



*2008 Quarterly Report
Second Quarter*

For the Quarter Ended June 30, 2008

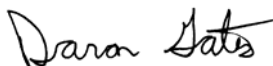
REPORT OF MANAGEMENT

The consolidated financial statements of Lone Star, ACA (Association) are prepared by management, who are responsible for the statements' integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America appropriate in the circumstances. Other financial information included in the annual report is consistent with that in the consolidated financial statements.

To meet its responsibility for reliable financial information, management depends on the Farm Credit Bank of Texas' and the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost of controls must be related to the benefits derived. The consolidated financial statements are audited by PricewaterhouseCoopers LLP, independent accountants, who conduct a review of internal controls solely for the purpose of establishing a basis for reliance thereon in determining the nature, extent and timing of audit tests applied in the audit of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America. The Association is also examined by the Farm Credit Administration.

The audit committee has oversight responsibility for the Association's systems of internal control and financial reporting. The audit committee consults regularly with management and meets periodically with the independent auditors and the internal auditors to review the scope and results of their work. The independent auditors and the internal auditor have direct access to the audit committee.

The undersigned certify that this annual 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 or belief.



Daron Gates, Chief Executive Officer

July 30, 2008



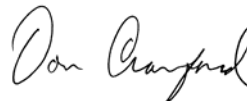
Bruce Duncan, Chairman, Board of Directors

July 30, 2008



M'Lissa Kiel, Chief Financial Officer

July 30, 2008



Don Crawford, Audit Committee

July 30, 2008

LONE STAR, ACA
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the Lone Star, ACA (Agricultural Credit Association), referred to as the Association, for the quarter and six months ended June 30, 2008. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2007 Annual Report of the Association.

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.

Significant Events: During the second quarter of 2008 Lone Star, ACA announced the opening of a new branch office at 102 Morgan St., Mount Pleasant, TX 75455.

Loan Portfolio:

Total loans outstanding at June 30, 2008, including nonaccrual loans and sales contracts, were \$1,093,906 compared to \$1,046,906 at December 31, 2007, reflecting an increase of 4.5 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.2 percent at June 30, 2008, compared to 0.2 percent at December 31, 2007.

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, 2008</u>		<u>December 31, 2007</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Nonaccrual	\$ 1,802	83.2%	\$ 2,048	72.7%
90 days past due and still accruing interest	74	3.4%	-	0.0%
Other property owned, net	290	13.4%	768	27.3%
Total	<u>\$ 2,166</u>	<u>100.0%</u>	<u>\$ 2,816</u>	<u>100.0%</u>

Results of Operations:

The Association had net income of \$6,334 and \$12,279 for the three and six months ended June 30, 2008, as compared to net income of \$5,427 and \$10,353 for the same periods in 2007 reflecting an increase of 16.7 and 18.6 percent, respectively. Net interest income was \$7,545 and \$14,818, respectively, for the three and six months ended June 30, 2008, compared to \$6,722 and \$13,165 for the same periods in 2007. Interest income for the first six months of 2008 decreased by \$832 or 2.3 percent from the same periods of 2007, primarily due to declines in yields on earning assets. Interest expense for the first six months of 2008 decreased by \$2,485, or 10.6 percent, from the same periods of 2007 due to a decrease in interest rates. Average loan volume for the second quarter of 2008 was \$1,083,613, compared to \$977,044 in the second quarter of 2007. The average spread on the loan portfolio for the second quarter 2008 was 2.35 percent, compared to 2.15 percent in the second quarter of 2007.

The Association's noninterest income increased from \$1,235 as of June 30, 2007 to \$1,468 as of June 30, 2008. This increase is largely attributable to an increase in loan fees of \$419 for the three months ending June 30, 2008 as compared to the same period in 2007.

The Association's improvement in net income was offset somewhat by an increase in expenses. Noninterest expenses increased \$907 for the three months ending June 30, 2008 as compared to the same period in 2007. Most of the increase is attributable to increases in salary and employee benefits, purchased services, supervisory and exam expense; and FCSIC insurance expense. Salaries and employee benefits increased \$219 resulting from the addition of staff members. Supervisory and exam expense increased \$87 as a result of increased loan volume.

