates were \$6,560 on March 31, 2008, compared to \$6,636 on December 31, 2007. The decrease is attributed to the retirement of protected stock and participation certificates on loans liquidated in the normal course of business, the retirement of

excess stock, and new loans being capitalized at lower regulatory levels.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus, as defined in FCA regulations, by a risk-adjusted asset base. As of March 31, 2008, the Association's total surplus ratio and core surplus ratio were 14.80 percent and 10.56 percent, respectively, and the permanent capital ratio was 15.29 percent. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

The Association has a portion of the portfolio in an in-portfolio guarantee program with Farmer Mac. At March 31, 2007, the Association had loans totaling \$17,830 in this program. No additional placement of loans is scheduled at this time. The cost of the guarantees year to date was \$25. The use of the Farmer Mac In-portfolio guarantee has a positive effect on the Association's capital ratios.

Refer to the Notes for specific information about recent accounting pronouncements.

NOTE: Shareholder investment in the Association could be affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 378, or writing Stephen Gilbert, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, www.agfirst.com. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-800-310-4805, ext 237, writing Alisa D. Gunter, CFO, AgSouth Farm Credit, ACA PO Box 4966, Spartanburg, SC 29305, or accessing the website www.agsouthfc.com. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

AgSouth Farm Credit, ACA
Consolidated Balance Sheets

| <i>(dollars in thousands)</i> | March 31, 2008 <i>(unaudited)</i> | December 31, 2007 <i>(audited)</i> |
|---|---|--|
| Assets | | |
| Cash | \$ 5,172 | \$ 4,429 |
| Loans | 1,363,921 | 1,323,840 |
| Less: allowance for loan losses | 3,951 | 3,970 |
| Net loans | 1,359,970 | 1,319,870 |
| Loans held for sale | 817 | 222 |
| Accrued interest receivable | 17,658 | 17,905 |
| Investment in other Farm Credit institutions | 21,852 | 21,790 |
| Premises and equipment, net | 11,678 | 11,681 |
| Other property owned | — | 40 |
| Due from AgFirst Farm Credit Bank | 2,620 | 12,178 |
| Other assets | 15,200 | 15,374 |
| Total assets | \$ 1,434,967 | \$ 1,403,489 |
| Liabilities | | |
| Notes payable to AgFirst Farm Credit Bank | \$ 1,179,366 | \$ 1,149,999 |
| Accrued interest payable | 4,875 | 5,502 |
| Patronage refund payable | 385 | 9,946 |
| Other liabilities | 36,195 | 21,795 |
| Total liabilities | 1,220,821 | 1,187,242 |
| Commitments and contingencies | | |
| Members' Equity | | |
| Protected borrower equity | 356 | 457 |
| Capital stock and participation certificates | 6,204 | 6,176 |
| Retained earnings | | |
| Allocated | 90,439 | 102,123 |
| Unallocated | 117,338 | 107,688 |
| Accumulated other comprehensive income (loss) | (191) | (197) |
| Total members' equity | 214,146 | 216,247 |
| Total liabilities and members' equity | \$ 1,434,967 | \$ 1,403,489 |

The accompanying notes are an integral part of these financial statements.

AgSouth Farm Credit, ACA
Consolidated Statements of Income

(unaudited)

**For the three months
ended March 31,**

(dollars in thousands)

| | 2008 | 2007 |
|--|-----------|-----------|
| Interest Income | | |
| Loans | \$ 26,449 | \$ 26,380 |
| Interest Expense | | |
| Notes payable to AgFirst Farm Credit Bank | 15,135 | 15,511 |
| Other | 43 | 45 |
| | 15,178 | 15,556 |
| Total interest expense | | |
| Net interest income | 11,271 | 10,824 |
| Provision for (reversal of allowance for) loan losses | — | — |
| | 11,271 | 10,824 |
| Net interest income after provision for (reversal of allowance for) loan losses | | |
| Noninterest Income | | |
| Loan fees | 894 | 825 |
| Fees for financially related services | 184 | 134 |
| Equity in earnings of other Farm Credit institutions | 2,843 | 2,788 |
| Gains (losses) on other property owned, net | 19 | (20) |
| Gains (losses) on sale of rural home loans, net | 154 | 256 |
| Other noninterest income | 90 | 55 |
| | 4,184 | 4,038 |
| Total noninterest income | | |
| Noninterest Expense | | |
| Salaries and employee benefits | 3,279 | 4,214 |
| Occupancy and equipment | 519 | 630 |
| Insurance Fund premium | 456 | 435 |
| Other operating expenses | 1,348 | 1,230 |
| | 5,602 | 6,509 |
| Total noninterest expense | | |
| Income before income taxes | 9,853 | 8,353 |
| Provision (benefit) for income taxes | (48) | 20 |
| | 9,901 | 8,333 |
| Net income | \$ 9,901 | \$ 8,333 |

The accompanying notes are an integral part of these financial statements.

