INTELLIGENT SYSTEMS CORP
Form DEF 14A
April 16, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No. ___)

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:

o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

INTELLIGENT SYSTEMS CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

4355 Shackleford Road
Norcross, Georgia 30093

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

YOU ARE INVITED TO attend the Annual Meeting of Shareholders of Intelligent Systems Corporation on Thursday, May 28, 2009 at 4:00 p.m., local time, at our corporate offices located at 4355 Shackleford Road, Norcross, Georgia 30093. At the Annual Meeting, shareholders will consider and vote on:

1. Approval of alternative amendments to the Company s Articles of Incorporation to effect a reverse stock split of our common stock at one of three ratios to be determined by the Board of Directors;

2. The election of two directors to the Board of Directors to serve until the 2012 Annual Meeting; and

3. Other matters that may properly come before the meeting or any adjournment thereof.

Only shareholders of record at the close of business on Friday, April 17, 2009 will receive notice of and be entitled to vote at the meeting or any adjournment thereof.

A Proxy Statement and a proxy solicited by the Board of Directors are enclosed with this mailing. To ensure a quorum for the meeting and that your vote may be recorded, please sign, date and return the proxy promptly in the enclosed business reply envelope. If you attend the meeting, you may revoke your proxy and vote in person. Our 2008 Annual Report to Shareholders is enclosed in the same document as the Proxy Statement.

By order of the Board of Directors,

Bonnie L. Herron
Secretary
April 22, 2009

Please complete and return the enclosed proxy promptly so that your vote may be recorded.

PROXY STATEMENT
FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD MAY 28, 2009

We are sending this Proxy Statement to the shareholders of Intelligent Systems Corporation (the company) in connection with the solicitation of proxies by the Board of Directors to be voted at the 2009 Annual Meeting of Shareholders (the Annual Meeting) of Intelligent Systems Corporation and any adjournment thereof. The Annual Meeting will be held on May 28, 2009 at our corporate offices located at 4355 Shackleford Road, Norcross, Georgia 30093 at 4:00 p.m. local time. We expect to first mail this Proxy Statement and the accompanying proxy to shareholders on or about April 22, 2009.

VOTING

General

The securities that can be voted at the Annual Meeting consist of common stock of Intelligent Systems Corporation, $.01 par value per share. Each share entitles its owner to one vote on each matter submitted to the shareholders. There are no cumulative voting rights. The record of shareholders entitled to vote at the Annual Meeting was taken as of the close of business on Friday, April 17, 2009. On that date, we had outstanding and entitled to vote 4,478,971 shares of common stock with each share entitled to one vote.

Quorum

A majority of the outstanding shares of our common stock must be present, in person or by proxy, to constitute a quorum at the Annual Meeting. We will treat shares that are withheld or abstain from voting as present at the Annual Meeting for purposes of determining a quorum. If a broker, bank, custodian, nominee or other record holder of our common stock indicates on a proxy that it does not have discretionary authority to vote certain shares on a particular matter, the shares held by that record holder (referred to as broker non-votes) will also be counted as present in determining whether we have a quorum.

Proxies

At the Annual Meeting, the persons named as proxies will vote all properly executed proxy cards delivered in connection with this solicitation and not revoked in accordance with the directions given. Shareholders should specify their choices with regard to each proposal to be voted upon on the accompanying proxy card. **If no specific instructions are given with regard to a proposal to be voted upon, then the shares represented by a signed proxy card will be voted FOR such proposal.** If any other matters properly come before the Annual Meeting, the persons named as proxies will vote upon such matters according to their judgment.

Some of our shareholders hold their shares through a broker, bank, custodian or other nominee, rather than directly in their own name. This is commonly referred to as holding shares in street name. If you hold shares in street name, these proxy materials are being forwarded to you by your broker, bank, custodian or other nominee, which is considered, with respect to such shares, to be the shareholder of record. As the beneficial owner of shares held in street name, you have the right to direct the nominee how such shares should be voted. You also have the right to attend the Annual Meeting. However, since you are not the shareholder of record, you must first obtain a signed proxy from the shareholder of record giving you the right to vote the shares at the Annual Meeting. Your broker, bank, custodian or other nominee has enclosed or provided you a voting instruction card for you to use in directing the nominee how to vote your shares or obtain a proxy from the nominee.

You may revoke your proxy card in connection with this solicitation at any time prior to voting at the Annual Meeting by:

- giving written notice to the Secretary of the company at 4355 Shackleford Road, Norcross, Georgia 30093, for shareholders of record, or
- executing and delivering to the Secretary a later dated proxy, or
- voting in person at the Annual Meeting.

You cannot revoke your proxy or voting instructions as to any matter upon which, prior to such revocation, a vote has been cast in accordance with the authority conferred by such proxy or voting instructions.

We will pay all expenses incurred in connection with the solicitation of proxies. Such costs include charges by brokers, fiduciaries and custodians for forwarding proxy materials to beneficial owners of stock held in their names. We may solicit proxies by mail, telephone and personal contact by directors, officers, and employees of the company without additional compensation.

Dissenters Rights of Appraisal

There are no dissenter s rights of appraisal with respect to the matters being acted upon at the Annual Meeting.

Security Ownership of Certain Beneficial Owners and Management

The following table contains information concerning the only persons who are known to us to be beneficial owners of more than 5 percent of our common stock as of February 28, 2009, and the ownership of our common stock as of that date by each director, each executive officer named in the Summary Compensation Table and by all directors and officers as a group. There are no arrangements which may result in change of control of the company.

Beneficial Owner	**Address**	**Shares Beneficially Owned**[a, d]	**Percent of Class**[a]
J. Leland Strange *Chairman of the Board, President, CEO*	4355 Shackleford Road Norcross, GA 30093	774,794[b]	17.1%
Wallace R. Weitz & Company [c]	1125 South 103rd St., Suite 600 Omaha, NE 68124	881,999	19.7%
James V. Napier, *Director*		38,100	*
John B. Peatman, *Director*		28,280	*
Parker H. Petit, *Director*		38,327	*
Francis A. Marks, *Vice President*		107,400	2.4%
Bonnie L. Herron *Vice President, Chief Financial Officer and Corporate Secretary*		83,825	1.9%
All Directors and Executive Officers as a Group (7 persons)		1,162,972[d]	25.0%

a. Except as otherwise noted, beneficial ownership is determined on the basis of 4,478,971 shares of common stock issued and outstanding plus securities deemed outstanding pursuant to Rule 13d-3(d)(1) of the Securities Exchange Act of 1934, as amended. Pursuant to the rules of the Securities and Exchange Commission (the SEC), a person is deemed to beneficially own shares of the company s common stock if that person has or shares voting power , which includes the power to vote or to direct the voting of a security, or investment power , which includes the power to dispose of or to direct the disposition of a security. An asterisk indicates beneficial ownership of less than 1 percent.

b. Includes 96,953 shares owned by Jane H. Strange, Mr. Strange s wife. Mr. Strange disclaims any beneficial interest in the shares.

c. Based on information set forth in a Schedule 13G filed on

January 14, 2009, in which Wallace R. Weitz and Company, an investment adviser registered under Section 203 of the Investment Advisers Act of 1940, reported beneficial ownership of 881,999 shares of common stock, of which Wallace R. Weitz and Company has the sole power to vote and to dispose.

d. Includes 181,000 shares reserved for issuance to officers and directors pursuant to stock options that were exercisable at February 28, 2009 or within sixty days of such date which are deemed beneficially owned by such person pursuant to Rule 13d-3(d)(1) of the Exchange Act. The amounts reported above for Messrs. Napier, Peatman and Petit include 27,000 shares each for shares underlying stock options exercisable at February 28, 2009 or within sixty days of such date. The amounts reported above for Mr. Strange and Ms. Herron include 45,000 and 35,000 shares, respectively, for shares underlying stock options exercisable at February 28, 2009 or within sixty days of such date.

PROPOSAL 1 APPROVAL OF AMENDMENT TO THE COMPANY S ARTICLES OF INCORPORATION TO EFFECT A REVERSE STOCK SPLIT

Introduction

The Board of Directors (the Board) is recommending that the stockholders authorize our Board of Directors to effect a reverse stock split of our outstanding shares of Common Stock at a ratio of one-for-four, one-for-six or one-for-eight. If this proposal is approved, the Board will have the authority to decide, within twelve (12) months from the Annual Meeting, whether to implement the reverse stock split and at which ratio, if it is to be implemented. If the Board decides to implement the reverse stock split, it will become effective upon the filing of the amendment to our Articles of Incorporation with the Secretary of State of the State of Georgia (the Effective Date). If the reverse stock split is implemented, the number of issued and outstanding shares of Common Stock would be reduced in accordance with the exchange ratio selected by the Board. The total number of authorized shares is 22,000,000, consisting of 20,000,000 shares of Common Stock and 2,000,000 shares of Preferred Stock. The form of the amendment to our Articles of Incorporation to effect the reverse stock split is attached as Exhibit 1 to this proxy statement.

Purpose and Background of the Reverse Stock Split

The Board s primary objective in proposing the reverse stock split is to raise the per share trading price of our Common Stock. We believe that an increased stock price may encourage investor interest and improve the marketability of the Company s Common Stock to a broader range of investors, and thus improve liquidity. Because of the trading volatility often associated with low-priced stocks, many brokerage firms and institutional investors have internal policies and practices that either prohibit them from investing in low-priced stocks or tend to discourage individual brokers from recommending low-priced stocks to their customers. It is also a factor that most brokerage houses do not permit or favor lower-priced stocks to be used as collateral for margin accounts for retail investors. The brokerage commissions on the purchase or sale of lower priced stocks may also represent a higher percentage of the price than the brokerage commission on higher priced stocks. We believe that the anticipated higher market price resulting from a reverse stock split would enable institutional investors and brokerage firms with policies and practices such as those described above to invest in the Company s Common Stock.

