GAMMACAN INTERNATIONAL INC
Form 8-K
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UNITED STATES SECURITIES AND
EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 OR 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) **August 17, 2004**

GAMMACAN INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	33-0956433
(State of Incorporation)	(I.R.S. Employer Identification No.)

Suite 1500, 800 West Pender Street, Vancouver B.C. Canada, V6C 2V6

(Address of Principal Executive Offices) (Zip Code)

(780) 708-0495

(Registrant's telephone number, including area code)

San Jose International, Inc.

(Former Name)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.01 Completion of Acquisition or Disposition of Assets

Introduction

Pursuant to an agreement for purchase and sale of intellectual property between our subsidiary, Gammacan, Ltd., and ARP Biomed, Ltd. ("ARP") previously disclosed in our current report on Form 8-K filed on June 22, 2004, we fulfilled the subject conditions in that agreement and completed the purchase and sale of the intellectual property on August 17, 2004. As a result, we now own all of ARP's rights and interests in the intellectual property assets (the "Intellectual Property") consisting of intravenous immunoglobulin ("IVIG") research and development, patents and other intellectual property, which appears to hold promising potential for the clinical treatment for various cancer types. In consideration for acquiring the Intellectual Property, we have issued to ARP 12.5% of the common shares of Gammacan, Ltd., leaving us with an 87.5% controlling interest in Gammacan, Ltd.. We also loaned

$800,000 to Gammacan, Ltd., which will be utilized to commence clinical trials, to conduct further research and development utilizing the Intellectual Property, and for general working capital purposes.

DESCRIPTION OF BUSINESS

As used in this current report, the terms "we", "us", "our", and "Gammacan" mean Gammacan International, Inc. and our wholly-owned subsidiary, Gammacan, Ltd., unless otherwise indicated.

All dollar amounts refer to US dollars unless otherwise indicated.

Corporate History

We were incorporated under the laws of the state of Delaware on October 6, 1998 under the name of San Jose International, Inc. Our fiscal year end is September 30. Our shares of Common Stock are quoted in the United States on the National Association of Securities Dealers Over the Counter Bulletin Board (the "OTCBB"). On August 19, 2004, we changed the name of our company to Gammacan International, Inc. in the State of Delaware. Our name change became effective on the OTCBB on August 24, 2004 and our new trading symbol is "GCAN".

Initially, our business plan was to focus on the business of marketing and selling custom-designed Spanish colonial doors, windows, frames and related door hardware. We were planning to sell our products to the home building industry. During the fourth quarter of our last fiscal year, it became apparent that we could not readily attract additional financing for our proposed business. We currently have minimal assets and no capital resources to proceed with our business plan. These circumstances have significantly impacted our ability to develop a successful business plan around these products. As an alternative, we undertook initiatives to identify alternative businesses that may be more receptive to the financial markets and more likely to achieve profitable operations.

During our first quarter ended December 31, 2003, we identified a promising business prospect focused on the seismic acquisition business located in Western Canada and agreed in principal to acquire all of the shares of two Alberta based companies. However, on April 20, 2004, we decided to terminate our efforts to pursue this proposed acquisition, because it appeared we would not be successful in obtaining the necessary financing on a timely basis.

Recent Developments

On June 21, 2004, we announced that we signed an agreement with ARP of Israel to acquire all of ARP's interest in the Intellectual Property. The Intellectual Property being acquired includes patents in the United States and certain other countries, pending patents in other countries, know-how, trial protocols, manuscripts, and certain material contracts.

On August 13, 2004, we completed a private placement of 1,224,998 units of our securities for gross proceeds of $918,750. Each unit consists of one common share in our company and one share purchase warrant, which entitles the

holder to purchase an additional common share for $1.50 on or before August 13, 2005.

On August 17, 2004, we completed the acquisition of the Intellectual Property through Gammacan, Ltd., a subsidiary we created specifically for this purpose. As consideration for the Intellectual Property, we issued 12.5% of the shares of Gammacan, Ltd. with a deemed value of $100,000 to ARP. As a result, we currently own the remaining 87.5% of the shares of Gammacan, Ltd. In addition, we also made a loan of

$800,000 to Gammacan, Ltd., which we expect will conduct further research and development utilizing the Intellectual Property and commence clinical trials.

Business Subsequent to the Acquisition of the Intellectual Property

With the acquisition of the Intellectual Property, we plan to focus on the commercialization of an anti-cancer immunotherapy that appears to be effective in reducing the metastatic spread of a wide range of cancers. Our proposed treatment will be based on intravenous immunoglobulin or IVIG, a safe, non-toxic human plasma-based product, currently used to treat a variety of immune deficiencies and autoimmune diseases, and replace the antibodies in people who are unable to produce them. Antibodies are a naturally occurring, disease fighting protein or compound produced by healthy people. Intravenous implies the direct injection or delivery, via certain equipment, into the patient's bloodstream. In preliminary studies, IVIG appears to boost and strengthen cancer patient's immune systems or antibody levels, which may be successful in fighting cancer. Although there can be no assurance, many experts currently view IVIG as a promising future alternative to today's standard chemotherapy.

Current Cancer Statistics

Cancer is a disease of the body's cells. Cells in all the tissues and organs of the body constantly grow and divide to replace old and damaged cells and maintain the health of the body. Normally, all cells divide and reproduce themselves in an orderly and controlled manner. In cancer, however, some cells keep dividing without proper control, forming a lump (which is called a primary tumour). In leukaemia, or cancer of the blood, too many white blood cells are produced.

Sometimes cancer cells break away from a tumour and travel to other parts of the body through the bloodstream or lymphatic system. The lymphatic system is a network of fine channels - called lymph vessels - which run throughout the body and are part of the body's protection against infection and cancer. When the cancer cells reach other parts of the body they may settle and start to develop into new tumours. These are known as secondary cancers/tumors or metastases.

There are approximately 2.5 million cases of cancer diagnosed each year in the Western world alone. Primary tumors, while still localized, can be treated through surgery and radiation. However, cancers tend to metastasize, or spread, and form secondary tumors in other locations throughout the body. Most existing therapeutics or treatments fail because the cancer has metastasized and formed multiple tumors. At present, nearly 40% of cancer victims with operable tumors ultimately succumb to metastatic or spreading cancer following surgery. Frequently, metastasis is triggered by the surgical operation itself. During the course of surgery, malignant cells may become dislodged from the tumor mass and enter the circulatory system thus increasing the chance of spreading cancer.

The extent to which metastases occur varies with the type of primary tumor. Melanoma or skin cancer, breast cancer, lung cancer, colon cancer and prostate cancer are among the types of cancer that frequently metastasize or spread. When metastasis takes place, the secondary tumors may form at a number of sites in the body. Lungs, liver, brain and bone are the most common sites of secondary tumors.

Cancer therapeutics represents a major pharmaceutical market with $12 billion to $13 billion in worldwide sales in 2001. Between 1995 and 2000, the market grew at an average annual rate of 15 to 20%. Our management believes that average annual growth is forecast to be 8 to 10% through 2015. Despite the large number of patients and the high medical need for effective treatments, the cancer drug market is ranked only eighth in terms of drug sales. This corresponds to 4.0% of the total worldwide

pharmaceutical market of $248 billion. In comparison, the 2001 worldwide drug market for cardiovascular diseases totaled $49 billion (representing 19.5% of the total worldwide pharmaceutical market), central nervous system diseases $41 billion (representing 16.5% of the total worldwide pharmaceutical market), and alimentary/metabolism diseases $38 billion (representing 15.3% of the total worldwide pharmaceutical market). The reason for the relatively small size of the cancer treatment market is believed to be primarily due to the lack of effective, safe treatments.

Current Cancer Treatments

Current cancer treatments include surgery, radiation, and chemotherapy. These treatments can be ineffective because they are either unable to target cancer cells throughout the body or they give rise to serious and life-threatening side effects. Consequently, the medical community is still a long way from winning the war on cancer. Companies which can provide winning anti-cancer drugs that at least partially overcome the limitations of current cancer treatments are likely to be well received by the medical establishment and to achieve a leadership position in the cancer drug market.

The alternative to the traditional cancer treatments is the use of various immunotherapies. Current efforts to deliver effective cancer immunotherapies generally fall into three categories: cytokines, monoclonal antibodies and vaccines. Cytokines are medical drugs that stimulate the immune system during infections. Drug developers have hoped that the same factors that fight infections could be used to combat cancer cells. Several have been approved for commercial use, but they are generally limited in their application.

Many companies are involved in developing monoclonal antibodies, which are designed to bind to specific cancer cells and target them for destruction by the immune system. These products are generally more developed, in terms of market use and acceptance, than cytokines and several have significant sales. The monoclonal antibody products realizing significant sales generally have limited or few side effects.

Cancer vaccines rely on the administration of tumor antigens to elicit an immune response that remains after the vaccine itself has disappeared. Most cancer vaccine products currently being developed require the harvesting and processing of tumor cells to make custom vaccines for each patient. Though this approach has shown promise in clinical trials, scaling-up manufacture is likely to be problematic, and these vaccines are generally considered to be a number of years away from commercial use.

Chemotherapy

Chemotherapy is the use of anti-cancer drugs to destroy cancer cells. There are over 50 different chemotherapy drugs and some are given on their own, but often several drugs may be combined. The type of chemotherapy treatment given for a particular cancer depends on many things, the type of disease, where in the body it started, what the cancer cells look like under the microscope and whether they have spread to other parts of the body.

Chemotherapy is currently the standard treatment for cancer that has or may have metastasized or spread. Chemotherapy is a systemic treatment, usually administered intravenously, but can be administered a number of ways, intended to kill cancer/tumor cells, which have spread to multiple sites. However, chemotherapy may also kill healthy dividing cells and consequently, may cause serious side effects. These side effects may include a weakening of a patient's immune system, and reduction in number of white blood cells which are necessary to combat bacterial

infections, inhibition or slowing of bone marrow cell growth, which also may be accompanied with slow down in the production of red blood cells or anemia, the inability to form blood clots, diarrhea, nausea and hair loss. Generally, these side effects

are temporary in nature, but most patients experience a significant degree of discomfort, and can be long term in some cases.

Chemotherapy can fail to completely eradicate micro-metastases, or the spreading of very small cancer tumors, already residing in remote organs (lung, liver, bone marrow or brain), especially when treatment is discontinued due to patients' inability to tolerate its side effects. If the cancer is not completely eradicated, it will likely continue to grow.

The need for an effective, non-toxic treatment to inhibit spreading cancers is widely recognized and numerous researchers, biotechnology and pharmaceutical companies are seeking alternatives to chemotherapy drugs. The potential for a large receptive commercial market exists for a successful approach to inhibiting spreading cancers without causing serious side effects.

IVIG or Intravenous Immunoglobulin

Our proposed immunotherapy product, if ultimately proven to be successful on a regulatory and commercial basis, aims to harness the body's immune system, or its natural defense mechanism to destroy cancer cells.

Immunoglobulin or IVIG is a type of protein found in human blood that helps to fight off harmful bacteria, viruses and other germs. IVIG is a blood plasma-derived product containing protective antibodies normally present in the blood of healthy individuals. IVIG is used to replace the antibodies in people who are unable to produce them, thereby restoring an almost normal immune response and helping to prevent or reduce the severity of certain infections. It is widely used in the treatment of certain autoimmune diseases. Extensive use over a period of years has demonstrated that IVIG therapy is a safe, non-toxic therapy with virtually no side effects.