AgSouth Farm Credit, ACA
**Consolidated Statements of Changes in
Members' Equity**

(unaudited)

(dollars in thousands)

| | Protected Borrower Capital | Capital Stock and Participation Certificates | Retained Earnings | | Accumulated Other Comprehensive Income | Total Members' Equity |
|---|---|---|--------------------------|--------------------|---|--------------------------------------|
| | | | Allocated | Unallocated | | |
| Balance at December 31, 2006 | \$ 608 | \$ 6,021 | \$ 92,430 | \$ 107,254 | \$ — | \$ 206,313 |
| Net income | | | | 8,333 | | 8,333 |
| Protected borrower equity retired | (114) | | | | | (114) |
| Capital stock/participation certificates issued/retired | | 12 | | | | 12 |
| Retained earnings retired | | | (13,991) | | | (13,991) |
| Patronage distribution adjustment | | | 945 | (1,348) | | (403) |
| Balance at March 31, 2007 | \$ 494 | \$ 6,033 | \$ 79,384 | \$ 114,239 | \$ — | \$ 200,150 |
| Balance at December 31, 2007 | \$ 457 | \$ 6,176 | \$ 102,123 | \$ 107,688 | \$ (197) | \$ 216,247 |
| Net income | | | | 9,901 | | 9,901 |
| Protected borrower equity retired | (101) | | | | | (101) |
| Capital stock/participation certificates issued/retired | | 28 | | | | 28 |
| Retained earnings retired | | | (11,839) | | | (11,839) |
| Patronage distribution adjustment | | | 155 | (221) | | (66) |
| Employee benefit plans adjustments | | | | (30) | 6 | (24) |
| Balance at March 31, 2008 | \$ 356 | \$ 6,204 | \$ 90,439 | \$ 117,338 | \$ (191) | \$ 214,146 |

The accompanying notes are an integral part of these financial statements.

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)
(unaudited)

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements include the accounts of AgSouth Farm Credit, ACA (the Association). A description of the organization and operations of the Association, the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2007, are contained in the 2007 Annual Report to Shareholders. These unaudited first quarter 2008 consolidated financial statements should be read in conjunction with the 2007 Annual Report to Shareholders.

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 (GAAP) and prevailing practices within the banking industry. The results for the three months ended March 31, 2008, are not necessarily indicative of the results to be expected for the year ending December 31, 2008.

Certain amounts in the prior period's consolidated financial statements may have been reclassified to conform to the current period's consolidated financial statement presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

The Association maintains an allowance for loan losses in accordance with GAAP. The loan portfolio is reviewed quarterly to determine the adequacy of the allowance for losses. As of March 31, 2008, the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

In December 2007, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141R, "Business Combinations." SFAS No. 141R requires business combinations to be accounted for under the acquisition method of accounting (previously called the purchase method). The acquisition method requires (a) identifying the acquirer, (b) determining the acquisition date, (c) recognizing and measuring the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree, at their acquisition date fair values, and (d) recognizing and measuring goodwill or a gain from a bargain purchase. SFAS No. 141R should be applied prospectively to business combinations for which the

acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early application is prohibited. The Association is still evaluating the provisions of the Standard, but believes that its adoption will significantly impact its accounting for acquisitions that may occur in 2009 and beyond.

NOTE 2 – ALLOWANCE FOR LOAN LOSSES

An analysis of the allowance for loan losses follows:

| | For the three months ended March 31, | |
|---|---|-----------------|
| | 2008 | 2007 |
| Balance at beginning of period | \$ 3,970 | \$ 3,806 |
| Provision for (reversal of) loan losses | - | - |
| Loans (charged off), net of recoveries | (19) | 140 |
| Balance at end of period | <u>\$ 3,951</u> | <u>\$ 3,946</u> |

NOTE 3 – EMPLOYEE BENEFIT PLANS

The following is a table of retirement and other postretirement benefit expenses for the Association:

| | For the three months ended March 31, | |
|-------------------------------|---|---------------|
| | 2008 | 2007 |
| Pension | \$ 268 | \$ 419 |
| 401(k) | 101 | 94 |
| Other postretirement benefits | 208 | 236 |
| Total | <u>\$ 577</u> | <u>\$ 749</u> |

The following is a table of retirement and other postretirement benefit contributions for the Association:

| | Actual YTD Through 3/31/08 | Projected Contributions For Remainder of 2008 | Projected Total Contributions 2008 |
|-------------------------------|-----------------------------------|--|---|
| Pension | \$ 21 | \$ 65 | \$ 86 |
| Other postretirement benefits | 147 | 443 | 590 |
| Total | <u>\$ 168</u> | <u>\$ 508</u> | <u>\$ 676</u> |

Market conditions could impact discount rates and return on plan assets which could change the above contribution projections by making additional contributions necessary before the next plan measurement date.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS 158)*, which required the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. The balance sheet recognition provisions of SFAS 158 were adopted at December 31, 2007 for the Association.

SFAS 158 also requires that employers measure the benefit obligation and plan assets as of the fiscal year end for fiscal years ending after December 15, 2008. In fiscal 2007 and earlier, a September 30 measurement date was used for pension and other postretirement benefit plans. The Standard provides two approaches for an employer to transition to a fiscal year end measurement date. The approach applied by the Association allows for the use of the measurements determined for the prior year end. Under this alternative, pension and other postretirement benefit expense measured for the three-month period October 1, 2007 to December 31, 2007 (determined using the September 2007 measurement date) was debited to beginning 2008 unallocated retained earnings. As a result, the Association decreased unallocated retained earnings and increased the pension or other postretirement benefit liability by \$30.

SFAS 158 further required the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of accumulated other comprehensive income. These amounts are subsequently recognized as components of net periodic benefit costs. \$6 has been recognized for the first three months of 2008 as a credit to accumulated other comprehensive income and a debit to pension or other postretirement benefit expense.

Further details regarding employee benefit plans and application of SFAS 158 are contained in the 2007 Annual Report to Shareholders.