The purpose of seeking stockholder approval of alternative exchange ratios of 1:4, 1:6, and 1:8, rather than a fixed exchange ratio, is to provide the Company with the flexibility to achieve the desired results of the reverse stock split based on the circumstances. If the stockholders approve this proposal, the Board would effect a reverse stock split only upon the Board s determination that a reverse stock split would be in the best interests of the Company at that time. If the Board were to effect a reverse stock split, the Board would set the timing for such a split and select one of the three ratios. No further action on the part of stockholders would be required to either implement or abandon the reverse stock split if this proposal is approved. If the stockholders approve the proposal, and the Board determines to effect the reverse stock split, we would communicate to the public, prior to the Effective Date, additional details regarding the reverse stock split, including the specific ratio selected by the Board. If the Board does not implement the reverse stock split within twelve (12) months from the Annual Meeting, the authority granted in this proposal to implement the reverse stock split will terminate automatically. The Board reserves the right to elect not to proceed with the reverse stock split if it determines, in its sole discretion, that it is not in the best interests of the Company at that time.

The reverse stock split will affect all of our stockholders uniformly and will not affect any stockholder s percentage ownership interests or proportionate voting power, except to the de minimus extent resulting from the treatment of fractional shares. In lieu of issuing fractional shares, the shares owned by each shareholder who would have otherwise be entitled to a fractional share will be rounded up to the nearest whole share.

The Board believes that the reverse stock split will increase the nominal price level of our Common Stock. The Board cannot predict, however, the precise effect of the reverse stock split upon the market price for the Common Stock, and the history of similar reverse stock splits for companies in like circumstances is varied. The market price per share of Common Stock after the reverse stock split may not rise in proportion to the reduction in the number of shares of Common Stock outstanding resulting from the reverse stock split, which would reduce our market capitalization. The market price per post-reverse stock split share may not remain at a level higher than it was pre-reverse stock split and the price may also vary based on our performance and other factors.

The principal effects of the reverse stock split will be that:
(i) the number of shares of Common Stock issued and outstanding will be reduced as follows, depending on the exact split ratio chosen by the Board.

Reverse Stock Split Ratio	Issued and Outstanding Shares of Common Stock*	Total Authorized Shares	Total Authorized Shares of Common Stock
One-for-four (1:4)	1,119,743	22,000,000	20,000,000
One-for-six (1:6)	746,495	22,000,000	20,000,000
One-for-eight (1:8)	559,872	22,000,000	20,000,000

* Approximate range based on the number of shares of Common Stock is based on 4,478,971 shares outstanding as of March 31, 2009. The exact number would be determined by the number of outstanding shares on the date the reverse stock split is effected.

(ii) all outstanding options entitling the holders thereof to purchase shares of Common Stock will enable such holders to purchase, upon exercise of their options, one-fourth, one-sixth or one-eighth of the number of shares of Common Stock which such holders would have been able to purchase upon exercise of their options or warrants immediately preceding the reverse stock split, at an exercise price equal to four, six or eight times the exercise price specified before the reverse stock split, resulting in the same aggregate price being required to be paid upon exercise thereof immediately preceding the reverse stock split,
(iii) the number of shares reserved for issuance pursuant to the Company s stock incentive plans will be reduced to one-fourth, one-sixth or one-eighth of the number of shares currently included in each such plan.
The reverse stock split will not affect the par value of the Common Stock. As a result, on the effective date of the reverse stock split, the stated capital on the Company s balance sheet attributable to the Common Stock will be reduced to one-fourth, one-sixth or one-eighth of its present amount, depending on the exact ratio of the split, and the additional paid-in capital account will be credited with the amount by which the stated capital is reduced. The per share net income or loss and net book value of the Common Stock will be retroactively increased for each period because there will be fewer shares of Common Stock outstanding.
The amendment to the Articles of Incorporation will not change the terms of the Common Stock. After the reverse stock split, the shares of Common Stock will have the same voting rights and rights to dividends and distributions and will be identical in all other respects to the Common Stock now authorized. Each stockholder s percentage ownership of the new Common Stock will not be altered except for the effect of eliminating fractional shares. The Common

Stock issued pursuant to the reverse stock split will remain fully paid and non-assessable. The reverse stock split is not intended as, and will not have the effect of, a going private transaction covered by Rule 13e-3 under the Securities Exchange Act of 1934. Following the reverse stock split, the Company will continue to be subject to the periodic reporting requirements of the Securities Exchange Act of 1934.

The reverse stock split will not change the terms of the Preferred Stock, none of which are outstanding.

The reverse stock split would result in some stockholders owning odd-lots of less than 100 shares of our Common Stock. Brokerage commissions and other costs of transactions in odd-lots are generally higher than the costs of transactions in round-lots of even multiples of 100 shares.

Procedure for Effecting Reverse Stock Split and Exchange of Stock Certificates

If the reverse stock split is approved by our stockholders, and the Board determines it is in the best interests of the Company to effect the split, the reverse stock split would become effective at such time as the amendment to the Company s Articles of Incorporation, the form of which is attached as Exhibit 1 to this proxy statement, is filed with the Secretary of State of the State of Georgia. Upon the filing of the amendment, all of the Company s existing Common Stock will be converted into new Common Stock as set forth in the amendment.

As soon as practicable after the Effective Date, stockholders will be notified that the reverse stock split has been effected. American Stock Transfer and Trust Company, the Company s transfer agent, will act as exchange agent for purposes of implementing the exchange of stock certificates. Holders of pre-reverse stock split shares will be asked to surrender to the exchange agent certificates representing pre-reverse stock split shares in exchange for certificates representing post-reverse stock split shares in accordance with the procedures to be set forth in a letter of transmittal that will be delivered to the Company s stockholders. No new certificates will be issued to a stockholder until the stockholder has surrendered to the exchange agent his, her or its outstanding certificate(s) together with the properly completed and executed letter of transmittal. **STOCKHOLDERS SHOULD NOT DESTROY ANY STOCK CERTIFICATES AND SHOULD NOT SUBMIT ANY CERTIFICATES UNTIL REQUESTED TO DO SO.** Stockholders whose shares are held by their stockbroker do not need to submit old share certificates for exchange. These shares will automatically reflect the new quantity of shares based on the reverse stock split. Beginning on the Effective Date, each certificate representing pre-reverse stock split shares will be deemed for all corporate purposes to evidence ownership of post-reverse stock split shares.

Fractional Shares

We will not issue fractional certificates for post-reverse stock split shares in connection with the reverse stock split. In lieu of issuing fractional shares, the Company will round up the number of shares held by each stockholder who would otherwise have been entitled to a fraction of a share to the nearest whole share.

Criteria to be Used for Decision to Apply the Reverse Stock Split

If the stockholders approve the reverse stock split, the Board will be authorized to proceed with the reverse stock split. In determining whether to proceed with the reverse stock split and choosing one of the three ratios, the Board will consider the best interests of the Company, including a number of factors such as general prevailing market and economic conditions, prevailing and historical trading prices and trading volume of the Company s Common Stock, the NYSE Amex listing requirements, the Company s additional funding requirements and the amount of the Company s authorized but unissued Common Stock.

No Dissenter s Rights

Under the Georgia Business Corporation Act, stockholders will not be entitled to dissenter s rights with respect to the proposed amendment to the Company s Articles of Incorporation to effect the reverse stock split, and the Company does not intend to independently provide stockholders with any such right.

Certain U.S. Federal Income Tax Consequences of the Reverse Stock Split

The Company believes that the Federal income tax consequences of the reverse stock split to shareholders will be as follows:

1. No gain or loss will be recognized by a shareholder on the surrender of the existing shares or receipt of a certificate representing new shares.
2. The aggregate tax basis of the new shares of Common Stock will equal the aggregate tax basis of the existing shares exchanged therefor.
3. The holding period of the new shares will include the holding period of the existing shares if such existing shares were held as capital assets on the date of the exchange.
4. The conversion of the existing shares into new shares will produce no gain or loss to the Company.

The Company s opinion is not binding upon the Internal Revenue Service or the Courts, and there can be no assurance that the Internal Revenue Service or the courts will accept the position as expressed above. This summary does not purport to be complete and does not address the tax consequences to holders that are subject to special rules, such as banks, insurance companies, regulated investment companies, personal holding companies, foreign entities, non-resident foreign individuals, broker-dealers and tax exempt entities. The state and local tax consequences of the reverse stock split may vary significantly as to each shareholder, depending upon the state in which the shareholder resides. The foregoing summary is included for general information only. Accordingly, shareholders are urged to consult their own tax advisors with respect to the Federal, state and local tax consequences of the reverse stock split.

Approval Required

The affirmative vote of the holders of a majority of the shares of the Company s Common Stock outstanding as of the record date is required to approve alternative amendments of the Company s Articles of Incorporation to effect a reverse stock split of the Common Stock of one-for-four (1:4), one-for-six (1:6) or one-for-eight (1:8). Abstentions and broker non-votes will not be counted as having been voted on the proposal, and therefore will have the same effect as negative votes.

Recommendation of the Board

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR PROPOSAL 1.

PROPOSAL 2 THE ELECTION OF TWO DIRECTORS

Nominees

At the Annual Meeting of Shareholders, shareholders will elect two directors to the Board to serve a three-year term until the 2012 Annual Meeting of Shareholders. The other directors terms expire at the Annual Meeting of Shareholders listed in the following table for each category of directors, or upon their earlier death, resignation or removal from office. Directors are elected by a plurality of the shares present and voting at the meeting. A plurality means that the individuals who receive the largest number of votes cast are elected as directors up to the maximum number of directors to be chosen at the meeting. Therefore, shares that are withheld or abstain from voting and broker non-votes will have no effect on the outcome of the vote. Unless contrary instructions are given, the persons named as proxies will vote the shares represented by a signed proxy card FOR the nominees.