Currently, approximately twenty companies produce IVIG products, achieving worldwide sales of about $500 million annually. These companies manage pools of 1,000 to 20,000 blood donors who are carefully screened prior to being allowed to give blood. This donated plasma is also extensively tested for pathogens prior to use. It is this donated blood plasma that is used to manufacture IVIG, and through the combining the blood plasma of many individual donors, it is believed that the resulting combination provides superior therapy than IVIG from one individual exclusively.

The largest producers of IVIG for the U.S. market are ZLB Bioplasma (a subsidiary of the Australian blood products company, CSL Ltd.), Alpha Therapeutics, Baxter Healthcare, Bayer Biological Products and Aventis Behring.

IVIG products became commercially available in the early 1980's. There are six indications or uses approved by the U.S. Food and Drug Administration (the "FDA"), but IVIG is also used to treat over seventy other "off-label" conditions supported by a consensus of expert opinion, mostly primary immune deficiencies or autoimmune neuromuscular disorders. Between 40% and 50% of IVIG prescriptions are written for off-label indications. Patients receiving IVIG therapy for primary immune deficiencies usually receive the therapy for life, while patients receiving IVIG therapy for autoimmune disorders receive the therapy intermittently over a period of months, and sometimes years, depending on their condition.

IVIG is generally considered to be an expensive therapy, because it is a natural product manufactured from whole human blood. A typical dose may consist of five consecutive days of intravenous

administration of 2 grams per kilogram of patients' body weight. The price of one gram of IVIG has recently ranged from $18 to $25 on the wholesale level. For a 150 pound (68.2 kilogram) individual, this translates into a price of between $2,455 and $3,410 for a full two gram per kilogram body-weight round of treatment. The cost of administration in a hospital, is also considerable and the total cost for a round of treatment can thus range from $8,500 to $20,000 per treatment.

Pre-Clinical and Preliminary Experiments

ARP's scientists have already conducted certain animal experiments to test the effectiveness of IVIG immunotherapy in treating cancer, and investigated the effectiveness of IVIG treatment at various stages of disease progression with varying dosages and routes of administration. They have made preliminary progress in understanding the mechanisms under which IVIG appears to fight cancer.

While these experiments showed promising results, they are preliminary. Use of IVIG in a commercial setting would be subject to much further substantial and significant testing, and subject to certain clinical trials required by the FDA and similar regulatory bodies in other countries.

At this stage however, there can be no assurance that IVIG will evolve into a successful commercial product, gain acceptance for general use or use as a replacement for existing therapeutic products, or even be approved for use by the regulatory authorities.

These early experiments have shown that IVIG treatment appears to reduce metastases and tumor recurrence for a broad spectrum of cancers, with virtually no side effects. However, much more testing must be completed. IVIG also appears to show promise to increase the chances for long term recovery by preventing the return and spread of cancer. These preliminary experiments have also indicated that IVIG therapy holds promise as an effective anti-cancer treatment at much lower doses than is commonly used for treating immune deficiencies. This would serve to make the treatment more affordable and may enable IVIG immunotherapy to be used as a cancer prevention measure in high risk populations.

In these preliminary experiments, IVIG also appears to be effective when administered intravenously, or through several other methods of delivery into the patient's body. Alternative routes of administration could dramatically improve ease-of-use, lower the delivered price of treatments, and enable the treatment of additional conditions.

Intellectual Property

Our success will depend in part on our ability to obtain patent protection for our Intellectual Property. Subsequent to our acquisition of the Intellectual Property from ARP, we enjoy the patented protection of IVIG for treating solid tumors through two major U.S. patents (#5,562,902 and #5,965,130), and additional U.S. and international patent applications. The latest US patent was registered in October 1999. Patent coverage includes a wide range of issues such as: a novel method of administering to a mammal a preparation of IVIG for inhibiting tumor metastasis or spreading, for treating primary tumors, and for a broad spectrum of cancerous diseases. The IVIG preparation to be administered according to this invention may contain intact or fragmented immunoglobulin molecules. The preparation may be administered intravenously, directly under the skin or subcutaneous routes, directly into a cavity (such as an organ or stomach), either as a sole agent or in combination with other agents or methods, which are commonly used for cancer treatment. We believe anyone selling IVIG for treatment of cancer is subject to these patents.

However, the validity and breadth of claims in medical technology patents involve complex legal and factual questions and, therefore, may be highly uncertain. No assurance can be given that any patents based on pending patent applications or any future patent applications by us will be issued, that the scope of any patent protection will exclude competitors or provide competitive advantages to us, that any of the patents that have been or may be issued to us will be held valid if subsequently challenged or that others will not claim rights in or ownership of the patents and other proprietary rights held or licensed by us. Furthermore, there can be no assurance that others have not developed or will not develop similar products, duplicate any of our technology or design around any patents that have been or may be issued to us. Since patent applications in the United States are maintained in secrecy for the initial period of time following filing, we also cannot be certain that others did not first file applications for inventions covered by our pending patent applications, nor can we be certain that we will not infringe any patents that may be issued to others on such applications.

We also rely on trade secrets and unpatentable know-how that we seek to protect, in part, by confidentiality agreements. It has not been, but is now our intended policy to require our employees, consultants, contractors, manufacturers, outside scientific collaborators and sponsored researchers, board of directors, technical review board and other advisors to execute confidentiality agreements upon the commencement of employment or consulting relationships with us. These agreements will provide that all confidential information developed or made known to the individual during the course of the individual's relationship with us is to be kept confidential and not disclosed to third parties except in specific limited circumstances. We also will commence to require signed confidentiality or material transfer agreements from any company that is to receive our confidential information. In the case of employees, consultants and contractors, the agreements will generally provide that all inventions conceived by the individual while rendering services to us shall be assigned to us as the exclusive property of our company. There can be no assurance, however, that all persons who we desire to sign such agreements will sign, or if they do, that these agreements will not be breached, that we would have adequate remedies for any breach, or that our trade secrets or unpatentable know-how will not otherwise become known or be independently developed by competitors.

Our success will also depend in part on our ability to commercialize our technology without infringing the proprietary rights of others. We have not conducted freedom of use patent searches and no assurance can be given that patents do not exist or could not be filed which would have an adverse affect on our ability to market our technology or maintain our competitive position with respect to our technology. If our technology components, products, processes or other subject matter are claimed under other existing United States or foreign patents or are otherwise protected by third party proprietary rights, we may be subject to infringement actions. In such event, we may challenge the validity of such patents or other proprietary rights or we may be required to obtain licenses from such companies in order to develop, manufacture or market our technology. There can be no assurances that we would be able to obtain such licenses or that such licenses, if available, could be obtained on commercially reasonable terms. Furthermore, the failure to either develop a commercially viable alternative or obtain such licenses could result in delays in marketing our proposed technology or the inability to proceed with the development, manufacture or sale of products requiring such licenses, which could have a material adverse affect on our business, financial condition and results of operations. If we are required to defend ourselves against charges of patent infringement or to protect our proprietary rights against third parties, substantial costs will be incurred regardless of whether we are successful. Such proceedings are typically protracted with no certainty of success. An adverse outcome could subject us to significant liabilities to third parties and force us to curtail or cease our development and commercialization of our technology.

Research and Development

Foundational Research

Scientists have conducted extensive pre-clinical research to test the effectiveness of IVIG immunotherapy in treating cancer. They have employed mice models of various types of cancers as well as various types of human cancers

introduced into immune deficient (SCID) mice. They have investigated the effectiveness of IVIG treatment at various stages of disease progression, using alternative dosage and routes of administration. These pre-clinical and preliminary experiments have shown that IVIG treatment prevents metastases and tumor recurrence for a broad spectrum of cancers with little or no side effects.

IVIG treatment was shown to work in conjunction with surgery to provide long term recovery. While surgery provides an effective short term mechanism for treating localized cancer tumors, IVIG treatment was shown to increase the chances of long term recovery by preventing the return or spread of the cancer. Parallel studies conducted in melanoma, carcinomas and sarcomas confirm these results.

Scientists conducted a series of experiments in which mice were inoculated in the foot pad with cancerous cells which formed tumors. When the tumor grew to a size of 1 cm^3 the inoculated leg was amputated. These experiments parallel the surgical removal of primary tumor in human patients. Post-amputation, IVIG therapy was administered and the recurrence of metastases at the amputation site and in the lungs was significantly reduced. Experiments conducted with human cancer cells implanted in immune suppressed SCID mice have shown similar when treated with IVIG.

Most pre-clinical experiments were conducted using a standard dosage of 2.0 grams per kilogram body weight. Additional experiments have shown that our proposed therapy is effective with low doses of IVIG representing 1% (20 milligrams per kilogram body weight) of the standard IVIG dosage. These experiments suggest that

IVIG treatment could be affordably administered as a preventative measure. IVIG has been shown in mice experiments to be effective when administered subcutaneously, intravenously, or through intra-cavitary injection. The option of alternative routes of administration dramatically improves ease-of-use and enables the treatment of previously untreatable conditions such as intra-peritoneal spread (i.e. ovarian carcinoma). IVIG has also been shown to be effective when administered as a whole molecule or as a fraction.

Product Development

Our initial focus over the next several years is to demonstrate efficacy of IVIG cancer immunotherapy in human clinical trials. Efficacy is the ability of a drug or other treatment to produce the desired result when taken by its intended users. If ultimately proven to be successful, and there can be no assurance that it will be, we could be well-positioned to enter a licensing agreement with a major pharmaceutical partner for commercial market development and sales.

IVIG immunotherapy will require regulatory approval before being commercially marketed for human therapeutic use. Clinical trials generally include three phases that together may take several years to complete. Phase I clinical studies (toxicity trials) are primarily conducted to establish safety. Phase II studies are designed to determine preliminary efficacy. Phase III studies are conducted to optimize therapeutic efficacy in a statistically significant manner at the levels of optimal dose, method of delivery into the body or route, and schedule of administration. Once clinical trials are completed successfully, products may receive regulatory approval.

Since IVIG is an established, safe therapy, we will not be required to conduct Phase I studies. We plan to begin enrolling patients within the next six months for a Phase II study using IVIG immunotherapy as an adjunct treatment for a wide range of cancers. Phase II clinical trials will be conducted at two or more medical centers in Israel. It is expected to take six months to enroll patients. We are planning on including several different cancers in the trial, some of which metastasize and progress quickly, so statistically significant preliminary results may be available after one year. We will continue to monitor patients for at least two years. If successful or promising, and at this preliminary stage there is no assurance they will be, results of these clinical trials will be used to enter into discussions with a major pharmaceutical partner to work with us to potentially commercialize the products.

Employees

During the next 12 months, we plan to function with a small management staff. During this time, we will focus on managing Phase II clinical trials and establishing preliminary relationships with potential commercial partners. Our employees include Mr. David Stephens, the Chief Executive Officer of our company, Dr. Dan J. Gelvan, the Chief Executive Officer of Gammacan, Ltd., Ms. Tovi Ben Zeev, the Chief Financial Officer of Gammacan, Ltd., and Professor Yehuda Shoenfeld, M.D., the Chief Scientist of Gammacan, Ltd. The positions of Chief Financial Officer and Chief Scientist of Gammacan, Ltd. will initially be on a part-time basis and will become full-time positions as activities expand in over the next 12 months. We also plan to hire additional administrative staff as needed as well as a Director of Clinical Trials.