The Association recorded \$1 in recoveries and \$46 in charge-offs for the quarter ending June 30, 2008, and \$117 in recoveries and \$5 in charge-offs for the same period in 2007. The Association's allowance for loan losses was 0.1 percent and 0.1 percent of total loans outstanding as of June 30, 2008, and December 31, 2007, respectively.

The Association's return on average assets for the six months ended June 30, 2008, was 2.23 and 2.13 percent for the same period in 2007. The Association's return on average equity for the six months ended June 30, 2008, was 16.69 and 16.07 percent for the same period in 2007.

Liquidity and Funding Sources:

The primary source of liquidity and funding for the Association is a direct loan from the Bank. The interest rate risk inherent in the Association's loan portfolio is substantially mitigated through the funding and relationship with the Bank. The Bank manages interest rate risk through its direct loan pricing and asset/liability management process. The following schedule summarizes the Association's borrowings.

	<u>June 30, 2008</u>	<u>December 31, 2007</u>
Note payable to the Bank	\$ 970,085	\$ 926,206
Accrued interest on note payable	3,227	4,170
Total	<u>\$ 973,312</u>	<u>\$ 930,376</u>

The increase of \$42,936 for the three months ended June 30, 2008 is attributable to the increase in the Association's loan volume. The note carried a weighted average interest rate of 4.1 percent as of June 30, 2008 compared to 5.4 percent as of December 31, 2007. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by a financing agreement.

The liquidity policy of the Association is to manage cash balances to maximize debt reduction, and to increase accrual loan volume. This policy will continue to be pursued during 2008. As borrower payments are received they are applied to the Association's note payable with the Bank.

The Association will continue to fund its operations through direct borrowings from the Bank, capital surplus from prior years, borrower stock and trust holdings. It is management's opinion that funds available to the Association are sufficient to fund its operations for the current year.

Capital Resources:

The Association's capital position increased by \$12,283 at June 30, 2008, compared to December 31, 2007. The Association's debt as a percentage of members' equity was 6.34:1 as of June 30, 2008, compared to 6.63:1 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 June 30, 2008, was 12.9 percent, which is in compliance with the FCA's minimum permanent capital standard and meets the Association's goal of exceeding 12%. The Association's core surplus ratio and total surplus ratio at June 30, 2008, were 12.4 and 12.4 percent, respectively, which is in compliance with the FCA's minimum surplus standard and exceeds Association goals of, equal to or greater than, 5 percent and 10 percent, respectively.

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, 2007 Annual Report of Lone Star, 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 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 Lone Star ACA, 1612 Summit Ave Suite 300, Fort Worth, TX 76102 or calling (817)332-6565. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing Adreana.Flores@LoneStarAgCredit.com.

LONE STAR, ACA

CONSOLIDATED BALANCE SHEET
(dollars in thousands)

	June 30, 2008 (unaudited)	December 31, 2007
<u>ASSETS</u>		
Cash	\$ 35	\$ 132
Loans	1,093,906	1,046,906
Less: allowance for loan losses	777	1,012
Net loans	<u>1,093,129</u>	<u>1,045,894</u>
Accrued interest receivable	15,773	12,821
Investment in and receivable from the Bank:		
Capital stock	17,236	17,236
Other	2,471	3,782
Other property owned, net	290	768
Premises and equipment	1,644	1,581
Other assets	475	268
Total assets	<u><u>\$ 1,131,053</u></u>	<u><u>\$ 1,082,482</u></u>
 <u>LIABILITIES</u>		
Note payable to the Bank	\$ 970,085	\$ 926,206
Advance conditional payments	208	433
Accrued interest payable	3,227	4,170
Drafts outstanding	433	358
Patronage distributions payable	19	5,000
Other liabilities	2,921	4,438
Total liabilities	<u><u>976,893</u></u>	<u><u>940,605</u></u>
 <u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	4,718	4,643
Unallocated retained earnings	149,079	136,800
Accumulated other comprehensive income (loss)	363	434
Total members' equity	<u>154,160</u>	<u>141,877</u>
Total liabilities and members' equity	<u><u>\$ 1,131,053</u></u>	<u><u>\$ 1,082,482</u></u>