If a nominee withdraws for any reason or is not able to serve as a director, the proxy will be voted for another person designated by the Board as substitute nominee, but in no event will the proxy be voted for more than two nominees. The Board has no reason to believe that the nominees will not serve if elected.

The Board has nominated the persons named in the following table to serve as directors of the company. The nominees are currently directors of the company. The nominees and other directors gave us the following information concerning their current age, other directorships, positions with the company, principal employment and shares of our common stock beneficially owned as of February 28, 2009.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE FOR PROPOSAL 2 TO ELECT TWO NOMINEES LISTED BELOW AS DIRECTORS OF THE COMPANY.

Name	**Age**	**Position / Principal Occupation**	**Shares of Common Stock Beneficially Owned (Percent of Class)**	
Nominees for election to serve until the 2012 Annual Meeting				
James V. Napier [1 & 2]	72	Director, Retired, former Chairman of the Board of Scientific Atlanta, Inc.	38,100	*
J. Leland Strange	67	Director, Chairman of the Board, President and Chief Executive Officer	774,794	17.1%
Incumbent director elected to serve until the 2011 Annual Meeting				
Parker H. Petit [1 & 2]	69	Director, President of The Petit Group	38,327	*
Incumbent director elected to serve until the 2010 Annual Meeting				
John B. Peatman [1 & 2]	74	Director, Professor of Electrical Engineering at Georgia Institute of Technology	28,280	*

* Less than one percent; share amount includes 27,000 shares pursuant to stock options exercisable at February 28, 2009 or within sixty days of such date.

1. Audit Committee.

2. Compensation Committee.

Mr. Napier has served as a director since 1982. Mr. Napier served as Chairman of the Board of Scientific-Atlanta, Inc., a firm involved in cable television electronics and satellite-based communication networks, from 1993 until November 2000. He serves as a director of McKesson Corporation, Vulcan Materials Company and Wabtec Corporation. The Board has determined that Mr. Napier is an independent director under applicable rules of the NYSE Amex.

Dr. Peatman has served as a director since 1979 and has been a Professor of Electrical Engineering at the Georgia Institute of Technology since 1964. The Board has determined that Dr. Peatman is an independent director under applicable rules of the NYSE Amex.

Mr. Petit has served as a director since 1996. Mr. Petit is the President of The Petit Group, a private investment company. Mr. Petit served as Chairman of the Board and Chief Executive Officer of Matria Healthcare, Inc., a comprehensive disease management services company listed on the NASDAQ National Market, from March 1996 to September 2008. He also serves as a director of Logility, Inc. The Board has determined that Mr. Petit is an independent director under applicable rules of the NYSE Amex.

Mr. Strange has served as our President since 1983 and our Chief Executive Officer and Chairman of the Board since 1985.

There are no family relationships among any of the company s directors and executive officers.

There have been no events under any bankruptcy act, no criminal proceedings and no judgments or injunctions material to an evaluation of the ability and integrity of any director, executive officer or control person of the company during the past five years. There are no proceedings to which any director, officer, affiliate, any owner of record or beneficially of more than 5 percent of our common stock, or any security holder of the company is an adverse party to the company or has a material interest adverse to the company.

Three of the four directors and all of the members of the Audit Committee are independent, as such term is defined in the listing standards of the NYSE Amex and the rules of the SEC. The Audit Committee meets the composition requirements of NYSE Amex s listing standards for Small Business Issuers (as defined by the rules of NYSE Amex).

Meetings and Committees of the Board of Directors

The Board met five times during the year ended December 31, 2008 and acted by unanimous consent on one occasion. The Board has established an audit committee, a compensation committee, and a plan committee, but has no nominating committee. The Audit Committee of the Board met four times during 2008. During 2008, the Audit Committee consisted of Messrs. Peatman, Petit, and Napier. In 2008, the Audit Committee appointed the company s independent auditor, met with the independent auditor to review its report on the 2007 audit and the 2008 quarterly reviews, and carried out a number of other responsibilities, as outlined in the Audit Committee Charter.

All members of the Audit Committee currently meet the applicable independence and qualifications standards of the NYSE Amex. The Board has determined that Mr. Petit and Mr. Napier are financial experts as defined by the rules of the SEC, and are financially sophisticated as defined in the listing standards of NYSE Amex. The Board based this determination, in part, on Mr. Petit s experience in actively supervising senior financial and accounting personnel and in overseeing the preparation of financial statements as the Chief Executive Officer and Chairman of a publicly-traded company. In addition, Mr. Napier s experience includes serving on the audit committees of several large publicly traded companies as well as serving in executive positions and as chairman of publicly traded companies.

The Board has a Compensation Committee consisting of the three independent directors, Messrs. Napier, Petit and Peatman. The Compensation Committee met in early 2008 to review and approve management compensation. The Compensation Committee reviews, makes recommendations and approves the appropriate compensation level for the officers of the company and any changes in the company s various benefit plans covering executive officers or directors. The Compensation Committee does not have a charter. In performing its work, the Compensation Committee has not relied on compensation consultants. From time to time, the Compensation Committee has sought input from publicly available data compiled by executive officers of the company relating to compensation paid to executive officers and directors in similar size, publicly traded companies in the same geographic area as the company is located. The Compensation Committee has also solicited input from the CEO with respect to compensation of non-CEO executive officers.

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The Plan Committee, which did not meet in 2008, is responsible for administering the 2003 Stock Incentive Plan including selecting individuals who will receive stock option grants and determining the timing, pricing and amounts of the options granted. The Plan Committee has the same members as the Compensation Committee.

All directors attended all of the meetings of the Board and the Committees of the Board on which they serve.

The company does not currently have a standing nominating committee. Please see Nominations Process below for information regarding the company s policies and procedures for director nominations.

Executive Officers

The following information is provided about our non-director executive officers as of March 31, 2009.

Name	**Age**	**Position / Principal Occupation**
J. William Goodhew, III	71	Vice President
Bonnie L. Herron	61	Vice President, Chief Financial Officer and Secretary
Francis A. Marks	75	Vice President

Mr. Goodhew joined the company in 1997 as Vice President. He was President of Peachtree Software, Inc. from 1985 through 1996. He is former Chairman of the Board of Navision Software A/S.

Mr. Marks joined the company in May 1982 as Vice President of Product Line Programs after 26 years with IBM Corporation in a variety of managerial and executive positions. He was appointed Vice President in 1983 and also serves as President of ChemFree Corporation, one of our wholly owned subsidiaries, to which he devotes substantially all of his attention.

Ms. Herron joined the company in 1982 as Director of Planning at one of our subsidiaries and subsequently at the corporate level. She was elected Corporate Secretary in 1987, Vice President in 1990, and Chief Financial Officer in 1999.

The Board of Directors elects the executive officers to serve until they are removed, replaced or resign.

Executive Compensation

Summary Compensation Table

Name and Principle Position	Year	Salary $	Bonus $	Other Annual Compensation $	Total $
J. Leland Strange	2008	273,942			273,942
President & Chief Executive Officer	2007	275,000		3,375	278,375
Francis A. Marks	2008	149,135	147,208	2,151	298,494
Vice President	2007	142,308	147,208	2,135	291,651
Bonnie L. Herron	2008	154,403		2,316	156,719
Vice President, Chief Financial Officer & Secretary	2007	155,000		2,325	157,325

The table above sets forth information regarding compensation awarded to, earned by or paid to the company s CEO and the company s two most highly compensated executive officers other than the CEO (the named executive officers). None of the named executive officers has an employment agreement with the company and the company does not have any corporate non-equity incentive plans or nonqualified deferred compensation plans. From time to time, officers may be awarded bonuses to recognize achievement of corporate or subsidiary goals or other accomplishments. In 2007 and 2008, Mr. Marks participated in a bonus plan at our ChemFree subsidiary for which he serves as the president and chief executive officer. Based on the subsidiary s achievement of revenue and earnings substantially in excess of its goals for 2007 and 2008, Mr. Marks was awarded a bonus of $147,208 for each year. During the two years ended December 31, 2008, the company did not make any stock awards or option awards and did not reprice any previously issued stock options. All Other Compensation shown above includes matching contributions by the company to the respective accounts of the executive officers pursuant to the terms of our Tax-Deferred Savings and Protection Plan (the 401(k) Plan). Such amounts are fully vested. It is our policy to provide executives with the same benefits provided to all other employees with respect to medical, dental, life insurance and 401(k) plans.

Effective December 1, 2008, as part of the corporate plan to reduce expenses in 2009, the named executive officers voluntarily reduced their base salary by 10% (Mr. Strange and Ms. Herron) and 15% (Mr. Marks). The Board approved such salary reductions for 2009.

Outstanding Equity Awards at Fiscal Year End

	Option Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price	Option Expiration Date
J. Leland Strange	45,000	- 0 -	$ 1.51	3/4/2013
Francis A. Marks	- 0 -	- 0 -	NA	NA
Bonnie L. Herron	35,000	- 0 -	$ 1.51	3/4/2013

All stock options shown above were issued on March 3, 2003 and vested in one third increments on the first, second and third anniversaries of the grant date. There were no options granted to officers in the two years ended December 31, 2008. The company does not have any Stock Award Plans.

The company does not have any plans for executive officers that provide for the payment of retirement benefits.

Effective January 1, 1992, the company adopted the Change in Control Plan for Officers so that if control of the company changes in the future, management would be free to act on behalf of the company and its shareholders without undue concern for the possible loss of future compensation. A change in control means either: (i) the accumulation by an unrelated person of beneficial ownership of more than 25 percent of the company s common stock, (ii) the sale of all or substantially all of the company s assets to an unrelated person, in a merger or otherwise, or (iii) a change of control within the meaning of any rules promulgated by the Securities and Exchange Commission.