Competition

Competition in the area of biomedical and pharmaceutical research and development is intense and significantly depends on scientific and technological factors. These factors include the availability of patent and other protection for technology and products, the ability to commercialize technological developments and the ability to obtain governmental approval for testing, manufacturing and marketing. Our competitors include major pharmaceutical, medical products, chemical and specialized biotechnology companies, many of which have financial, technical and marketing resources significantly greater than ours. In addition, many biotechnology companies have formed collaborations with large, established companies to support research, development and commercialization of products that may be competitive with ours. Academic institutions, governmental agencies and other public and private research organizations are also conducting research activities and seeking patent protection and may commercialize products on their own or through joint ventures. We are aware of certain other products manufactured or under development by competitors that are used for the treatment of the diseases and health conditions that we have targeted for product development. There can be no assurance that developments by others will not render our technology obsolete or noncompetitive, that we will be able to keep pace with new technological developments or that our technology will be able to supplant established products and methodologies in the therapeutic areas that are targeted by us. The foregoing factors could have a material adverse affect on our business, financial condition and results of operations. These companies, as well as academic institutions, governmental agencies and private research organizations, also compete with our company in recruiting and retaining highly qualified scientific personnel and consultants.

Competition within this sector itself is increasing, so we will encounter competition from existing firms that offer competitive solutions in the cancer treatment solutions. These competitive companies could develop products that are superior to, or have greater market acceptance, than the products being developed by our company. We will have to compete against other biotechnology and pharmaceutical

companies with greater market recognition and greater financial, marketing and other resources.

Our competition will be determined in part by the potential indications for which our technology is developed and ultimately approved by regulatory authorities. In addition, the first product to reach the market in a therapeutic or preventive area is often at a significant competitive advantage relative to later entrants to the market. Accordingly, the relative speed with which we, or our potential corporate partners, can develop products, complete the clinical trials and approval processes and supply commercial quantities of the products to the market are expected to be important competitive factors. Our competitive position will also depend on our ability to attract and retain qualified scientific and other personnel, develop effective proprietary products, develop and implement production and marketing plans, obtain and maintain patent protection and secure adequate capital resources. We expect our technology, if approved for sale, to compete primarily on the basis of product efficacy, safety, patient convenience, reliability, value and patent position.

Government Regulations and Supervision

We will be using and developing biotechnology and pharmaceutical products for use in treating human diseases. We will be directly affected by governmental regulations from the United States Food and Drug Administration (the "FDA") for these products.

The FDA regulates clinical development and marketing approval of all medical products intended for human use. The laws and regulations of the FDA place the burden of proof of safety and efficacy on the manufacture of the product. This agency possesses extensive experience with its regulatory mechanisms and applies them to all products, with differing statutes for various categories of products. Other countries have comparable regulatory agencies to the FDA, although the specific regulations may differ substantially.

The principal activities which must be completed prior to obtaining approval for marketing in the United States are as follows:

a) *Pre-clinical Studies.* Pre-clinical studies are conducted in animals to test pharmacology, efficacy and toxicology and to do manufacturing and formulation work based on *in vivo* results.

b) *Phase I Clinical Trials.* Phase I clinical trials consist of testing a product in a small number of humans for its safety (toxicity), dose tolerance and pharmacokinetic properties.

c) *Phase II Clinical Trials.* Phase II clinical trials usually involve a larger patient population than is required for Phase I trials and are conducted to evaluate the effectiveness of a product in patients having the disease or medical condition for which the product is indicated. These trials also serve to identify possible common short-term side effects and risks in a larger group of patients.

d) *Phase III Clinical Trials.* Phase III clinical trials involve conducting tests in an expanded patient population at geographically dispersed test sites (i.e. multi-centre trials) in a controlled and/or uncontrolled environment to establish clinical safety and effectiveness. These trials also generate information from which the overall benefit-risk relationship relating to the drug can be determined and provide a basis for drug labeling.

Since IVIG is an established, safe therapy, we will not be required to conduct Pre-Clinical and Phase I Clinical Trials. Two key factors that influence the rate of progression of the remaining clinical trials are the rate at which patients can be recruited to participate in the research program, and whether effective

treatments are currently available for the disease the drug is intended to treat. Patient recruitment is largely dependent upon the incidence and severity of the disease and the alternative treatments available. Regulatory agencies can demand more patients and longer exposure if they deem it prudent, so as to better assess the relative safety compared with the long-term efficacy of the drug.

The results of the pre-clinical tests and clinical trials are submitted to the FDA in the form of a biologic license application for marketing approval. The testing and approval process is likely to require substantial time and effort and there can be no assurance that any approval will be granted on a timely basis, if at all. Additional animal studies or clinical trials may be requested during the FDA review period that may delay marketing approval. After FDA approval for the initial indications, further clinical trials may be necessary to gain approval for the use of the product for additional indications. The FDA requires that adverse affects be reported to the FDA and may also require post-marketing testing to monitor for adverse affects, which can involve significant expense.

The growth in this industry over the last several decades has been accompanied by growth in the extent and complexity of the FDA statutes and regulations, and of the intensity of the FDA's regulations of the development, manufacturing, distribution, marketing, promotion, advertising and use of regulated products. In the last decade, the FDA legal and regulatory obstacles to product commercialization and the penalties of non-compliance have been pivotal factors in the success or failure of companies in our industry. This is particularly true for small, emerging companies developing biopharmaceuticals and other biotechnology products.

Risk Factors

Much of the information included in this current report includes or is based upon estimates, projections or other "forward looking statements". Such forward looking statements include any projections or estimates made by us and our management in connection with our business operations. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions or other future performance suggested herein.

Such estimates, projections or other "forward looking statements" involve various risks and uncertainties as outlined below. We caution the reader that important factors in some cases have affected and, in the future, could materially affect actual results and cause actual results to differ materially from the results expressed in any such estimates, projections or other "forward looking statements".

Our common shares are considered speculative during the development of our new business operations. Prospective investors should consider carefully the risk factors set out below.

Our Company has a limited operating history.

Our company has a limited operating history and must be considered in the development stage. Our company's operations will be subject to all the risks inherent in the establishment of a developing enterprise and the uncertainties arising from the absence of a significant operating history. No assurance can be given that we may be able to operate on a profitable basis.

At present, our success depends solely on the successful commercialization of IVIG for our proposed use as a cancer therapy alternative.

The successful commercialization of IVIG is crucial for our success. This proposed product and its potential application is in an early stage of clinical and manufacturing/process development. It faces a variety of risks and uncertainties. Principally, these risks include the following:

- future clinical trial results may show that IVIG at effective doses is not well tolerated by the recipients or not efficacious as compared to placebo.
- future clinical trial results may be inconsistent with ARP's previous preliminary testing results. Data from our earlier studies may be inconsistent with clinical data.
- even if IVIG is shown to be safe and effective for its intended purpose, we may face significant or unforeseen difficulties in obtaining/manufacturing sufficient quantities at or at reasonable prices.
- our ability to complete the development and commercialization of IVIG for our intended use is significantly dependent upon our ability to obtain and maintain experienced and committed partners to assist us with obtaining clinical and regulatory approvals for, and the manufacturing, marketing and distribution of IVIG on a worldwide basis.

- even if IVIG products are successfully developed, commercially produced and receive all necessary regulatory approvals, there is no guarantee that there will be market acceptance.
- our competitors may develop therapeutics or other treatments which are superior or less costly than our own with the result that our products, even if they are successfully developed, manufactured and approved, may not generate significant revenues

If we are unsuccessful in dealing with any of these risks, or if we are unable to successfully commercialize our IVIG products for some other reason, it would likely seriously harm our business.

We may require significant additional financing before our products may be marketed.

We raised an aggregate of $918,750 in a private placement of our securities in August of 2004 and we anticipate that this amount will only be sufficient to fund our proposed operations for 5 months. Accordingly, our ability to continue develop and, if warranted, commercialize our proposed IVIG products, will be dependent upon our ability to raise significant additional financing. If we are unable to obtain such financing, we will not be able to fully develop and commercialize our technology. Our future capital requirements will depend upon many factors, including:

- continued scientific progress in our research and development programs;

- costs and timing of conducting clinical trials and seeking regulatory approvals and patent prosecutions;

- competing technological and market developments;

- our ability to establish additional collaborative relationships; and

- the effect of commercialization activities and facility expansions if and as required.

We have limited financial resources and to date, no cash flow from operations and we are dependent for funds on our ability to sell our common shares, primarily on a private placement basis. There can be no assurance that we will be able to obtain financing on that basis in light of factors such as the market demand for our securities, the state of financial markets generally and other relevant factors. The method of financing employed by us to date results in increased dilution to the existing shareholders each time a private placement is conducted.

Our success depends on our ability to attract and retain collaborative partners over whom we have limited control.

Our business will likely depend on our ability to enter into arrangements with corporate and academic collaborators relating to the testing, manufacturing, marketing and commercialization of our products. If successful, we are intending to license or sublicense that property to others. We are planning to try to have our partners assume the obligation to manufacture, market and distribute the resulting products. Consequently, our success depends upon our partners' ability to perform these tasks. There can be no assurance that we will be able to establish necessary arrangements on favorable terms, or at all, or that collaborative agreements will be successful.

Our success depends on our ability to protect our proprietary rights and operate without infringing upon the proprietary rights of others.

We plan to continue to protect the technology that we consider important to the development of our business by filing United States and selected foreign patent applications. We currently hold several patents and pending patent applications in the United States and corresponding patents and patent applications filed in certain other countries over IVIG and its proposed use in cancer therapeutics.

The patent position of biopharmaceutical and biotechnology firms, is generally uncertain and involves complex legal and factual questions. We do not know whether any of our current or future patent applications will result in the issuance of any patents. Even issued patents may be challenged, invalidated or circumvented. Patents may not provide a competitive advantage or afford protection against competitors with similar technology. Competitors or potential competitors may have filed applications for, or may have received patents and may obtain additional and proprietary rights to compounds or processes used by or competitive with ours. In addition, laws of certain foreign countries do not protect intellectual property rights to the same extent as do the laws of the United States or Canada.

Patent litigation is becoming widespread in the biotechnology industry and we cannot predict how this will affect our efforts to form strategic alliances, conduct clinical testing or manufacture and market any products under development. If challenged, our patents may not be held valid. We could also become involved in interference proceedings in connection with one or more of our patents or patent applications to determine priority of invention. If we become involved in any litigation, interference or other administrative proceedings, we will likely incur substantial expenses and the efforts of our technical and management personnel will be significantly diverted. In addition, an adverse determination could subject us to significant liabilities or require us to seek licenses that may not be available on favorable terms, if at all. We may be restricted or prevented from manufacturing and selling our products in the event of an adverse determination in a judicial or administrative proceeding or if we fail to obtain necessary licenses.

Our commercial success will also depend significantly on our ability to operate without infringing the patents and other proprietary rights of third parties. Patent applications are, in many cases, maintained in secrecy until patents are issued. The publication of discoveries in the scientific or patent literature

frequently occurs substantially later than the date on which the underlying discoveries were made and patent applications are filed. In the event of infringement or violation of another party's patent, we may be prevented from pursuing product development or commercialization.

In addition to patents, we are planning to rely on trade secrets and proprietary know-how to protect our intellectual property. We are planning to require our employees, consultants, outside scientific collaborators and sponsored researchers and other advisors to enter into confidentiality agreements. These agreements may not provide meaningful protection or adequate remedies in the event of unauthorized use or disclosure of our proprietary information. In addition, it is possible that third parties could independently develop proprietary information and techniques substantially similar to ours or otherwise gain access to our trade secrets.

We may not be able to obtain regulatory approvals that will be necessary to commercialize our products.