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

LONE STAR, ACA
CONSOLIDATED STATEMENT OF INCOME
(dollars in thousands)

	For the Three Months Ended	
	June 30,	
	2008	2007
<u>INTEREST INCOME</u>		
Loans	\$ 17,374	\$ 18,877
Total interest income	17,374	18,877
<u>INTEREST EXPENSE</u>		
Note payable to the Bank	9,829	12,151
Advance conditional payments	-	4
Total interest expense	<u>9,829</u>	<u>12,155</u>
Net interest income	7,545	6,722
<u>PROVISION FOR LOSSES</u>		
Provision (negative provision) for loan losses	(218)	64
Provision for acquired property losses	-	41
Net interest income after provision for loan losses	<u>7,763</u>	<u>6,617</u>
<u>NONINTEREST INCOME</u>		
Patronage income from the Bank	538	504
Loan fees	913	494
Financially related services income	16	50
Gain (loss) on other property owned, net	1	(11)
Gain (loss) on sale of premises and equipment, net	-	198
Total noninterest income	<u>1,468</u>	<u>1,235</u>
<u>NONINTEREST EXPENSES</u>		
Salaries and employee benefits	1,315	1,096
Directors' expense	120	81
Purchased services	231	187
Travel	105	82
Occupancy and equipment	154	170
Communications	46	48
Advertising	88	90
Public and member relations	90	83
Supervisory and exam expense	151	64
FCSIC insurance expense	404	361
Other noninterest expense	193	163
Total noninterest expenses	<u>2,897</u>	<u>2,425</u>
Income before income taxes	<u>6,334</u>	<u>5,427</u>
Net income	<u>\$ 6,334</u>	<u>\$ 5,427</u>

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

LONE STAR, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(dollars in thousands)

	Capital Stock/ Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2006	\$ 4,280	\$ -	\$ 120,490	\$ -	\$ 124,770
Net income	-	-	10,353	-	10,353
Capital stock/participation certificates issued	543	-	-	-	543
Capital stock/participation certificates and allocated retained earnings retired	(297)	-	-	-	(297)
Balance at June 30, 2007	\$ 4,526	\$ -	\$ 130,843	\$ -	\$ 135,369
Balance at December 31, 2007	\$ 4,667	\$ -	\$ 136,800	\$ 434	\$ 141,901
Comprehensive income					
Net income	-	-	12,279	-	12,279
Other comprehensive income					
Prior service credits (costs)	-	-	-	(71)	(71)
Other comprehensive income	-	-	-	(71)	(71)
Comprehensive income	-	-	12,279	(71)	12,208
Effects of accounting change regarding measurement date of postretirement benefits plans pursuant to FASB Statement No. 158					
Service and interest costs for October 1- December 31, net of tax	-	-	(71)	-	(71)
Amortization of prior service credits for October 1-December 31, net of tax	-	-	71	-	71
Capital stock/participation certificates issued	253	-	-	-	253
Capital stock/participation certificates and allocated retained earnings retired	(202)	-	-	-	(202)
Balance at June 30, 2008	\$ 4,718	\$ -	\$ 149,079	\$ 363	\$ 154,160

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

LONE STAR, ACA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Lone Star, 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 Hood, Johnson, Somervell, Tarrant, Denton, Wise, Dallas, Bowie, Camp, Cass, Morris, Titus, Delta, Lamar, Red River, Cooke, Fannin, Grayson, Eastland, Erath, Palo Pinto, Parker, Shackelford, Stephens, Throckmorton, Young, Borden, Fisher, Kent, Mitchell, Nolan, Scurry and Taylor 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.

The Association is a lending institution of the Farm Credit System (System) which was established by acts of Congress and is subject to the provisions of the Farm Credit Act of 1971, as amended (Act).

A description of the organization and operations of the Association, the significant accounting policies followed and the financial conditions and results of operations as of December 31, 2007 are contained in the 2007 Annual Report to Stockholders. These unaudited second quarter 2008 consolidated financial statements should be read in conjunction with the 2007 Annual Report to Stockholders

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, 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.