Under the Change in Control Plan, if the employment of an officer of the company terminates for any reason within 12 months after a change in control, the officer would receive a lump sum cash payment in an amount equal to twice the total of (i) such officer s base annual salary at the time of termination, (ii) the cash value of annual benefits, and (iii) such officer s bonus for the most recent year, if any. Additionally, upon a change in control, all options shall vest and the exercise period for all options becomes the longer of (i) one year after the date of termination or (ii) the exercise period specified in the officer s option agreement. The right to such benefits would lapse one year after the occurrence of the last change in control event to occur if there were no actual termination during that period. The named executive officers have been designated by the Board as participants in the Change in Control Plan. No amounts have been accrued or paid to any executive officer pursuant to the Change in Control Plan and there is no arrangement presently that would result in a change in control.

Director Compensation

The table below sets forth all compensation paid to non-executive directors in the year ended December 31, 2008. The company does not have a stock award plan or non-equity incentive plan for directors. The company has a Non-Employee Director Stock Option Plan (described below).

Director Compensation

Name	Fees Earned or Paid in Cash $	Option Awards (1.) $	All Other Compensation $	Total $
James V. Napier	16,000	6,760		22,760
John B. Peatman	16,000	6,760		22,760
Parker H. Petit	16,000	6,760		22,760

1. In 2008, each director was awarded 4,000 stock options at fair market value on the date of grant pursuant to the terms of the Non-Employee Director Stock Option Plan. The amount reported is the non-cash amount recognized for financial statement reporting in accordance with FAS 123R. At December 31, 2008, each non-executive director has an aggregate of 33,000 stock options outstanding, of which 27,000 are fully vested and exercisable.

All non-employee directors have the same compensation plan. Non-employee directors earn $8,000 per year plus a fee of $2,000 per meeting of the Board of Directors. There is no additional compensation for serving on a committee of the Board of Directors. Total cash compensation is capped at $16,000 annually. Effective January 1, 1992, the company adopted the Outside Directors Retirement Plan which provides for each non-employee director, upon resignation from the Board after reaching the age of 65, to receive a lump sum cash payment equal to $5,000 for each full year of service as a director of the company (and its predecessors and successors) up to $50,000. No amounts were paid to any director with respect to the Outside Directors Retirement Plan in 2008. At December 31, 2008 and 2007, we have accrued $150,000 for future payments under the Outside Directors Retirement Plan. Effective August 22, 2000, the company adopted the Non-Employee Director Stock Option Plan which provides for an initial grant to each director of 5,000 options to purchase common stock of the company and annual grants of 4,000 options on the date of each subsequent Annual Meeting. Options are granted at fair market value on the date of grant. In 2008, each director received a grant of 4,000 options on May 29, 2008, the date of the Annual Meeting of Shareholders.

Audit Committee Report

In March 2004, the Board of Directors amended the company s Audit Committee Charter. The Audit Committee Charter, which is reviewed annually, includes organization and membership requirements, a statement of policy and the Committee s authority and responsibilities.

Management is responsible for our company s internal controls and the financial reporting process. The independent auditors are responsible for performing an independent audit of the company s consolidated financial statements in accordance with auditing standards of the Public Company Accounting Oversight Board (United States) (PCAOB) and for issuing a report thereon. As outlined in more detail in the Audit Committee Charter, the Audit Committee s responsibility is generally to approve all services provided by and compensation paid to the independent auditors; review the adequacy of the company s internal and disclosure controls and risk management practices; review and monitor the annual audit of the financial statements including the financial statements produced and notes thereto; review SEC filings containing the company s financial statements; regularly meet with the independent auditors and management in separate sessions; and authorize investigations into any matter within the scope of their responsibilities. During fiscal year 2008 and through March 31, 2009, among its other activities, the Audit Committee:

- engaged the independent auditors and established their compensation;
- reviewed and discussed with management and the independent auditors the audited financial statements of the company as of December 31, 2007 and 2008 and for the years then ended;
- discussed with the independent auditors their reviews of the quarterly unaudited financial statements of the company for fiscal 2008;
- discussed with the independent auditors the matters required to be discussed by PCAOB standards (SAS No. s 61, 89 and 90); and
- received from the independent auditors the written disclosures and written affirmation of their independence required by Independence Standards Board Standard No. 1 and discussed with the auditors the firm s independence.

Based upon the reviews and discussions summarized above, the Audit Committee recommended to the Board (and the Board has approved) that the audited financial statements be included in the Annual Report on Form 10-K for the year ended December 31, 2008 for filing with the Securities and Exchange Commission.

AUDIT COMMITTEE

Parker H. Petit (Chair)
John B. Peatman
James V. Napier

Nominations Process

The Board has not appointed a standing nominating committee or adopted a formal nominating committee charter because the Board has determined that due to the size, make-up, independence, long tenure and low turnover of the current Board of Directors, there would be limited benefit to the company or its shareholders to do so. Currently, James V. Napier, Parker H. Petit and John B. Peatman, all of whom meet the applicable NYSE independence requirements, participate in the consideration of director nominees. Messrs. Napier, Petit and Peatman also nominate the officers of the company for election by the Board of Directors.

The Board has not previously formed a policy with respect to consideration of candidates nominated by shareholders since there have been no such nominations. However, it is the Board s intent to consider any security holder nominees that may be properly and timely put forth in the future. The Board has not identified any specific, minimum qualifications or skills that it believes must be met by a nominee for director. It is the intent of the Board to review from time to time the appropriate size of the Board and the appropriate skills and characteristics of directors in the context of the current make-up of the Board and the requirements and needs of the company at a given time. Given the current composition, stability and size of the Board and the company and the fact that the director nominees are standing for re-election, the Board has not considered other candidates for election at the upcoming Annual Meeting of Shareholders. There is one vacancy on the Board at the present time due to the retirement of a director in 2003. The Board has not presently named a nominee for the vacant seat because it has decided that the size of the Board is appropriate at the present time, but it may do so in the future. Security holders wishing to nominate a candidate for consideration at the Annual Meeting of Shareholders in 2010 should submit the nominee s name, affiliation and other pertinent information along with a statement as to why such person should be considered for nomination. Such nominations should be addressed to the Board in care of the Secretary of the company and be received no later than 120 days before the date of the Annual Meeting of Shareholders. The Board will evaluate any such nominees in a manner similar to that for all director nominees.

Communication Between Security Holders and the Board of Directors

Security holders wishing to communicate with members of the Board should send a letter to the Secretary of the company with instructions as to which director(s) is to receive the communication. The Secretary will forward the written communication to each member of the Board identified by the security holder or, if no individual director is identified, to all members of the Board of Directors. The company has not in the past required members of the Board to attend each Annual Meeting of Shareholders because the formal meetings have been attended by very few shareholders, and have generally been very brief and procedural in nature. One of the company s directors attended the 2008 Annual Meeting of Shareholders. The Board will continue to monitor shareholder interest and attendance at future meetings and reevaluate this policy as appropriate.

CODE OF ETHICS

The company has adopted a Code of Ethics that applies to all directors, officers, and employees. The Code of Ethics is posted on our website at www.intelsys.com. The company discloses on its website, within the time required by the rules of the SEC, any waivers of, or amendments to, the Code of Ethics for the benefit of an executive officer.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, and regulations of the Securities and Exchange Commission thereunder require our executive officers and directors and persons who own more than ten percent of our common stock, as well as certain affiliates of these persons, to file initial reports of ownership of our common stock and changes in such ownership with the Securities and Exchange Commission. The Securities and Exchange Commission also requires executive officers, directors and persons owning more than ten percent of our common stock to furnish us with copies of all Section 16(a) forms they file. Based solely on our review of the copies of such forms received by us, we believe that, during the fiscal year ended December 31, 2008, the executive officers, directors, and persons owning more than ten percent of our common stock and affiliates of these persons have complied with all applicable filing requirements in a timely manner, except that Mr Strange did not file a report on Form 4 in a timely manner related to the purchase of a total of 1,900 shares of stock in open market transactions between October 10 and December 23, 2008. Such report on Form 4 was filed by Mr. Strange on December 23, 2008.

INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

Effective November 1, 2008, the Board appointed Habif, Arogeti and Wynne, LLP (HAW) as the company s independent registered public accountants in connection with the combination of HAW and Tauber & Balser, PC (T&B), the company s former independent registered accountants. HAW acted as our independent registered public accounting firm for the fiscal year ended December 31, 2008. We expect that representatives of HAW will be present at the Annual Meeting. They will have the opportunity to make a statement if they desire to do so and to respond to appropriate questions. The Audit Committee has not yet selected auditors for the current fiscal year ending December 31, 2009 because historically this decision is made in the second half of the year. The following is a summary of fees and expenses billed to the company by T&B, for services rendered during the fiscal year ended December 31, 2007 and through November 1, 2008 and for services rendered by HAW for services from November 1, 2008 through December 31, 2008:

Audit Fees We were billed aggregate fees of $151,902 for review and audit services by T&B for the period January 1, 2008 through November 1, 2008 and $13,017 for review services by HAW for the period November 1, 2008 through December 31, 2008. We were billed aggregate fees of $169,971 for review and audit services by T&B in the year ended December 31, 2007.

Audit-Related Fees These fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our Financial Statements and are not reported under Audit Fees . In the year ended December 31, 2008 we were billed $12,234 by T&B for such services. In the year ended December 31, 2007, we were billed $15,220 by T&B for such fees.

Fees for Tax Services We did not incur any fees for tax services by our independent auditors during the two years ended December 31, 2008.

All Other Fees We did not incur any fees for other services by our independent auditors during the two years ended December 31, 2008.