The manufacture and sale of therapeutic products in the United States and Canada is governed by a variety of statutes and regulations in both countries. These laws govern the development, testing, manufacture, safety, efficacy, record keeping, labelling, storage, approval, advertising, promotion, sale and distribution of biopharmaceutical products. If our products are ultimately marketed abroad, they would also be subject to extensive regulation by foreign governments. There can be no assurance that we will be able to obtain the required regulatory approvals or comply with the applicable regulatory requirements for any of our IVIG products in development. If we are unable to obtain necessary regulatory approvals, we may not be able to commercialize our products.

The IVIG products currently under development will require significant clinical testing and investment of significant funds prior to commercialization. Securing regulatory approval requires us to submit extensive clinical data and supporting information for each indication to establish the product's efficacy. The process of completing these processes is likely to take a number of years. Any delay in obtaining approvals may:

- adversely affect the successful commercialization of our product(s) that we develop

- diminish any competitive advantages that we may obtain
- adversely affect our receipt of revenues or royalties

Additionally, if we fail to comply with applicable regulatory requirements at any stage during the regulatory process, we may be subject to sanctions, including fines, suspensions, product recalls, production suspensions, civil penalties and criminal prosecution, among other actions.

Even if we are able to commercialize our products, our products may not gain market acceptance.

Whether or not any our products gain market acceptance among the medical community in general, as well as the degree of market acceptance of any of our products, will depend on a number of factors, including:

- establishment and demonstration of clinical usefulness and safety

- cost-effectiveness of the products

- their potential advantage over alternative products

- reimbursement policies of governments and third-party payors

- marketing and distribution support for the products

The success of other products in our market segment in establishing the market, their pricing, their clinical usefulness or other potential advantages or disadvantages, will very likely have a major impact on the success of our product. If our products do not achieve significant market acceptance, our business, financial condition and results of operations will be harmed. In addition, third-party payors such as government health administration authorities, managed care providers and private health insurers are increasingly challenging the price and examining the cost effectiveness of medical products and services. If these third-party payors fail to provide adequate coverage for our products, the market acceptance of the products may be adversely affected.

Competition in our targeted markets is intense and developments by other companies could render our products or technologies non-competitive.

The biotechnology industry is highly competitive and subject to significant and rapid technological change. Developments by other companies within the industry could render our products or technologies non-competitive. Some of these products may be more effective or have an entirely different approach or means of accomplishing the desired effect than our products. We expect technological competition from biotechnology companies and academic research institutions to increase over time.

Many competitors and potential competitors have substantially greater product development capabilities and financial, scientific, marketing and human resources than we do. Our competitors may succeed in developing products earlier and obtaining regulatory approvals and patent protection for such products more rapidly than we can.

Our lack of commercial manufacturing experience means that we will have to incur substantial costs to develop manufacturing facilities or contract with third parties over whom we have limited control to develop our products.

In order to be successful, our products must be manufactured and/or obtained in commercial quantities in compliance with regulatory requirements and at acceptable costs. We do not have facilities to commercially manufacture our

products under development and we must initially obtain the small amounts of products we require for clinical studies from contract manufacturing companies. In order to manufacture our products in commercial quantities, we will need to develop manufacturing facilities or contract with third parties to manufacture our products. We may not be able to develop or otherwise secure access to appropriate facilities and manufacturing contracts with third parties may not be available to us on favorable terms, if at all.

Our lack of marketing and sales experience means that we must rely on the efforts of others to commercialize our products.

We do not have a marketing, sales or distribution capability. We intend to enter into arrangements with third parties to market and sell most of our products. We may not be able to enter into marketing and sales arrangements with others on favorable terms, if at all. To the extent that we enter into marketing and sales arrangements with other companies, our revenues will depend on the efforts of others and which efforts may not be successful. If we are unable to enter into satisfactory third-party arrangements, then we

must develop a marketing and sales force, which may need to be substantial in size, in order to achieve commercial success for any product. We may not successfully develop or obtain the necessary marketing and sales experience or have sufficient resources to do so. If we fail to establish successful marketing and sales capabilities or to enter into successful marketing arrangements with third parties, our business, financial condition and results of operations will be materially adversely affected.

Our development programs and future products subject us to the risk of product liability claims for which we may not be able to obtain adequate insurance coverage.

Human therapeutic products involve the risk of product liability claims and associated adverse publicity. Currently, our principal risks relate to participants in our clinical trials who may become ill or suffer unintended consequences from our IVIG therapeutic. If we ultimately are successful in commercializing a product, claims might be made directly by consumers, healthcare providers or by pharmaceutical companies or others selling or using our products. There can be no assurance that we will be able to obtain or maintain sufficient and affordable insurance coverage for any of these claims and, without sufficient coverage, any claim brought against us could have a materially adverse effect on our business, financial condition or results of operations.

Our business may be harmed if we cannot obtain sufficient quantities of raw materials.

We will be dependent on outside vendors for our entire supply of IVIG. If the third party suppliers were to cease production or otherwise fail to supply us with quality IVIG and we were unable to contract on acceptable terms for these services with alternative suppliers, our ability to produce our products, and to conduct testing and clinical trials would be adversely affected.

If we are unable to enroll sufficient patients and clinical investigators to complete our clinical trials, our development programs could be delayed or terminated.

The rate of completion of our clinical trials, and those of our collaborators, is significantly dependent upon the rate of enrollment of patients and clinical investigators. Patient enrollment is a function of many factors, including:

- efforts of the sponsor and clinical sites involved to facilitate timely enrollment

- patient referral practices of physicians

- design of the protocol

- eligibility criteria for the study in question

- perceived risks and benefits of the drug under study

- the size of the patient population

- availability of competing therapies

- availability of clinical trial sites

- proximity of and access by patients to clinical sites

We may have difficulty obtaining sufficient patient enrollment or clinician participation to conduct our clinical trials as planned, and we may need to expend substantial additional funds to obtain access to resources or delay or modify our plans significantly. These considerations may lead us to consider the termination of ongoing clinical trials or development of a product for a particular indication.

Our collaborations with scientific advisors and academic institutions may be subject to restriction and change.

We plan on working with scientific advisors and academic collaborators who will assist us in our ongoing research and development efforts. These scientists will not be our employees and may have other commitments that limit their availability to us. If a conflict of interest arises between their work for us and their work for another entity, we may lose their services. In addition, although we plan on our scientific advisors and academic collaborators signing non-disclosure agreements, it is possible that valuable proprietary knowledge may become publicly known which would compromise our competitive advantage.

We are subject to intense competition for skilled personnel and the loss of key personnel or the inability to attract and retain additional personnel could impair our ability to conduct our operations.

We will be highly dependent on the principal members of our management and scientific staff, especially Dr. Dan J. Gelvan, the Chief Executive Officer of Gammacan, Ltd., and Professor Yehuda Shoenfeld, M.D., the Chief Scientist of Gammacan, Ltd. The loss of whose services might adversely impact the achievement of our objectives and the continuation of existing collaborations. In addition, recruiting and retaining qualified scientific personnel to perform future research and development work will be critical to our success. There is currently a shortage of employees with expertise in our areas of research and clinical and regulatory affairs, and this shortage is likely to continue. Competition for skilled personnel is intense and turnover rates are high. Our ability to attract and retain qualified personnel may be limited.

"Penny Stock" Rules may restrict the market for the Company's shares

Our shares of common stock are subject to rules promulgated by the Securities and Exchange Commission relating to "penny stocks," which apply to companies whose shares are not traded on a national stock exchange or on the NASDAQ system, trade at less than $5.00 per share, or who do not meet certain other financial requirements specified by the Securities and Exchange Commission. These rules require brokers who sell "penny stocks" to persons other than established customers and "accredited investors" to complete certain documentation, make suitability inquiries of investors, and provide investors with certain information concerning the risks of trading in the such penny stocks. These rules may discourage or restrict the ability of brokers to sell our shares of common stock and may affect the

secondary market for our shares of common stock. These rules could also hamper our ability to raise funds in the primary market for our shares of common stock.

Our share price will likely become highly volatile.

Factors such as announcements of technological innovations, new commercial products, patents, the development of technologies (by us or others), results of clinical studies, regulatory actions, publications, financial results or public concern over the safety of our products or other related products and other factors could have a significant effect on the market price of our common shares.

Our Principal Research and Development Facilities are Located in Israel, which Has Historically Experienced Military and Political Unrest.

Our principal research and development facilities are located in Israel. As a result, we are directly influenced by the political, economic and military conditions affecting Israel. Any major hostilities involving Israel, or the interruption or curtailment of trade between Israel and its present trading partners, could significantly harm our business, operating results and financial condition.

Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors and, since September 2000, involving the Palestinian population, and a state of hostility, varying in degree and intensity, has led to security and economic problems for Israel and companies based in Israel. Acts of random terrorism periodically occur which could affect our operations or personnel. In addition, Israeli-based companies and companies doing business with Israel, have been the subject of an economic boycott by members of the Arab League and certain other predominantly Muslim countries since Israel's establishment. Although Israel has entered into various agreements with certain Arab countries and the Palestinian Authority, and various declarations have been signed in connection with efforts to resolve some of the economic and political problems in the Middle East, the Company cannot predict whether or in what manner these problems will be resolved. Also, since the end of September 2000, there has been a marked increase in the level of terrorism in Israel, which has significantly damaged both the Israeli economy and levels of foreign and local investment.

In addition, certain of our officers and employees may be obligated to perform annual reserve duty in the Israel Defense Forces and are subject to being called up for active military duty at any time. All Israeli male citizens who have served in the army are subject to an obligation to perform reserve duty until they are between 45 and 54 years old, depending upon the nature of their military service.

Indemnification of Directors, Officers and Others

Our by-laws contain provisions with respect to the indemnification of our officers and directors against all expenses (including, without limitation, attorneys' fees, judgments, fines, settlements, and other amounts actually and reasonably incurred in connection with any proceeding arising by reason of the fact that the person is one of our officers or directors) incurred by an officer or director in defending any such proceeding to the maximum extent permitted by Delaware law.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of our company under Delaware law or otherwise, we have been advised the opinion of the Securities and Exchange Commission is that such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable.

Because some of our officers and directors are located in non-U.S. jurisdictions, you may have no effective recourse against the management for misconduct and may not be able to enforce judgement and civil liabilities against our officers, directors, experts and agents.

All of our directors and officers are nationals and/or residents of countries other than the United States, and all or a substantial portion of their assets are located outside the United States. As a result, it may be difficult for investors to enforce within the United States any judgments obtained against our officers or directors, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any U.S. state.

There is a possibility you may experience future dilution of the shares.

Our constating documents authorize the issuance of 100,000,000 shares of common stock, each with a par value of $0.0001. In the event that we are required to issue any additional shares or enter into private placements to raise financing through the sale of equity securities, investors' interests in our company will be diluted and investors may suffer dilution in their net book value per share depending on the price at which such securities are sold. If we issue any such additional shares, such issuance also will cause a reduction in the proportionate ownership and voting power of all other shareholders. Further, any such issuance may result in a change in our control.

Anti-Takeover Provisions

We do not currently have a shareholder rights plan or any anti-takeover provisions in our By-laws. Without any anti-takeover provisions, there is no deterrent for a take-over of our company, which may result in a change in our management and directors.

PLAN OF OPERATIONS

We currently have no revenue from operations, we are in a start-up phase with our existing assets and we have no significant assets, tangible or intangible. There can be no assurance that we will generate revenues in the future, or that we will be able to operate profitably in the future, if at all. We have incurred net losses in each fiscal year since inception of our operations.