In June 2006, the Financial Accounting Standards Board (FASB) released Interpretation No. 48, "Accounting for Uncertainty in Income Taxes." This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Interest and penalties recognized are classified in the financial statements as a component of income taxes. This interpretation is effective for fiscal years beginning after December 15, 2006. The impact of applying the interpretation is not expected to have a material impact on the Association's financial condition or results of operations.

On September 30, 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." The standard requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and recognize changes in that funded status in the year in which the changes occur through comprehensive income. The standard would apply to the Association's postretirement plan for health and welfare benefits. The standard is effective for employers with publicly traded securities for the fiscal year ending after December 15, 2006, and for employers without publicly traded securities for the fiscal year ending after June 15, 2007. The Association will be required to implement the standard for the year ended December 31, 2007. In addition, this standard requires that the funded status of a plan be measured as of the date of the year-end financial statements. Currently, the Association uses a measurement date of September 30. The requirement to measure the funded status as of the fiscal year-end is effective for fiscal years ending after December 15, 2008. The Association is currently evaluating the impact of implementing this standard. It is anticipated that the impact from the implementation of this standard will have no impact on the income statement and based on the current funded status of the defined benefit plan it is not expected to have a material or significant impact on the balance sheet.

NOTE 2 — ALLOWANCE FOR LOAN LOSSES:

The loan portfolio is comprised of long-term real estate mortgages which generally have maturities ranging up to 40 years. Short-term and intermediate-term production and equipment loans have maturities of 10 years or less. Loans are carried at their principal amount outstanding less unearned income. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding.

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock, as well as receivables. Long-term real estate loans are secured by the first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (or 97 percent if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in the loan-to-value ratios in excess of the regulatory maximum.

The major commodity concentrations within the Association's loan volume are timber, cattle, dairies, and field crops.

The Association has obtained loan guarantees in the form of standby commitments to purchase qualifying loans from the Federal Agricultural Mortgage Corporation through an arrangement with the Bank. At June 30, 2008 and December 31, 2007, loans totaling \$78,660 and \$82,385, respectively, were guaranteed by these commitments. Fees paid for these guarantees totaled \$26 as of June 30, 2008 and \$28 as of December 31, 2007, and are reflected in "other noninterest expense."

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms. The following table presents information concerning impaired loans:

	June 30, 2008	June 30, 2007
Impaired loans with related allowance	\$ 810	\$ 203
Impaired loans with no related allowance	1,066	1,718
Total impaired loans	<u>\$ 1,876</u>	<u>\$ 1,921</u>
Allowance on impaired loans	\$ 60	\$ 125
Average impaired loans	\$ 1,886	\$ 1,909
Interest income on impaired loans for the quarter	\$ 34	\$ 16

There were no commitments to lend additional funds to debtors whose loans were classified as impaired at June 30, 2008.

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, 2008	June 30, 2007
Balance at beginning of quarter	\$ 1,040	\$ 925
Provision for loan losses	(218)	64
Charge-offs	(46)	5
Recoveries	1	(117)
Balance at end of quarter	<u>\$ 777</u>	<u>\$ 877</u>

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:

The interest rate risk inherent in the Association's loan portfolio is substantially mitigated through the funding relationship with the Bank. The Bank manages the interest rate risk through its direct loan pricing and asset/liability management process. The Association's indebtedness to the Bank, under a general financing agreement between the Bank and the Association, represents demand borrowings by the Association to fund the majority of its loan advances to Association members. The indebtedness is collateralized by a pledge of substantially all of the Association's assets.

The total amount and weighted average interest rate of the Association's direct loan from the Bank was \$970,085 at 4.1 percent, and \$926,206 at 5.4 percent at June 30, 2008 and December 31, 2007, respectively. The Bank periodically reprices the rate on the variable portion of the direct loan.

Under the Act, the Association is obligated to borrow only from the Bank unless the Bank approves borrowing from other funding sources. The Bank and FCA regulations have established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At June 30, 2008, the Association's note payable is within the specified limitations.