It is the policy of the Audit Committee to approve in advance, either verbally or in writing, all audit services and permitted non-audit services provided to the company by the independent accountants. All such services were pre-approved by the Audit Committee in the two years ended December 31, 2008.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The lease on our headquarters and primary facility at 4355 Shackleford Road, Norcross, Georgia is held by ISC Properties, LLC, an entity controlled by our Chairman and Chief Executive Officer, J. Leland Strange. Mr. Strange holds a 100% ownership interest in ISC Properties, LLC. In each of the years ending December 31, 2008 and 2007, we paid $465,000 and $459,000, respectively, in rent to ISC Properties, LLC.

SHAREHOLDERS PROPOSALS FOR ANNUAL MEETING IN 2010

Shareholders who wish to submit a proposal for inclusion in our proxy statement for the 2010 Annual Meeting of Shareholders must submit such proposals so that they are received by the company no later than December 25, 2009. Such proposals must comply with Exchange Act Rule 14a-8 and all other applicable proxy rules and requirements contained in our bylaws relating to shareholder proposals to be included in our proxy materials. Shareholders intending to present proposals at the Annual Meeting of Shareholders in 2010 but who do not wish to submit the proposal for inclusion in our proxy statement pursuant to Rule 14a-8 should submit these proposals to the Secretary of the company by certified mail, return receipt requested, at our offices in Norcross, Georgia on or before December 25, 2009. Our bylaws contain an advance notice provision that states that, among other things, in order for business to be brought properly before an annual meeting of shareholders by a shareholder, the shareholder must have given timely notice of the business in writing to the Secretary of the company. To be timely under the Bylaws, a shareholder s notice must be received at our principal offices by December 25, 2009.

OTHER MATTERS WHICH MAY COME BEFORE THE MEETING

The Board is not aware of any matter other than those stated above that are to be brought before the meeting. However, if any other matter should be presented for consideration and voting, the persons named in the enclosed form of proxy intend to vote the proxy in accordance with their judgmentRoman" SIZE="2">)

Proceeds from sale of foreclosed real estate

432 546

Purchase of premises and equipment

(155) (134)

Net Cash Provided by (Used In) Investing Activities

(12,809) 1,870

CASH FLOWS FROM FINANCING ACTIVITIES

Net increase (decrease) in deposits

7,635 (3,135)

Net increase in advances from Federal Home Loan Bank

5,000

Net increase (decrease) in advance payments by borrowers for taxes and insurance

(28) 69

Net Cash Provided By (Used In) Financing Activities

12,607 (3,066)

Net Increase (Decrease) in Cash and Cash Equivalents

551 (26)

Cash and cash equivalents at beginning of period	10,395	15,223
Cash and Cash Equivalents at End of Period	$10,946	$15,197

See notes to consolidated financial statements.

FIRST SAVINGS BANK, F.S.B. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Presentation of Interim Information

First Savings Financial Group, Inc. (Company) was incorporated in May 2008 as the proposed holding company for First Savings Bank, F.S.B. (Bank) in connection with the Bank s plan of conversion from mutual to stock form of ownership. (See Note 2) The Company had no assets at June 30, 2008. The interim financial information presented in this report includes only the interim financial information of the Bank and its subsidiaries. In the opinion of management, the unaudited consolidated financial statements include all normal adjustments considered necessary to present fairly the financial position as of June 30, 2008, and the results of operations and cash flows for the three- and nine-month periods ended June 30, 2008 and 2007. All of these adjustments are of a normal, recurring nature. Such adjustments are the only adjustments included in the unaudited consolidated financial statements. Interim results are not necessarily indicative of results for a full year. For additional information, refer to the Bank s annual audited consolidated financial statements and related notes for the year ended September 30, 2007 included in the Company s prospectus dated August 12, 2008.

The accompanying unaudited consolidated financial statements and notes have been prepared in accordance with generally accepted accounting principles for interim financial statements and are presented as permitted by the instructions to Form 10-Q. Accordingly, they do not contain certain information included in the Bank s annual audited consolidated financial statements and related notes for the year ended September 30, 2007 included in the Company s prospectus dated August 12, 2008.

The unaudited consolidated financial statements include the accounts of the Company and its subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation.

2. Plan of Conversion and Change in Corporate Form

On April 30, 2008, the board of directors of the Bank adopted a plan of conversion (the Plan). The Plan is subject to the approval of the Office of Thrift Supervision (OTS) and must be approved by the affirmative vote of at least a majority of the total votes eligible to be cast by the voting members of the Bank at a special meeting. The Plan sets forth that the Bank proposes to convert into a stock savings bank structure with the establishment of a stock holding company, the Company, as parent of the Bank. The Bank will convert to the stock form of ownership, followed by the issuance of all of the Bank s outstanding stock to the Company. Pursuant to the Plan, the Company will determine the total offering value and number of shares of common stock based upon an independent appraiser s valuation. The stock will be priced at $10.00 per share. In connection with the Plan, the Company intends to establish a charitable foundation which will be funded with 110,000 shares of common stock of the Company and $100,000 cash. In addition, the Bank s board of directors has adopted an employee stock ownership plan (ESOP) which will subscribe for up to 8% of the common stock sold in the offering and contributed to the charitable foundation. The Company was organized as a corporation incorporated under the laws of the State of Indiana in May 2008 and will own all of the outstanding common stock of the Bank upon completion of the conversion.

The costs of issuing the common stock will be deferred and deducted from the sales proceeds of the offering. If the conversion is unsuccessful, all deferred costs will be charged to operations. At June 30, 2008, the Bank had incurred $194,000 of deferred conversion costs in the form of retainers paid and included in other assets on the accompanying June 30, 2008 balance sheet. The Bank had incurred no deferred conversion costs as of September 30, 2007.

FIRST SAVINGS BANK, F.S.B. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The transaction is subject to approval by regulatory authorities and members of the Bank. At the completion of the conversion to stock form, the Bank will establish a liquidation account with an initial balance equal to the retained earnings of the Bank as reported in the most recent statement of financial condition contained in the final prospectus. The liquidation account will be maintained for the benefits of eligible savings account holders who maintain deposit accounts in the Bank after conversion. The conversion will be accounted for as a change in corporate form with the historic basis of the Bank s assets, liabilities and equity unchanged as a result. The conversion is expected to be completed in October 2008.

3. Supplemental Disclosure for Earnings Per Share

When presented, basic earnings per share are computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. Because the mutual to stock conversion was not completed as of June 30, 2008, per share earnings data is not meaningful for this quarter or prior comparative periods and is therefore not presented.

4. Comprehensive Income

Comprehensive income is defined as the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Comprehensive income for the Bank includes net income and other comprehensive income representing the net unrealized gains and losses on securities available for sale. The following tables set forth the components of other comprehensive income and the allocated tax amounts for the three- and nine-month periods ended June 30, 2008 and 2007:

	Three Months Ended June 30,		**Nine Months Ended June 30,**	
	2008	**2007**	**2008**	**2007**
	(In thousands)		***(In thousands)***	
Unrealized loss on securities:				
Unrealized holding losses arising during the period	$ (163)	$ (65)	$ (23)	$ (30)
Income tax benefit	64	26	9	12
Net of tax amount	(99)	(39)	(14)	(18)
Less: reclassification adjustment for gains included in net income				
Income tax benefit				
Net of tax amount				
Other comprehensive loss	$ (99)	$ (39)	$ (14)	$ (18)

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FIRST SAVINGS BANK, F.S.B. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

5. Supplemental Disclosures of Cash Flow Information

	Nine Months Ended June 30, 2008	2007
	(In thousands)	
Cash payments for:		
Interest	$ 4,554	$ 4,641
Taxes	262	98
Noncash investing activities:		
Transfers from loans to real estate acquired through foreclosure	1,295	294

6. Fair Value Measurements

Effective October 1, 2007, the Bank adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 157*, Fair Value Measurements,* for financial assets and financial liabilities. In accordance with Financial Accounting Standards Board Position (FSP) No. 157-2, *Effective Date of FASB Statement No. 157,* the Bank will delay application of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities until October 1, 2008.

SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 establishes a fair value hierarchy that prioritizes the use of inputs used in valuation methodologies into the following three levels:

Level 1: Inputs to the valuation methodology are quoted prices, unadjusted, for identical assets or liabilities in active markets. A quoted market price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.

Level 2: Inputs to the valuation methodology include quoted market prices for similar assets or liabilities in active markets; inputs to the valuation methodology include quoted market prices for identical or similar assets or liabilities in markets that are not active; or inputs to the valuation methodology that are derived principally from or can be corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using discounted cash flow methodologies, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Bank s financial assets carried at fair value or the lower of cost or fair value effective October 1, 2007. The table below presents the balances of assets measured at fair value on a recurring basis as of June 30, 2008. The Bank had no assets measured at fair value on a nonrecurring basis or liabilities measured at fair value as of June 30, 2008.

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FIRST SAVINGS BANK, F.S.B. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

	Carrying Value Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets Measured on a Recurring Basis				
Securities available for sale	$	$ 9,545	$	$ 9,545

In general, fair value is based upon quoted market prices, where available. If quoted market prices are not available, fair value is based on internally developed models or obtained from third parties that primarily use, as inputs, observable market-based parameters or a matrix pricing model that employs the Bond Market Association s standard calculations for cash flow and price/yield analysis and observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value, or the lower of cost or fair value. These adjustments may include unobservable parameters. Any such valuation adjustments have been applied consistently over time. The Bank s valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Bank s valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Securities Available for Sale. Securities classified as available for sale are reported at fair value on a recurring basis. These securities are classified as Level 1 of the valuation hierarchy where quoted market prices from reputable third-party brokers are available in an active market. If quoted market prices are not available, the Bank obtains fair value measurements from an independent pricing service. These securities are reported using Level 2 inputs and the fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, U.S. government and agency yield curves, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the security s terms and conditions, among other factors. Changes in fair value of securities available for sale are recorded in other comprehensive income.

There are no impaired loans reported at fair value on the consolidated balance sheet at June 30, 2008. There were no transfers in or out of the Bank s Level 3 financial assets for the three months ended June 30, 2008.