Our initial focus over the next several years is to demonstrate efficacy of IVIG cancer immunotherapy in human clinical trials. Efficacy is the ability of a drug or other treatment to produce the desired result when taken by its intended users. If ultimately proven to be successful, and there can be no assurance that it will be, we could be well-positioned to enter a licensing agreement with a major pharmaceutical partner for commercial market development and sales.

We plan to begin enrolling patients within the first two quarters following closing, for a Phase II study using IVIG immunotherapy as an adjunct treatment for a wide range of cancers. Since IVIG is an established, safe therapy, we will not be required to conduct Phase I studies. Phase II clinical trials will be conducted at two or three medical centers in Israel. It is expected to take six months to enroll patients. We are planning on including several different cancers in the trial, some of which metastasize and progress quickly, so statistically significant preliminary results may be available after one year. We will continue to monitor patients for at least two years. If successful or promising, and at this preliminary stage there is no assurance they will be, results of these clinical trials will be used to enter into discussions with a major pharmaceutical partner to work with us to potentially commercialize the products.

We estimate that it will take about thirty months to complete Phase III trials and receive regulatory approval to market IVIG immunotherapy. In 2007, when we anticipate IVIG immunotherapy may be available commercially for treating cancer, provided that the trials are successful, clinical trial results and applications for the products will be published.

These studies will enable physicians to study and ultimately prescribe IVIG therapy for a range of specific cancers. Subsequent post-marketing studies would then also be conducted to further evaluate efficacy for different population groups and different stages of disease progression.

We are also planning to conduct additional clinical trials to test new formulations of IVIG and to test IVIG immunotherapies for different cancers at different stages of disease progression with varying dosages and routes of administration. Our goal is to partner with a pharmaceutical company to conduct

these further Phase II and Phase III trials, in order to attain broad-based regulatory approval.

Long Term Business Strategy

As noted previously, if IVIG shows significant promise thorough clinical trials, we plan to ultimately seek a strategic commercial partner with extensive experience commercializing and marketing cancer drugs. It is envisaged that the partner would be responsible to ensure that regulatory approvals are achieved in a timely manner and that our IVIG immunotherapies penetrate the cancer market rapidly following FDA approval. This planned strategic partnership could provide a marketing and sales infrastructure for our products as well as financial and operational support for global trials and other FDA requirements concerning future clinical development. Our future pharmaceutical partner could also provide capital and expertise that would enable the partnership to develop new formulations of IVIG cancer immunotherapy suitable for patients at different stages of disease progression.

We also plan to establish a close relationship with at least one producer of IVIG products to co-develop new product formulations and to provide us with IVIG for further pre-clinical testing and clinical trials. There is considerable expertise involved in producing IVIG and significant expense and infrastructure involved in collecting and testing blood. Working together with a partner in the industry will expedite new product formulation, production and ensure a safe standardized product.

Other Research and Development Plans

In addition to conducting early-stage clinical trials, we plan to conduct research to develop alternative delivery systems, to determine the optimal dosage for different patient groups and to investigate alternative sources of immunoglobulin other than human plasma. We plan to conduct research to isolate the fraction of IVIG, which is responsible for its anti-metastasis effects and to develop a synthetic version of IVIG. These formulations will be suitable for:

- Low-dose, preventative therapy for disease-free, high-risk individuals,
- Strong dose for use in conjunction with surgery and other cancer treatments, and
- Maintenance dose for use to prevent recurrence of cancer growth.

Our plan is to patent any successful inventions resulting from our further research activities.

Planned Expenditures

The estimate expenses referenced herein are in accordance with the business plan. As the technology is still in the development stage, it can be expected that there will be changes in some budgetary items. Our planned expenditures for the next 12 months include:

Category	Amount
Research &Development	
	$70,000
Salaries	$200,000
Contract	$400,000
Clinical Trials	$20,000
Patents and IP	$120,000
Other	
Marketing	
	$140,000
Salaries	$160,000
Other	
General & Administrative Expenses	
	$150,000
Salaries	$40,000
Consultants	$50,000
Travel	$180,000
Professional fees	$200,000
Office and other	
Total	$1,730,000

We are also considering expanding and accelerating our planned clinical trials program for IVIG. Ultimately, such a change may enable our company to commercialize the product sooner if the trials prove to be successful. If we decide to adjust our program, we anticipate that our related clinical trial costs over the next 12 months would increase by approximately $1 million. The decision to proceed will be based on several major factors, one of which is the ability of our company to attract sufficient financing on acceptable terms.

DESCRIPTION OF PROPERTY

During the quarter ended June 30,2004, we relocated our operations to Suite 1500, 800 West Pender Street, Vancouver, B.C. Canada, V6C 2V6. We occupy less than 100 square feet on a rent free basis.

We plan to relocate and establish office and laboratory facilities of approximately 150 square meters (1,700 square feet) within six months and to add another 250 square meters of space in 2006 or 2007 as the Company grows. During an initial period, the Company plans to rent small offices.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Principal Stockholders

The following table sets forth, as of August 25, 2004, certain information with respect to the beneficial ownership of our common stock by each stockholder known by us to be the beneficial owner of more than 5% of our common

stock, as well as by each of our current directors and executive officers. Each person has sole voting and investment power with respect to the shares of common stock, except as otherwise indicated. Beneficial ownership consists of a direct interest in the shares of common stock, except as otherwise indicated.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership(1)	Percentage of Class(1)
Yair Aloni Director of our company 12A Shabazy St. Tel Aviv, Israel	280,005 common shares	1.11%
Yehuda Shoenfeld Chief Scientist of Gammacan, Ltd. 26 Sapir St. Ramat Gen Israel	699,996 common shares	2.78%
David Stephens Chief Executive Officer and a director of our company 9830 72th St. Edmonton, A.B. T6A 2W1 Canada	135,000 common shares (2)	0.54%
Zeev Bronfeld 6 Uri St. Tel Aviv, Israel	3,900,006 common shares	15.46%
Vered Caplan 69 Deganyq St. Pares Hanna Karkur Israel	3,900,006 common shares	15.46%
L.H. Osterloh 1305 1090 West Georgia St. Vancouver, B.C. V6E 3V7 Canada	1,650,000 common shares	6.54%
Vantech Securities Ltd. 1305 1090 West Georgia St. Vancouver, B.C. V6E 3V7 Canada	1,650,000 common shares	6.54%
Directors and Executive Officers as a Group	1,115,001 common shares	4.42%

(1) Based on 25,221,510 shares of common stock issued and outstanding as of August 25, 2004. Except as otherwise indicated, we believe that the beneficial owners of the common stock listed above, based on information furnished by such owners, have sole investment and voting power with respect to such shares, subject to community property laws

where applicable. Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Shares of common stock subject to options or warrants currently exercisable, or exercisable within 60 days, are deemed outstanding for purposes of computing the percentage ownership of the person holding such option or warrants, but are not deemed outstanding for purposes of computing the percentage ownership of any other person.

(2) These 135,000 shares of common stock are owned by 669477 Alberta, Ltd., a company owned by Mr. David Stephens.

DIRECTORS AND EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS

As at August 25, 2004, our directors and executive officers, their ages, positions held, and duration of such, are as follows:

Name	Position Held with our Company	Age	Date First Elected or Appointed
David Stephens	President, Chief Executive Officer and Director of our company	48	June 21, 2004
Shmuel Levi	Director of our company and Gammacan, Ltd.	54	Director of our company and Gammacan, Ltd. since August 17, 2004
Yair Aloni	Director of our company and Gammacan, Ltd.	54	Director of our company and Gammacan, Ltd. since August 17, 2004
Dr. Dan J. Gelvan	Chief Executive Officer of Gammacan, Ltd.	40	August 17, 2004
Tovi Ben Zeev	Chief Financial Officer of Gammacan, Ltd.	52	August 17, 2004
Miriam Sani	Director of Gammacan, Ltd.	42	May 20, 2004
Prof. Yehuda Shoenfeld, M.D.	Chief Scientist of Gammacan, Ltd.	56	August 17, 2004

Business Experience

The following is a brief account of the education and business experience during at least the past five years of each director, executive officer and key employee, indicating the principal occupation during that period, and the name and principal business of the organization in which such occupation and employment were carried out.

David Stephens

Mr. Stephens is the President, Chief Executive Officer and a director of our company. From 1999 to 2004, Mr. Stephens has been self-employed as an independent business consultant. Mr. Stephens provides consulting services in the areas of finance, operations and regulatory disclosure. He has provided services to a number of public and private companies conducting business in telecommunications, hydrocarbon exploration and services, and biotechnology. From late 1995 to 1999 he was the Chief Financial Officer of Telelink Communications Corp. and the President of its manufacturing division. Telelink was a public company listed on the CDNX exchange in Canada and provided national wireless paging services and paging infrastructure equipment. From 1992 to 1995 he was the President, Chief Executive Officer and Chief Financial Officer of the Novatel finance companies, owned by the Government of the Province of Alberta, which provided startup financing for the US cellular industry. Prior to 1992, he served as the Chief Financial Officer for several publicly listed local financial institutions, and emerging technology companies. Mr. Stephens is also an officer and director of Descorp, Inc., a US domestic reporting company that is not currently listed on any exchange.

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Mr. Yair Aloni

Mr. Aloni is a director of our company and our subsidiary, Gammacan, Ltd. He brings over 25 years experience as a senior executive in a number of companies. From 2002 to present, he has served as the Chief Executive Officer of Solidimension Ltd., a private company specializing in 3D printers. From 1996 to 2002, Mr. Aloni served as the Chief Executive Officer of Avnan Yazamut Ltd., a company involved in the investments in companies in the fields of high technology, biotechnology and electronics. Prior to 1996, Mr. Aloni worked as an executive or senior manager of several electronic and auto parts companies. Mr. Aloni graduated from the Technion, Israel Institute of Technology in 1980 with a specialization in Management and Marketing for Managers.

Mr. Shmuel Levi

Mr. Levi is also a director of our company and our subsidiary, Gammacan, Ltd. He has held senior level financial management positions for over 28 years, for major organizations, high tech and start-up companies in Israel. These include serving as the Chief Financial Officer of Rafael Group from 1996 to 1999, the Corporate Finance Manager of Strauss Group from 1991 to 1996 and a Senior Vice President for Finance of North Hills Israel Ltd. For the last 5 years, Mr. Levi concentrated in high-tech and start-up companies using his expertise in performing due diligence, fundraising, public offerings and structuring financial and legal transactions. From 2003 to 2004, he acted as the Chief Financial Officer of Pluristem Life Systems, Inc., a biotechnology company whose shares are quoted on the NASD Over the Counter Bulletin Board. Mr. Levi received a M.Sc. and B.Sc. in Economics and Management from the Technion, Israel Institute of Technology in 1976.

Dr. Dan J. Gelvan

Dr. Gelvan is the Chief Executive Officer of our subsidiary, Gammacan, Ltd. He is an experienced life science executive who brings to us an unique combination of operational and strategic management. Over the past 6 years, Dr. Gelvan founded and managed Zetiq Technologies Ltd. an industry leader in cell-based high-throughput screening for novel anti-cancer drugs. Under Dr. Gelvan's management, Zetiq Technologies Ltd. initiated collaborative research projects with a number of leading pharmaceutical and biotechnology companies and successfully discovered a number of new lead compounds. For the two year period prior to founding Zetiq Technologies Ltd., Dr. Gelvan held a number of strategic and business development positions in Clal (Israel) Ltd, one of Israel's largest holding conglomerates. Dr. Gelvan is a member of Israel's National Committee for Biotechnology, and holds a Ph.D. in Business Economics from Roskilde University in Denmark as well as a BA and MA (*cum laude*) in economics from the Hebrew University of Jerusalem.

Ms. Tovi Ben-Zeev

Ms. Ben-Zeev is the Chief Financial Officer of our subsidiary, Gammacan, Ltd. She brings 25 years of senior level financial experience to Gammacan. Ms. Ben-Zeev is a Certified Public Accountant in Israel and holds an MBA from Rutgers University of New Jersey. She also holds an M.Sc. in Physical Chemistry from Bar Ilan University in Israel. Before her appointment as the Chief Financial Officer of Gammacan, Ltd., Ms. Ben-Zeev was the Chief Financial Officer of Zikit Ltd. from 1987 to 1993, a leading Israeli textile processor whose shares are listed on the Tel-Aviv Stock Exchange. From 1997 to 1999, she acted as the Chief Financial Officer and Chief Operating Officer of Sensotech Ltd., a developer of intelligent safety systems. From 1999 to 2001, she acted as the Chief Financial Officer and Chief

Operating Officer of Eldan Electronic Instruments Ltd., a leading representative of a number of medical devices and life science companies.

Ms. Miri Sani

Ms. Sani is a director of our subsidiary, Gammacan, Ltd. Since 2003, she has been an independent consultant specializing in clinical trials and regulatory affairs related to the bio-pharmaceutical industry. She focuses her advice and services on bio-pharmaceutical research and development programs, related regulatory affairs, and has recently completed several clinical trials and regulatory affairs programs for emerging medical and biotech companies. From 1999 to 2003, she acted as the Vice President of Regulatory Affairs and Clinical Studies for MTRE, a company specializing in various medical treatments. Ms. Sani received her Masters Degree in Biotechnology and Food Engineering from the Technion, Israel Institute of Technology in 1998.

Prof. Yehuda Shoenfeld, M.D.

Prof. Shoenfeld is the Chief Scientist of our subsidiary, Gammacan, Ltd. He is one of Israel's leading physicians and scientists in the field of immunology. Since 1989, Prof. Shoenfeld has lead the Department of Internal Medicine "B", and the Research Center for Autoimmune Diseases at the Sheba Medical Center, Israel's largest hospital. In 1990, Dr. Shoenfeld was appointed a Professor of Medicine at Tel Aviv University and incumbent of the Laura Schwartz-Kipp Chair for Autoimmunity. He is the author of more than 1,000 scientific papers and more than 40 scientific books.

Committees of the Board

We do not have an audit or compensation committee at this time. Our entire board of directors will operate as the audit committee until such time when an audit committee is appointed.

Family Relationships

There are no family relationships between any of our directors or executive officers.

Involvement in Certain Legal Proceedings

Other than as discussed below, none of our directors, executive officers, promoters or control persons have been involved in any of the following events during the past five years:

1. any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;

2. any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offences);

3. being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; or

4. being found by a court of competent jurisdiction (in a civil action), the Commission or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended, or vacated.

EXECUTIVE COMPENSATION

The following table summarizes the compensation of Christopher Greenwood, the former President and director of our company, during the last three fiscal years ended September 30, 2001, 2002, and 2003. No other officers or directors received annual compensation in excess of $100,000 during the most recently completed fiscal year.

		Annual Compensation			Long Term Compensation		Pay-outs
Name and Principal Position	Year	Salary	Bonus	Other Annual Compen-sation	Securities Under Options/ SAR's Granted	Restricted Shares or Restricted Share Units	LTIP Pay-outs
Christopher Greenwood(1) Former President & Director	2003 2002 2001	Nil Nil Nil	$Nil $Nil $Nil	Nil Nil Nil	Nil Nil Nil	Nil Nil Nil	Nil Nil Nil

(1)

Mr. Christopher Greenwood resigned as our President and director on June 21, 2004.

Employment/Consulting Agreements

On August 17, 2004, we entered into a written employment agreement with Dr. Dan J. Gelvan, who currently serves as the Chief Executive Officer of our subsidiary, Gammacan, Ltd. Dr. Gelvan will receive a monthly salary of $8,000 for the first three months of his services and will receive a monthly salary of $9,250 thereafter. Dr. Gelvan will also be entitled to receive options under the 2004 Employees and Consultant Stock Option Plan to purchase up to 1,400,000 common shares of our company at the exercise price of $1.30 per share. Either Dr. Gelvan or our company may terminate the employment agreement with Dr. Gelvan without cause, for any reason whatsoever, with 30 days notice within the first year of the his engagement and with 90 days prior written notice thereafter.

On August 17, 2004, we also entered into a written employment agreement with Ms. Tovi Ben Zeev, who currently serves as the Chief Financial Officer of our subsidiary, Gammacan, Ltd. Ms. Ben Zeev will receive a monthly salary of $1,300 for her services as the Chief Financial Officer of Gammacan, Ltd. Ms. Ben Zeev will also be entitled to receive options under the 2004 Employees and Consultant Stock Option Plan to purchase up to 50,000 common shares of our company at the exercise price of $1.30 per share. Either Ms. Ben Zeev or our company may terminate the employment agreement with Ms. Ben Zeev without cause, for any reason whatsoever, with 30 days notice.

On August 17, 2004, we entered into a services agreement with Professor Yehuda Shoenfeld, M.D., who will serve as the Chief Scientist of our subsidiary, Gammacan, Ltd., commencing on September 1, 2004. Prof. Shoenfeld will receive a monthly compensation in the amount of 22,685 NIS (New Israel Shekels), or approximately $5,000 USD, for his services as the Chief Scientist of Gammacan, Ltd. Either Prof.

Shoenfeld or our company may terminate the services agreement with Prof. Shoenfeld without cause, for any reason whatsoever, with 30 days notice.

We do not have any material bonus or profit sharing plans pursuant to which cash or non-cash compensation is or may be paid to our directors or executive officers. When a compensation committee of our board of directors is created, arrangements and plans to provide pension, retirement or similar benefits for directors or executive officers will be decided upon by the compensation committee.

Stock Option Plan

On August 17, 2004, our board of directors adopted the 2004 Employees and Consultants Stock Option Plan in order to attract and retain quality personnel. Under the 2004 Employees and Consultants Stock Option Plan, 5,000,000 shares have been reserved for the grant of options, which may be issued at the discretion of our board of directors from time to time.

Stock Options/SAR Grants

There were no grants of stock options or stock appreciation rights to any officers, directors, consultants or employees of our company during the fiscal year ended September 30, 2003. On August 17, 2004, we granted options to Dr. Dan J. Gelvan under the 2004 Employees and Consultants Stock Option Plan to allow Dr. Gelvan to purchase up to 1,400,000 common shares of our company at an exercise price of $1.30 per share. On the same date, we also granted options to Ms. Tovi Ben Zeev under the 2004 Employees and Consultants Stock Option Plan to allow Ms. Ben Zeev to purchase up to 50,000 common shares of our company at an exercise price of $1.30 per share. The options granted to Dr. Gelvan and Ms. Ben Zeev are exercisable until August 17, 2014.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Values

The following table sets forth, for Mr. Christopher Greenwood, who served as the President and the sole director of our company until June 21, 2004, stock options exercised during fiscal year ended September 30, 2003 and the fiscal year-end value of unexercised options:

Name	Shares Acquired on Exercise (#)	Value Realized ($)	Number of Securities Underlying Unexercised Options/SARs at September 30, 2003 Exercisable/ Unexercisable	Value of Unexercised In-the-Money Options at September 30, 2003 Exercisable/ Unexercisable
Christopher Greenwood[(1)] President	Nil	Nil	Nil	Nil

(1)

Mr. Christopher Greenwood resigned as our President and director on June 21, 2004.

Directors Compensation

We reimburse our directors for expenses incurred in connection with attending board meetings but did not pay director's fees or other cash compensation for services rendered as a director in the year ended September 30, 2003.

Other than the 2004 Employees and Consultants Stock Option Plan, we have no formal plan for compensating our directors for their service in their capacity as directors, although in the future, such directors are expected to receive compensation in addition to options to purchase shares of common stock as awarded under the 2004 Employees and Consultants Stock Option Plan. Directors are entitled to reimbursement for reasonable travel and other out-of-pocket expenses incurred in connection with attendance at meetings of our board of directors. The board of directors may award special remuneration to any director undertaking any special services on behalf of our company other than services ordinarily required of a director. Other than indicated in this annual report, no director received and/or accrued any compensation for his or her services as a director, including committee participation and/or special assignments.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Except as otherwise indicated below, we have not been a party to any transaction, proposed transaction, or series of transactions in which the amount involved exceeds $60,000, and in which, to its knowledge, any of its directors, officers, five percent beneficial security holder, or any member of the immediate family of the foregoing persons has had or will have a direct or indirect material interest:

Mr. Yair Aloni, a director of our company, and Professor Yehuda Shoenfeld, M.D., the Chief Scientist of our subsidiary, Gammacan, Ltd., are authorized signatories of ARP Biomed Ltd. for the Intellectual Property Purchase and Sale Agreement we entered into with ARP Biomed Ltd. on June 11, 2004.

Item 9.01 Financial Statements and Exhibits.

Financial Statements

Not Applicable.

Exhibits

Copies of the following documents are included as exhibits to this report pursuant to Item 601 of Regulation S-B.

SEC Ref. No. Title of Document

(3) Articles of Incorporation, By-laws

3.1 Articles of Incorporation (incorporated by reference from our Form 10-SB Registration Statement, filed June 4, 2001).

3.2 Bylaws (incorporated by reference from our Form 10-SB Registration Statement, filed June 4, 2001).

3.3 Certificate of Amendment of Certificate of Incorporation, dated April 23, 2004 (incorporated by reference from our Form 8-K Current Report, filed June 8, 2003).

(10) Material Contracts

10.1 Sale of Intellectual Property Agreement dated June 11, 2004 between Gammacan, Ltd. and ARP Biomed, Ltd. (incorporated by reference from our Form 8-K Current Report, filed June 22, 2004).

10.2 Capital Note dated August 17, 2004 issued by Gammacan, Ltd. to San Jose International, Inc. for repayment of $800,000 loan.

10.3 Employment Agreement dated August 17, 2004 between Gammacan Ltd. and Dr. Dan J. Gelvan.

10.4 Employment Agreement dated August 17, 2004 between Gammacan Ltd. and Ms. Tovi Ben Zeev.

10.5 Services Agreement dated August 17, 2004 between Gammacan, Ltd. and Prof. Yehuda Shoenfeld, M.D.

10.6J004 Employees and Consultants Stock Compensation Plan.

(21) Subsidiaries

21.1 Gammacan, Ltd.

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 hereunto duly authorized.

GAMMACAN INTERNATIONAL, INC.

Date: August 31, 2004

/s/ David Stephens
David Stephens, President and Director

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171,744

Retained Earnings

163,181

149,666

Accumulated Other Comprehensive (Loss) Income

4,160

(6,404
)
TOTAL SHAREHOLDERS' EQUITY

354,954

330,267

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY

$
3,004,803

$
2,955,994

End of period shares issued and outstanding [(1)]

22,929,627

22,904,157

[(1)] Share data has been adjusted to reflect a 3-for-2 stock split on April 21, 2017.

See accompanying notes to consolidated financial statements.