The Bank also adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115,* which permits entities to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis. The fair value option permits all entities to choose to measure eligible items at fair value at specified election dates. An entity will be required to report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The Bank did not elect to measure any financial instruments at fair value under SFAS No. 159 upon adoption.

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FIRST SAVINGS BANK, F.S.B. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

7. Defined Benefit Plan

The Bank sponsors a defined benefit pension plan covering substantially all employees. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. The Bank s funding policy is to contribute the larger of the amount required to fully fund the plan s current liability or the amount necessary to meet the funding requirements as defined by the Internal Revenue Code. The Bank uses a June 30 measurement date for the plan.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2008	2007	2008	2007
	(In thousands)			
Net periodic benefit expense:				
Service cost	$ 49	$ 51	$ 148	$ 152
Interest cost on projected benefit obligation	75	74	226	222
Expected return on plan assets	(93)	(84)	(278)	(252)
Amortization of transition asset	(1)	(1)	(4)	(4)
Amortization of prior service cost	2	2	5	5
Amortization of unrecognized loss				
Net periodic benefit expense	$ 32	$ 42	$ 97	$ 123
Other changes in plan assets and benefit obligations recognized in other comprehensive income:				
Amortization of transition asset	1	1	4	4
Amortization of prior service cost	(2)	(2)	(5)	(5)
Total recognized in other comprehensive income	(1)	(1)	(1)	(1)
Total recognized in net periodic pension benefit expense and other comprehensive income	$ 31	$ 41	$ 96	$ 122

The Bank contributed $177 (in thousands) to the Plan for the nine months ended June 30, 2008 and does not anticipate any additional contributions for the fiscal year ending September 30, 2008. Effective as of June 30, 2008, the Bank has curtailed the accrual of benefits for active participants in the defined benefit plan. As a result, each active participant s pension benefit will be determined based on the participant s compensation and duration of employment as of June 30, 2008, and compensation and employment after that date will not be taken into account in determining pension benefits under the defined benefit plan.

FIRST SAVINGS BANK, F.S.B. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

8. Recent Accounting Pronouncements

The following are summaries of recently issued accounting pronouncements that impact the accounting and reporting practices of the Company:

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, which clarifies the accounting for uncertainty in income taxes recognized in a Company s financial statements in accordance with SFAS 109, *Accounting for Income Taxes.* The Interpretation prescribes a more-likely-than-not 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. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The provisions of the Interpretation were effective for fiscal years beginning after December 15, 2006 and the cumulative effect of applying the provisions of this Interpretation are recognized as an adjustment to the beginning balance of retained earnings. The Bank adopted the Interpretation on October 1, 2007 as required. The Bank and its subsidiaries file a consolidated federal income tax return and a combined unitary return in the state of Indiana. The Bank s federal and Indiana state income tax returns have not been examined in the past five years and the 2004, 2005 and 2006 tax years are subject to examination. The Bank has no unrecognized tax benefits and does not anticipate any increase in unrecognized tax benefits during the 2007 tax year relative to any tax positions taken after September 30, 2007. The Bank believes that its income tax filing positions and deductions would be sustained upon examination and does not anticipate any adjustments that would result in a material change to its financial position or results of operations. Consequently, no reserves for uncertain income tax positions have been recorded.

In December 2007, FASB issued Statement No. 160, *Non-controlling Interests in Consolidated Financial Statements an amendment of ARB No. 51* (SFAS No. 160). This statement applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding non-controlling interest in one or more subsidiaries or that deconsolidate a subsidiary. This statement amends ARB No. 51 to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. This statement is effective for fiscal years beginning after January 1, 2009. SFAS No. 160 is not expected to have a material impact on the Bank s consolidated financial position or results of operations.

In March 2008, FASB issued Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133* (SFAS No. 161). This statement requires enhanced disclosures about an entity s derivative and hedging activities and thereby improves the transparency of financial reporting. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. This statement is effective for fiscal years and interim periods beginning after November 15, 2008. SFAS No. 161 is not expected to have a material impact on the presentation and disclosures in the Bank s consolidated financial statements.

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FIRST SAVINGS BANK, F.S.B. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

In May 2008, FASB issued Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS No. 162). This statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the Unites States (the GAAP hierarchy). SFAS No. 162 divides the body of GAAP into four categories by level of authority. This statement is effective sixty days following the SEC s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. SFAS No. 162 is not expected to have a material impact on the Bank s consolidated financial position or results of operations.

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FIRST SAVINGS FINANCIAL GROUP, INC.

PART I - ITEM 2

MANAGEMENT S DISCUSSION AND

ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS

Safe Harbor Statement for Forward-Looking Statements

This report may contain forward-looking statements within the meaning of the federal securities laws. These statements are not historical facts; rather they are statements based on the Company s current expectations regarding its business strategies and their intended results and its future performance. Forward-looking statements are preceded by terms such as expects, believes, anticipates, intends and similar expressions.

Forward-looking statements are not guarantees of future performance. Numerous risks and uncertainties could cause or contribute to the Bank s actual results, performance and achievements being materially different from those expressed or implied by the forward-looking statements. Factors that may cause or contribute to these differences include, without limitation, general economic conditions, including changes in market interest rates and changes in monetary and fiscal policies of the federal government; legislative and regulatory changes; the quality and composition of the loan and investment securities portfolio; loan demand; deposit flows; competition; and changes in accounting principles and guidelines. Additional factors that may affect our results are discussed on page 13 of the Company s prospectus dated August 12, 2008 under the section titled Risk Factors. These factors should be considered in evaluating the forward-looking statements and undue reliance should not be placed on such statements. Except as required by applicable law or regulation, the Company assumes no obligation and disclaims any obligation to update any forward-looking statements.

Critical Accounting Policies

During the three- and nine-month periods ended June 30, 2008, there was no significant change in the Bank s critical accounting policies or the application of critical accounting policies as presented in the Bank s annual audited consolidated financial statements and related footnotes for the year ended September 30, 2007 included in the Company s prospectus dated August 12, 2008.

Comparison of Financial Condition at June 30, 2008 and September 30, 2007

Cash and Cash Equivalents. Cash and cash equivalents increased from $10.4 million at September 30, 2007 to $10.9 million at June 30, 2008 due to excess liquidity.

Loans. Net loans receivable increased $4.7 million from $167.4 million at September 30, 2007 to $172.1 million at June 30, 2008, primarily due to an increase in owner-occupied residential mortgage loans. The increase in net loans receivable during the nine-month period ended June 30, 2008 was primarily funded by a combination of increases in deposits and Federal Home Loan Bank advances.

Securities Available for Sale. Securities available for sale increased $1.3 million from $8.3 million at September 30, 2007 to $9.5 million at June 30, 2008 due primarily to purchases of $6.4 million, offset by maturities of $5.0 million. The increase in available for sale securities during the nine-month period ended June 30, 2008 was primarily funded by a combination of increases in deposits and Federal Home Loan Bank advances.

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Securities Held to Maturity. Investment securities held-to-maturity increased $1.2 million from $7.4 million at September 30, 2007 to $8.6 million at June 30, 2008 due primarily to purchases of mortgage-backed securities issued by U.S. government sponsored agencies totaling $6.0 million, offset by maturities of U.S. government agency bonds of $4.0 million and principal repayments on mortgage-backed securities of $805,000.

Deposits. Total deposits increased 4.5% from $168.8 million at September 30, 2007 to $176.4 million at June 30, 2008. Noninterest-bearing checking increased $3.9 million, interest-bearing checking and savings deposits increased $2.2 million and certificates of deposit increased $1.3 million during the period. The increases in the demand and savings accounts are primarily due to the opening of new accounts immediately before June 30, 2008, the anticipated supplemental eligibility record date for purposes of determining supplemental eligible account holders having subscription rights in the proposed conversion stock offering. The increase in certificates of deposit is primarily the result of above market pricing on 7-month, 12-month and 18-month certificates of deposit in place during the end of 2007.

Borrowings. Federal Home Loan Bank borrowings increased from $3.0 million at September 30, 2007 to $8.0 million at June 30, 2008. The increase is due to the borrowing of an $8.0 million five-year, fixed rate advance, offset by the repayment of short-term variable rate advances of $3.0 million. Management determined that replacing the variable rate advances with the fixed rate advance was advantageous given the low interest rate environment and the prospects of higher market interest rates in the future due to inflationary pressures in the economy.

Results of Operations for the Three Months Ended June 30, 2008 and 2007

Overview. Net income was $41,000 for the three months ended June 30, 2008 compared to $221,000 for the same period in 2007. The primary factor that contributed to the decrease in net income for 2008 was a $111,000 increase in the provision for loan losses. Other factors contributing to the decrease for the three months ended June 30, 2008 include a decrease in net interest income of $27,000 and an increase in noninterest expense of $213,000, offset by an increase in noninterest income of $44,000 and a decrease in tax expense of $127,000.

Net Interest Income. Net interest income decreased $27,000, or 1.6%, for the three months ended June 30, 2008 compared to the same period in 2007 primarily as the result of a decrease in the tax-equivalent interest rate spread from 3.14% in 2007 to 3.02% in 2008 due to a decline in market interest rates.

Total interest income decreased $133,000, or 4.1%, from $3.3 million for 2007 to $3.1 million for 2008 as a result of a decline in the average tax-equivalent yield from 6.85% for 2007 compared to 6.39% for 2008 and despite an increase in average interest earning assets of $5.6 million from $191.8 million for the three months ended June 30, 2007 to $197.4 million for the three months ended June 30, 2008. The average yield on interest-earning assets decreased primarily as a result of the downward repricing of adjustable rate loans and decreased yields on interest-bearing deposits with banks due to lower market interest rates. Average loans and securities increased $9.0 million and $4.4 million, respectively, while interest-bearing deposits with banks decreased $7.9 million as management focused on reducing excess liquidity in interest-bearing deposits with banks by investing these funds in higher yielding loans and investment securities.