GERMAN AMERICAN BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
(unaudited, dollars in thousands except per share data)

	Three Months Ended June 30,	
	2017	2016
INTEREST INCOME		
Interest and Fees on Loans	$22,602	$22,670
Interest on Federal Funds Sold and Other Short-term Investments	27	20
Interest and Dividends on Securities:		
Taxable	2,702	2,287
Non-taxable	2,070	1,873
TOTAL INTEREST INCOME	27,401	26,850
INTEREST EXPENSE		
Interest on Deposits	1,626	1,326
Interest on FHLB Advances and Other Borrowings	962	853
TOTAL INTEREST EXPENSE	2,588	2,179
NET INTEREST INCOME	24,813	24,671
Provision for Loan Losses	350	350
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	24,463	24,321
NON-INTEREST INCOME		
Trust and Investment Product Fees	1,350	1,223
Service Charges on Deposit Accounts	1,478	1,534
Insurance Revenues	1,744	1,605
Company Owned Life Insurance	480	247
Interchange Fee Income	1,156	873
Other Operating Income	630	722
Net Gains on Sales of Loans	959	883
Net Gains on Securities	—	968
TOTAL NON-INTEREST INCOME	7,797	8,055
NON-INTEREST EXPENSE		
Salaries and Employee Benefits	11,460	10,184
Occupancy Expense	1,570	1,614
Furniture and Equipment Expense	654	604
FDIC Premiums	232	339
Data Processing Fees	1,044	1,181
Professional Fees	913	780
Advertising and Promotion	630	629
Intangible Amortization	242	312
Other Operating Expenses	2,251	2,696
TOTAL NON-INTEREST EXPENSE	18,996	18,339
Income before Income Taxes	13,264	14,037
Income Tax Expense	3,425	4,249
NET INCOME	$9,839	$9,788

Basic Earnings per Share [1]	$0.43	$0.43
Diluted Earnings per Share [1]	$0.43	$0.43
Dividends per Share [1]	$0.13	$0.12

[1] Per share data has been adjusted to reflect a 3-for-2 stock split on April 21, 2017.

See accompanying notes to consolidated financial statements.

GERMAN AMERICAN BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
(unaudited, dollars in thousands except per share data)

	Six Months Ended June 30,	
	2017	2016
INTEREST INCOME		
Interest and Fees on Loans	$44,864	$41,334
Interest on Federal Funds Sold and Other Short-term Investments	54	37
Interest and Dividends on Securities:		
Taxable	5,421	4,564
Non-taxable	4,095	3,595
TOTAL INTEREST INCOME	54,434	49,530
INTEREST EXPENSE		
Interest on Deposits	3,069	2,481
Interest on FHLB Advances and Other Borrowings	1,827	1,594
TOTAL INTEREST EXPENSE	4,896	4,075
NET INTEREST INCOME	49,538	45,455
Provision for Loan Losses	850	1,200
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	48,688	44,255
NON-INTEREST INCOME		
Trust and Investment Product Fees	2,593	2,244
Service Charges on Deposit Accounts	2,962	2,767
Insurance Revenues	4,384	4,332
Company Owned Life Insurance	734	462
Interchange Fee Income	2,179	1,661
Other Operating Income	1,487	1,235
Net Gains on Sales of Loans	1,646	1,603
Net Gains on Securities	—	968
TOTAL NON-INTEREST INCOME	15,985	15,272
NON-INTEREST EXPENSE		
Salaries and Employee Benefits	22,904	21,785
Occupancy Expense	3,119	2,993
Furniture and Equipment Expense	1,287	1,112
FDIC Premiums	471	667
Data Processing Fees	2,055	3,346
Professional Fees	1,716	2,098
Advertising and Promotion	1,408	1,173
Intangible Amortization	495	520
Other Operating Expenses	4,577	4,885
TOTAL NON-INTEREST EXPENSE	38,032	38,579
Income before Income Taxes	26,641	20,948
Income Tax Expense	7,246	6,014
NET INCOME	$19,395	$14,934

Basic Earnings per Share [1]	$0.85	$0.68
Diluted Earnings per Share [1]	$0.85	$0.68
Dividends per Share [1]	$0.26	$0.24

[1] Per share data has been adjusted to reflect a 3-for-2 stock split on April 21, 2017.

See accompanying notes to consolidated financial statements.

GERMAN AMERICAN BANCORP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited, dollars in thousands)

	Three Months Ended June 30,	
	2017	2016
NET INCOME	$9,839	$9,788
Other Comprehensive Income:		
Unrealized Gains on Securities		
Unrealized Holding Gain Arising During the Period	10,133	6,134
Reclassification Adjustment for Losses (Gains) Included in Net Income	—	(968)
Tax Effect	(3,567)	(1,812)
Net of Tax	6,566	3,354
Total Other Comprehensive Income	6,566	3,354
COMPREHENSIVE INCOME	$16,405	$13,142

	Six Months Ended June 30,	
	2017	2016
NET INCOME	$19,395	$14,934
Other Comprehensive Income:		
Unrealized Gains on Securities		
Unrealized Holding Gain Arising During the Period	16,312	12,343
Reclassification Adjustment for Losses (Gains) Included in Net Income	—	(968)
Tax Effect	(5,748)	(3,992)
Net of Tax	10,564	7,383
Total Other Comprehensive Income	10,564	7,383
COMPREHENSIVE INCOME	$29,959	$22,317

See accompanying notes to consolidated financial statements.

GERMAN AMERICAN BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, dollars in thousands)

	Six Months Ended June 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$19,395	$14,934
Adjustments to Reconcile Net Income to Net Cash from Operating Activities:		
Net Amortization on Securities	1,669	1,884
Depreciation and Amortization	2,317	2,227
Loans Originated for Sale	(57,304)	(53,059)
Proceeds from Sales of Loans Held-for-Sale	64,286	60,430
Provision for Loan Losses	850	1,200
Gain on Sale of Loans, net	(1,646)	(1,603)
Gain on Securities, net	—	(968)
Loss (Gain) on Sales of Other Real Estate and Repossessed Assets	(7)	1
Loss on Disposition and Donation of Premises and Equipment	2	5
Increase in Cash Surrender Value of Company Owned Life Insurance	(759)	(502)
Equity Based Compensation	637	528
Change in Assets and Liabilities:		
Interest Receivable and Other Assets	(196)	5,736
Interest Payable and Other Liabilities	(751)	(2,307)
Net Cash from Operating Activities	28,493	28,506
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Other Short-term Investments	—	(1,000)
Proceeds from Maturity of Other Short-term Investments	—	248
Proceeds from Maturities, Calls, Redemptions of Securities Available-for-Sale	40,792	46,809
Proceeds from Sales of Securities Available-for-Sale	—	105,339
Purchase of Securities Available-for-Sale	(56,941)	(91,368)
Proceeds from Maturities of Securities Held-to-Maturity	—	95
Purchase of Federal Home Loan Bank Stock	—	(1,350)
Purchase of Loans	(59)	(4,488)
Loans Made to Customers, net of Payments Received	(43,297)	(74,838)
Proceeds from Sales of Other Real Estate	190	869
Property and Equipment Expenditures	(3,302)	(1,504)
Acquisition of River Valley Bancorp	—	(793)
Net Cash from Investing Activities	(62,617)	(21,981)
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in Deposits	13,909	45,673
Change in Short-term Borrowings	(18,851)	(24,888)
Advances in Long-term Debt	50,000	—
Repayments of Long-term Debt	(25,804)	(20,096)
Issuance of Common Stock	(29)	54
Dividends Paid	(5,880)	(5,137)
Net Cash from Financing Activities	13,345	(4,394)
Net Change in Cash and Cash Equivalents	(20,779)	2,131

Cash and Cash Equivalents at Beginning of Year	64,816	52,009
Cash and Cash Equivalents at End of Period	$44,037	$54,140
Cash Paid During the Period for		
Interest	$4,913	$3,901
Income Taxes	7,239	5,133
Supplemental Non Cash Disclosures		
Loans Transferred to Other Real Estate	$1,230	$10
Reclassification of Land to Other Assets	330	—

See accompanying notes to consolidated financial statements.

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017
(unaudited, dollars in thousands except share and per share data)

NOTE 1 – Basis of Presentation

German American Bancorp, Inc. operates primarily in the banking industry. The accounting and reporting policies of German American Bancorp, Inc. and its subsidiaries (hereinafter collectively referred to as the "Company") conform to U.S. generally accepted accounting principles. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted. All adjustments which are, in the opinion of management, necessary for a fair presentation of the results for the periods reported have been included in the accompanying unaudited consolidated financial statements, and all such adjustments are of a normal recurring nature. It is suggested that these consolidated financial statements and notes be read in conjunction with the financial statements and notes thereto in the Company's Annual Report on Form 10-K for the year ended December 31, 2016. Certain items included in the prior period financial statements were reclassified to conform to the current presentation. There was no effect on net income or total shareholders' equity based on these reclassifications.

NOTE 2 - Common Stock Split

On March 27, 2017, the Company declared a 3-for-2 stock split on the Company's authorized and outstanding common shares. The stock split was distributed on April 21, 2017, to shareholders of record as of April 6, 2017. All share and per share data in this Quarterly Report on Form 10-Q relating to a date or period that precedes April 21, 2017 have been adjusted to retroactively reflect the stock split.

NOTE 3 – Per Share Data

The computation of Basic Earnings per Share and Diluted Earnings per Share are as follows:

	Three Months Ended June 30,	
	2017	2016
Basic Earnings per Share:		
Net Income	$9,839	$ 9,788
Weighted Average Shares Outstanding [1]	22,929,422	22,884,028
Basic Earnings per Share	$0.43	$ 0.43
Diluted Earnings per Share:		
Net Income	$9,839	$ 9,788
Weighted Average Shares Outstanding [1]	22,929,422	22,884,028
Potentially Dilutive Shares, Net	—	1,801
Diluted Weighted Average Shares Outstanding [1]	22,929,422	22,885,829
Diluted Earnings per Share	$0.43	$ 0.43

[1] Share and per share data has been adjusted to reflect a 3-for-2 stock split on April 21, 2017.

For the three months ended June 30, 2017 and 2016, there were no anti-dilutive shares.

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GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017
(unaudited, dollars in thousands except share and per share data)

NOTE 3 - Per Share Data (continued)

	Six Months Ended June 30,	
	2017	2016
Basic Earnings per Share:		
Net Income	$19,395	$ 14,934
Weighted Average Shares Outstanding [1]	22,919,092	21,885,655
Basic Earnings per Share	$0.85	$ 0.68
Diluted Earnings per Share:		
Net Income	$19,395	$ 14,934
Weighted Average Shares Outstanding [1]	22,919,092	21,885,655
Potentially Dilutive Shares, Net	—	3,958
Diluted Weighted Average Shares Outstanding [1]	22,919,092	21,889,613
Diluted Earnings per Share	$0.85	$ 0.68

[1] Share and per share data has been adjusted to reflect a 3-for-2 stock split on April 21, 2017.

For the six months ended June 30, 2017 and 2016, there were no anti-dilutive shares.

NOTE 4 – Securities

The amortized cost, unrealized gross gains and losses recognized in accumulated other comprehensive income (loss), and fair value of Securities Available-for-Sale at June 30, 2017 and December 31, 2016, were as follows:

Securities Available-for-Sale:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2017				
Obligations of State and Political Subdivisions	$258,242	$ 9,337	$(592)	$266,987
MBS/CMO - Residential	475,440	2,096	(4,298)	473,238
Equity Securities	353	—	—	353
Total	$734,035	$ 11,433	$(4,890)	$740,578
December 31, 2016				
Obligations of State and Political Subdivisions	$247,350	$ 3,847	$(3,678)	$247,519
MBS/CMO - Residential	471,852	480	(10,418)	461,914
Equity Securities	353	—	—	353
Total	$719,555	$ 4,327	$(14,096)	$709,786

Equity securities that do not have readily determinable fair values are included in the above totals, are carried at historical cost and are evaluated for impairment on a periodic basis. All mortgage-backed securities in the above table are residential mortgage-backed securities and guaranteed by government sponsored entities.