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Total interest expense decreased $106,000, or 6.6%, as a result of a decrease in the average cost of funds from 3.71% in 2007 to 3.37% in 2008 and despite an increase in average interest-bearing liabilities of $4.7 million from $170.0 million for the three months ended June 30, 2007 to $174.7 million for the three months ended June 30, 2008. The average cost of interest-bearing liabilities decreased for 2008 primarily as a result of lower market interest rates as compared to 2007 and the repricing of certificates of deposit at lower market interest rates as they matured.

Provision for Loan Losses. The provision for loan losses was $333,000 for the three months ended June 30, 2008 compared to $222,000 for the same period in 2007. The primary factors that contributed to the increased provision for loan losses in 2008 were the net increase in gross loans receivable and the increase in nonperforming loans.

Gross loans receivable increased $7.5 million from $165.5 million at June 30, 2007 to $173.0 million at June 30, 2008, primarily due to an increase in owner-occupied residential mortgage loans.

Nonperforming loans increased $919,000 from $586,000 at June 30, 2007 to $1.5 million at June 30, 2008. Nonperforming commercial mortgage loans, residential mortgage loans, commercial business loans, and consumer loans increased $328,000, $254,000, $140,000 and $163,000, respectively. The balance of nonperforming loans at June 30, 3008 includes nonaccrual loans of $1.1 million and residential mortgage loans that are over 90 days past due but still accruing interest totaling $316,000. These loans are still accruing interest because the estimated value of the collateral and collection efforts are deemed sufficient to ensure their full recovery. The balance of nonaccrual loans at June 30, 2008 consists of commercial real estate loans ($458,000), commercial business loans ($140,000), consumer loans ($179,000), residential mortgage loans ($251,000) and land loans ($33,000).

Net charge-offs were $1.1 million for the three months ended June 30, 2008 compared to $261,000 for the same period in 2007. Charge-offs totaling $1.0 million were recorded during the quarter ended June 30, 2008 in connection with a group of 35 non-owner occupied residential real estate loans to one borrower that were deeded to the bank in lieu of foreclosure.

The allowance for loan losses was $1.8 million at June 30, 2008 compared to $1.2 million at June 30, 2007. Management has deemed these amounts as adequate on those dates based on its best estimate of probable known and inherent loan losses. The consistent application of management s allowance for loan losses methodology resulted in an increase in the level of the allowance for loan losses consistent with the increase in the gross loan portfolio and nonperforming loans and the change in overall economic conditions.

Noninterest Income. Noninterest income increased $44,000, or 21.2%, to $252,000 for the three-month period ended June 30, 2008 compared to $208,000 for the same period in 2007, primarily due to gains on sales of mortgage loans and increases in other noninterest income. Net gain on sales of mortgage loans was $6,000 for 2008, compared to no gains on sales of mortgage loans in 2007. Other noninterest income increased $40,000 primarily as a result of the investment in bank owned life insurance during 2008, which generated income of $39,000.

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Noninterest Expense. Noninterest expense increased $213,000, or 16.4%, to $1.6 million for 2008 compared to $1.3 million for the same period in 2007. The primary factors contributing to the increase in noninterest expense were increases in compensation and benefits of $107,000, professional fees of $29,000, data processing expense of $21,000, occupancy and equipment expense of $21,000 and other operating expenses of $58,000, offset by decreases in advertising expenses of $13,000 and net losses on foreclosed real estate of $10,000.

Compensation and benefits increased as a result of increased salaries due to new hires and annual salary and wage increases. Professional fees increased as a result of increases in audit and accounting fees and legal fees related to the increase in problem loans and nonperforming assets. Data processing expense increased primarily as the result of increased banking transactions and annual fee increases. Occupancy expense increased primarily as a result of increased property taxes, utilities expense and repairs and maintenance expense. Other operating expenses increased primarily due to increases in officer and employee training expenditures and related travel expense, increased director fees due to the appointment of two new directors, losses on sales and write-downs of repossessed assets, and deposit account expenses.

Income Tax Expense. There was an income tax benefit of $10,000 for 2008, compared to income tax expense of $117,000 for the same period in 2007, primarily due to the decrease in pre-tax income as a result of the increase in the provision for loan losses and other noninterest expenses for the quarter ended June 30, 2008 compared to the same period in 2007, as well as an increase in tax-exempt income derived from loans to municipalities and from bank-owned life insurance. The effective tax rate for the quarter ended June 30, 2007 was 34.6%.

Results of Operations for the Nine Months Ended June 30, 2008 and 2007

Overview. The Bank incurred a net loss of $307,000 for the nine-month period ended June 30, 2008, compared to net income of $547,000 for the nine-month period ended June 30, 2007. The primary factor that contributed to the net loss for 2008 was an $894,000 increase in the provision for loan losses. Other factors contributing to the net loss for the nine months ended June 30, 2008 include a $292,000 decrease in net interest income and a $412,000 increase in noninterest expense, offset by a $156,000 increase in noninterest income and a $588,000 decrease in income tax expense.

Net Interest Income. Net interest income decreased $292,000, or 5.6%, for the nine months ended June 30, 2008 compared to the same period in 2007 primarily as the result of a decrease in the tax-equivalent interest rate spread from 3.15% in 2007 to 2.98% in 2008 due to a decline in market interest rates.

Total interest income decreased $393,000, or 4.0%, from $9.8 million for 2007 to $9.4 million for 2008 as a result of a decline in the average tax-equivalent yield from 6.79% for 2007 compared to 6.52% for 2008 and despite an increase in average interest earning assets of $583,000 from $193.5 million for the nine month period ended June 30, 2007 to $194.1 million for the nine month period ended June 30, 2008. The average yield on interest-earning assets decreased primarily as a result of the downward repricing of adjustable rate loans and decreased yields on interest-bearing deposits with banks due to lower market interest rates. Average loans and securities increased $6.1 million and $843,000, respectively, while interest bearing deposits with banks decreased $6.4 million as management focused on reducing excess liquidity in interest-bearing deposits with banks by investing these funds in higher yielding loans and investment securities.

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Total interest expense decreased $101,000, or 2.1%, as a result of a decrease in the average cost of funds from 3.64% in 2007 to 3.54% in 2008 and despite an increase in average interest-bearing liabilities of $1.0 million from $170.9 million for the nine month period ended June 30, 2007 to $171.9 million for the nine month period ended June 30, 2008. The average cost of interest-bearing liabilities decreased for 2008 primarily as a result of lower market interest rates as compared to 2007 and the repricing of certificates of deposits at lower market interest rates as they matured.

Provision for Loan Losses. The provision for loan losses was $1.5 million for the nine months ended June 30, 2008 compared to $642,000 for the same period in 2007. The primary factor that contributed to the increase in the provision for loan losses for 2008 was the diminished repayment ability of a large borrower and a deterioration of the value of the collateral securing 35 non-owner occupied residential mortgage loans to this borrower. The provision provided for these loans during the nine months ended June 30, 2008 amounted to $906,000. In addition, other factors that contributed to the increased provision for loan losses for 2008 were the net increase in gross loans receivable and the increase in other nonperforming loans.

Gross loans receivable increased $95,000 from $172.9 million at September 30, 2007 to $173.0 million at June 30, 2008, primarily due to an increase in owner-occupied residential mortgage loans.

Nonperforming loans increased $399,000 from $1.1 million at September 30, 2007 to $1.5 million at June 30, 2008. Nonperforming commercial mortgage loans, commercial business loans, and consumer loans increased $332,000, $140,000 and $31,000, respectively, while nonperforming residential mortgage loans decreased $104,000.

Net charge offs amounted to $1.1 million for the nine months ended June 30, 2008 compared to $320,000 for the same period in 2007. As noted above, the bank recorded charge offs totaling $1.0 million during the nine months ended June 30, 2008 in connection with a group of 35 non-owner occupied residential mortgage loans to one borrower that were deeded to the bank in lieu of foreclosure.

Noninterest Income. Noninterest income increased $156,000, or 26.2%, to $751,000 for the nine-month period ended June 30, 2008 compared to $595,000 for the same period in 2007, primarily due to gains on sales of mortgage loans and increases in other noninterest income. Net gain on sales of mortgage loans was $21,000 for 2008 while no gains on sales of mortgage loans were recognized during 2007. Other noninterest income increased $132,000 for 2008 compared to 2007 primarily as a result of the investment in bank owned life insurance during 2008, which generated income of $88,000, a one time gain on redemption of Visa, Inc. stock of $31,000, and an increase in ATM transaction fees of $11,000 due to higher usage.

Noninterest Expense. Noninterest expense increased $412,000, or 9.6%, to $4.7 million for 2008 compared to $4.3 million for the same period in 2007. The primary factors contributing to the increase in noninterest expense were increases in compensation and benefits of $78,000, professional fees of $72,000, occupancy expense of $50,000, data processing expense of $34,000, other operating expenses of $170,000 and net losses on foreclosed real estate of $42,000, offset by a decrease in advertising expenses of $34,000.

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Compensation and benefits increased as a result of increased salaries due to due to new hires and annual salary and wage increases, offset by decreases in accrued bonus and defined benefit plan expenses. Professional fees increased as a result of increases in audit and accounting fees and legal fees related to the increase in problem loans and nonperforming assets. Occupancy expense increased primarily as a result of increased property taxes, depreciation expense and repairs and maintenance expense. Data processing expense increased primarily as the result of increased banking transactions and annual fee increases. Other operating expenses increased primarily due to increases in officer and employee training expenditures and related travel expense, increased director fees due to the appointment of two new directors, losses on sales and write-downs of repossessed assets, and insurance costs, offset by a decrease in printing and office supplies expense due to reduced mailing costs as a result of out-sourcing to our data servicing provider the mailing of customer account statements.

Income Tax Expense. There was an income tax benefit of $309,000 for 2008, compared to income tax expense of $279,000 for the same period in 2007, primarily due to the decrease in pre-tax income as a result of the increase in the provision for loan losses and other noninterest expenses during the nine months ended June 30, 2008 as compared to the same period in 2007, as well as an increase in tax-exempt income derived from loans to municipalities and from bank-owned life insurance. The effective tax rate for the nine months ended June 30, 2007 was 33.8%.

Liquidity and Capital Resources

Liquidity Management. Liquidity is the ability to meet current and future financial obligations of a short-term nature. The Bank s primary sources of funds are customer deposits, proceeds from loan repayments, maturing securities and FHLB advances. While loan repayments and maturities are a predictable source of funds, deposit flows and mortgage prepayments are greatly influenced by market interest rates, general economic conditions and competition. At June 30, 2008, the Bank had cash and cash equivalents of $10.9 million and securities available-for-sale with a fair value of $9.5 million. If the Bank requires funds beyond its ability to generate them internally, it has additional borrowing capacity with the FHLB of Indianapolis and additional collateral eligible for repurchase agreements.

The Bank s primary investing activity is the origination of one-to-four family mortgage loans and, to a lesser extent, consumer, multi-family, commercial real estate, commercial business and residential construction loans. The Bank also invests in U.S. Government and agency securities and mortgage-backed securities issued by U.S. Government agencies.

Capital Management. The Bank must maintain an adequate level of liquidity to ensure the availability of sufficient funds to support loan growth and deposit withdrawals, to satisfy financial commitments and to take advantage of investment opportunities. Historically, the Bank has been able to retain a significant amount of its deposits as they mature.

The Bank is required to maintain specific amounts of capital pursuant to OTS regulatory requirements. As of June 30, 2008, the Bank was in compliance with all regulatory capital requirements, which were effective as of such date with tangible, core and risk-based capital ratios of 13.6%, 13.6% and 21.3%, respectively. The regulatory requirements at that date were 1.5%, 3.0% and 8.0%, respectively. At June 30, 2008, the Bank was considered well-capitalized under applicable regulatory guidelines.

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Off-Balance Sheet Arrangements

In the normal course of operations, the Bank engages in a variety of financial transactions that, in accordance with generally accepted accounting principles, are not recorded on the Bank s financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are primarily used to manage customers requests for funding and take the form of loan commitments and letters of credit. For additional information, refer to notes 13 and 14 of the Bank s annual audited consolidated financial statements and related footnotes for the year ended September 30, 2007 included in the Company s prospectus dated August 12, 2008.

For the nine months ended June 30, 2008, the Bank did not engage in any off-balance sheet transactions reasonably likely to have a material effect on the Bank s financial condition, results of operations or cash flows.

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FIRST SAVINGS FINANCIAL GROUP, INC.

PART I - ITEM 3

QUANTITATIVE AND QUALITATIVE DISCLOSURES

ABOUT MARKET RISK

Qualitative Aspects of Market Risk. The Bank s principal financial objective is to achieve long-term profitability while reducing its exposure to fluctuating market interest rates. The Bank has sought to reduce the exposure of its earnings to changes in market interest rates by attempting to manage the mismatch between asset and liability maturities and interest rates. In order to reduce the exposure to interest rate fluctuations, the Bank has developed strategies to manage its liquidity, shorten its effective maturities of certain interest-earning assets and decrease the interest rate sensitivity of its asset base. Management has sought to decrease the average maturity of its assets by emphasizing the origination of short-term residential mortgage, commercial mortgage and commercial business loans, all of which are retained by the Bank for its portfolio. The Bank relies on retail deposits as its primary source of funds. Management believes retail deposits, compared to brokered deposits, reduce the effects of interest rate fluctuations because they generally represent a more stable source of funds.

Quantitative Aspects of Market Risk. The Bank does not maintain a trading account for any class of financial instrument nor does the Bank engage in hedging activities or purchase high-risk derivative instruments. Furthermore, the Bank is not subject to foreign currency exchange rate risk or commodity price risk.

The Bank uses interest rate sensitivity analysis to measure its interest rate risk by computing changes in net portfolio value (NPV) of its cash flows from assets, liabilities and off-balance sheet items in the event of a range of assumed changes in market interest rates. NPV represents the market value of portfolio equity and is equal to the market value of assets minus the market value of liabilities, with adjustments made for off-balance sheet items. This analysis assesses the risk of loss in market risk sensitive instruments in the event of a sudden and sustained 100 to 300 basis point increase or a sudden and sustained 100 basis point decrease in market interest rates with no effect given to any steps that management might take to counter the effect of that interest rate movement. Using data compiled by the OTS, the Bank receives a report that measures interest rate risk by modeling the change in NPV over a variety of interest rate scenarios.

The following tables are provided by the OTS and set forth the change in the Bank s NPV at September 30, 2007 and June 30, 2008, based on OTS assumptions that would occur in the event of an immediate change in interest rates, with no effect given to any steps that management might take to counteract that change.

	At September 30, 2007				
	Net Portfolio Value			Net Portfolio Value as a Percent of Present Value of Assets	
Change in Rates	Dollar Amount	Dollar Change	Percent Change	NPV Ratio	Change
	(Dollars in thousands)				
300bp	$ 30,114	$ (4,426)	(13)%	14.99%	(151)bp
200bp	32,243	(2,297)	(7)	15.78	(72)bp
100bp	33,723	(817)	(2)	16.28	(22)bp
Static	34,540			16.50	bp
(100)bp	34,505	(35)		16.36	(14)bp

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ABOUT MARKET RISK

	At June 30, 2008				
	Net Portfolio Value			Net Portfolio Value as a Percent of Present Value of Assets	
Change in Rates	**Dollar Amount**	**Dollar Change**	**Percent Change**	**NPV Ratio**	**Change**
	(Dollars in thousands)				
300bp	$ 28,720	$ (5,370)	(16)%	13.54%	(180)bp
200bp	30,996	(3,094)	(9)	14.36	(98)bp
100bp	32,939	(1,151)	(3)	15.01	(33)bp
Static	34,090			15.34	bp
(100)bp	34,142	52		15.24	(10)bp

The preceding tables indicate that the Bank s NPV would be expected to decrease in the event of a sudden and sustained increase in prevailing interest rates, but would be expected to experience little change in the event of sudden and sustained decrease of 100 basis points in rates. The expected decrease in the Bank s NPV given an increase in rates is primarily attributable to the relatively high percentage of fixed-rate loans in the Bank s loan portfolio. At June 30, 2008, approximately 54% of the loan portfolio consisted of fixed-rate loans.

Certain assumptions utilized by the OTS in assessing the interest rate risk of savings associations within its region were utilized in preparing the preceding tables. These assumptions relate to interest rates, loan prepayment rates, deposit decay rates and the market values of certain assets under differing interest rate scenarios, among others.

As with any method of measuring interest rate risk, certain shortcomings are inherent in the method of analysis presented in the foregoing tables. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as adjustable-rate mortgage loans, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, expected rates of prepayments on loans and early withdrawals from certificates of deposit could deviate significantly from those assumed in calculating the tables.

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FIRST SAVINGS FINANCIAL GROUP, INC.

PART I - ITEM 4T

CONTROLS AND PROCEDURES

Controls and Procedures

The Company s management, including the Company s principal executive officer and the Company s principal financial officer, have evaluated the effectiveness of the Company s disclosure controls and procedures, as such term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended. Based on their evaluation, the principal executive officer and the principal financial officer concluded that, as of the end of the period covered by this report, the Company s disclosure controls and procedures were effective for the purpose of ensuring that information required to be disclosed in reports that the Company files or submits under the Exchange Act with the SEC (1) is recorded, processed, summarized, and reported within the time periods specified in the SEC s Rules and Forms and (2) is accumulated and communicated to the Company s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

During the nine-month period ended June 30, 2008, there were no changes in the Bank s internal control over financial reporting which materially affected, or are reasonably likely to materially affect, the Bank s internal controls over financial reporting.

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PART II

OTHER INFORMATION

Item 1. Legal Proceedings

The Company is not a party to any legal proceedings. Periodically, there have been various claims and lawsuits involving the Bank, mainly as a plaintiff, such as claims to enforce liens, condemnation proceedings on properties in which the Bank holds security interests, claims involving the making and servicing of real property loans and other issues incident to the Bank s business. The Bank is not a party to any pending legal proceedings that it believes would have a material adverse affect on its financial condition or operations.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed beginning on page 13 of the Company s prospectus dated August 12, 2008 under the section titled Risk Factors , which could materially affect our business, financial condition or future results. There have been no material changes to the risk factors described in the Company s prospectus, however these are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

Item 3. Defaults upon Senior Securities

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

FIRST SAVINGS FINANCIAL GROUP, INC.

PART II

OTHER INFORMATION

Item 6. Exhibits

2.1	Plan of Conversion (1)
3.1	Articles of Incorporation of First Savings Financial Group, Inc. (1)
3.2	Bylaws of First Savings Financial Group, Inc. (1)
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.1	Section 1350 Certification of Chief Executive Officer
32.2	Section 1350 Certification of Chief Financial Officer

(1) Incorporated by reference into this document from the Exhibits filed with the Securities and Exchange Commission on the Registration Statement on Form S-1, and any amendments thereto, Registration No. 333-151636.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FIRST SAVINGS FINANCIAL GROUP, INC.
(Registrant)

Dated September 25, 2008	**BY**: /s/ Larry W. Myers Larry W. Myers President and Chief Executive Officer (Principal Executive Officer)
Dated September 25, 2008	**BY**: /s/ M. Sue Johnson M. Sue Johnson Treasurer and Corporate Secretary (Principal Financial Officer)

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