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GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017
(unaudited, dollars in thousands except share and per share data)

NOTE 4 - Securities (continued)

The amortized cost and fair value of securities at June 30, 2017 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because some issuers have the right to call or prepay certain obligations with or without call or prepayment penalties. Mortgage-backed and Equity Securities are not due at a single maturity date and are shown separately in the table below.

Securities Available-for-Sale:	Amortized Cost	Fair Value
Due in one year or less	$2,282	$2,303
Due after one year through five years	22,311	23,357
Due after five years through ten years	75,810	79,589
Due after ten years	157,839	161,738
MBS/CMO - Residential	475,440	473,238
Equity Securities	353	353
Total	$734,035	$740,578

Proceeds from the Sales of Securities are summarized below:

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016
Proceeds from Sales	$—	$ 42,364
Gross Gains on Sales	—	968
Income Taxes on Gross Gains	—	339

	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Proceeds from Sales	$—	$ 105,339
Gross Gains on Sales	—	968
Income Taxes on Gross Gains	—	339

The carrying value of securities pledged to secure repurchase agreements, public and trust deposits, and for other purposes as required by law was $174,047 and $186,572 as of June 30, 2017 and December 31, 2016, respectively.

Below is a summary of securities with unrealized losses as of June 30, 2017 and December 31, 2016, presented by length of time the securities have been in a continuous unrealized loss position:

June 30, 2017	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss

Obligations of State and Political Subdivisions	$35,898	$ (592)	$—	$ —	$35,898	$ (592)
MBS/CMO - Residential	241,223	(3,198)	45,397	(1,100)	286,620	(4,298)
Equity Securities	—	—	—	—	—	—
Total	$277,121	$ (3,790)	$45,397	$ (1,100)	$322,518	$ (4,890)

December 31, 2016	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Obligations of State and Political Subdivisions	$108,918	$ (3,678)	$—	$ —	$108,918	$ (3,678)
MBS/CMO - Residential	356,040	(8,782)	47,271	(1,636)	403,311	(10,418)
Equity Securities	—	—	—	—	—	—
Total	$464,958	$ (12,460)	$47,271	$ (1,636)	$512,229	$ (14,096)

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017
(unaudited, dollars in thousands except share and per share data)

NOTE 4 - Securities (continued)

Securities are written down to fair value when a decline in fair value is not considered temporary. In estimating other-than-temporary losses, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the Company has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The Company does not intend to sell or expect to be required to sell these securities, and the decline in fair value is largely due to changes in market interest rates. Therefore, the Company does not consider these securities to be other-than-temporarily impaired. All mortgage-backed securities and collateralized mortgage obligations (MBS/CMO - Residential) in the Company’s portfolio are guaranteed by government sponsored entities, are investment grade, and are performing as expected.

The Company's equity securities consist of one non-controlling investment in a single banking organization at June 30, 2017 and December 31, 2016. The original investment totaled $1,350 and other-than-temporary impairment was previously recorded totaling $997. When a decline in fair value below cost is deemed to be other-than-temporary, the unrealized loss must be recognized as a charge to earnings.

NOTE 5 – Derivatives

The Company executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. The notional amounts of these interest rate swaps and the offsetting counterparty derivative instruments were $84.5 million at June 30, 2017 and $67.9 million at December 31, 2016. These interest rate swaps are simultaneously hedged by offsetting interest rate swaps that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions with approved, reputable, independent counterparties with substantially matching terms. The agreements are considered stand alone derivatives and changes in the fair value of derivatives are reported in earnings as non-interest income.

Credit risk arises from the possible inability of counterparties to meet the terms of their contracts. The Company’s exposure is limited to the replacement value of the contracts rather than the notional, principal or contract amounts. There are provisions in the agreements with the counterparties that allow for certain unsecured credit exposure up to an agreed threshold. Exposures in excess of the agreed thresholds are collateralized. In addition, the Company minimizes credit risk through credit approvals, limits, and monitoring procedures.

The following table reflects the fair value hedges included in the Consolidated Balance Sheets as of:

	June 30, 2017		December 31, 2016	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in Other Assets:				
Interest Rate Swaps	$84,546	$ 1,655	$67,902	$ 1,291
Included in Other Liabilities:				
Interest Rate Swaps	$84,546	$ 1,736	$67,902	$ 1,238

The following table presents the effect of derivative instruments on the Consolidated Statements of Income for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Interest Rate Swaps:				
Included in Other Operating Income	$—	$104	$348	$158

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017
(unaudited, dollars in thousands except share and per share data)

NOTE 6 – Loans

Loans were comprised of the following classifications at June 30, 2017 and December 31, 2016:

	June 30, 2017	December 31, 2016
Commercial:		
Commercial and Industrial Loans and Leases	$467,754	$457,372
Commercial Real Estate Loans	870,100	856,094
Agricultural Loans	313,254	303,128
Retail:		
Home Equity Loans	141,377	133,575
Consumer Loans	61,185	59,945
Residential Mortgage Loans	181,477	183,290
Subtotal	2,035,147	1,993,404
Less: Unearned Income	(3,404)	(3,449)
Allowance for Loan Losses	(15,320)	(14,808)
Loans, Net	$2,016,423	$1,975,147

The following tables present the activity in the allowance for loan losses by portfolio class for the three months ended June 30, 2017 and 2016:

June 30, 2017	Commercial and Industrial Loans and Leases	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	Consumer Loans	Residential Mortgage Loans	Unallocated	Total
Beginning Balance	$ 3,612	$ 5,696	$ 4,361	$ 299	$ 244	$ 348	$ 606	$ 15,166
Provision for Loan Losses	62	(259)	468	16	54	19	(10)	350
Recoveries	7	34	—	2	67	8	—	118
Loans Charged-off	(9)	(155)	—	(17)	(111)	(22)	—	(314)
Ending Balance	$ 3,672	$ 5,316	$ 4,829	$ 300	$ 254	$ 353	$ 596	$ 15,320

June 30, 2016	Commercial and Industrial Loans and Leases	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	Consumer Loans	Residential Mortgage Loans	Unallocated	Total
Beginning Balance	$ 4,346	$ 6,463	$ 2,529	$ 352	$ 230	$ 531	$ 710	$ 15,161
Provision for Loan Losses	(180)	68	175	9	66	196	16	350
Recoveries	24	2	—	—	43	4	—	73
Loans Charged-off	—	—	—	(11)	(97)	(172)	—	(280)
Ending Balance	$ 4,190	$ 6,533	$ 2,704	$ 350	$ 242	$ 559	$ 726	$ 15,304

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NOTE 6 - Loans (continued)

The following tables present the activity in the allowance for loan losses by portfolio class for the six months ended June 30, 2017 and 2016:

June 30, 2017	Commercial and Industrial Loans and Leases	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	Consumer Loans	Residential Mortgage Loans	Unallocated	Total
Beginning Balance	$ 3,725	$ 5,452	$ 4,094	$ 283	$ 235	$ 329	$ 690	$ 14,808
Provision for Loan Losses	(53)	19	735	33	172	38	(94)	850
Recoveries	9	39	—	2	127	35	—	212
Loans Charged-off	(9)	(194)	—	(18)	(280)	(49)	—	(550)
Ending Balance	$ 3,672	$ 5,316	$ 4,829	$ 300	$ 254	$ 353	$ 596	$ 15,320

June 30, 2016	Commercial and Industrial Loans and Leases	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	Consumer Loans	Residential Mortgage Loans	Unallocated	Total
Beginning Balance	$ 4,242	$ 6,342	$ 2,115	$ 383	$ 230	$ 414	$ 712	$ 14,438
Provision for Loan Losses	(75)	188	589	40	93	351	14	1,200
Recoveries	28	3	—	1	88	9	—	129
Loans Charged-off	(5)	—	—	(74)	(169)	(215)	—	(463)
Ending Balance	$ 4,190	$ 6,533	$ 2,704	$ 350	$ 242	$ 559	$ 726	$ 15,304

In determining the adequacy of the allowance for loan loss, general allocations are made for pools of loans, including non-classified loans, homogeneous portfolios of consumer and residential real estate loans, and loans within certain industry categories believed to present unique risk of loss. General allocations of the allowance are primarily made based on historical averages for loan losses for these portfolios, judgmentally adjusted for current economic factors and portfolio trends.

Loan impairment is reported when full repayment under the terms of the loan is not expected. This methodology is used for all loans, including loans acquired with deteriorated credit quality if such loans perform worse than what was expected at the time of acquisition. For purchased loans, the assessment is made at the time of acquisition as well as over the life of loan. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported net, at the present value of estimated future cash flows using the loan’s existing rate, or at the fair value of collateral if repayment is expected solely from the collateral. Commercial and industrial loans, commercial real estate loans, and agricultural loans are evaluated individually for impairment. Smaller balance homogeneous loans are evaluated for impairment in total. Such loans include real estate loans secured by one-to-four family residences and loans to individuals for household, family and other personal expenditures. Individually evaluated loans on non-accrual are generally considered impaired. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

Specific allocations on impaired loans are determined by comparing the loan balance to the present value of expected cash flows or expected collateral proceeds. Allocations are also applied to categories of loans not considered individually impaired but for which the rate of loss is expected to be greater than historical averages, including non-performing consumer or residential real estate loans. Such allocations are based on past loss experience and information about specific borrower situations and estimated collateral values.

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NOTE 6 - Loans (continued)

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio class and based on impairment method as of June 30, 2017 and December 31, 2016:

June 30, 2017	Total	Commercial and Industrial Loans and Leases	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	Consumer Loans	Residential Mortgage Loans	Unallocated
Allowance for Loan Losses:								
Ending Allowance Balance Attributable to Loans:								
Individually Evaluated for Impairment	$260	$10	$180	$70	$—	$—	$—	$ —
Collectively Evaluated for Impairment	15,000	3,659	5,132	4,711	300	249	353	596
Acquired with Deteriorated Credit Quality	60	3	4	48	—	5	—	—
Total Ending Allowance Balance	$15,320	$3,672	$5,316	$4,829	$300	$254	$353	$ 596
Loans:								
Loans Individually Evaluated for Impairment	$1,413	$187	$836	$390	$—	$—	$—	n/m[2]
Loans Collectively Evaluated for Impairment	2,031,844	467,531	864,532	315,691	141,851	61,281	180,958	n/m[2]
Loans Acquired with Deteriorated Credit Quality	9,513	1,247	6,602	683	—	53	928	n/m[2]
Total Ending Loans Balance[1]	$2,042,770	$468,965	$871,970	$316,764	$141,851	$61,334	$181,886	n/m[2]

[1]Total recorded investment in loans includes $7,623 in accrued interest.
[2]n/m = not meaningful

December 31, 2016	Total	Commercial and Industrial Loans and Leases	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	Consumer Loans	Residential Mortgage Loans	Unallocated
Allowance for Loan Losses:								

Ending Allowance Balance Attributable to Loans:								
Individually Evaluated for Impairment	$255	$24	$231	$—	$—	$—	$—	$ —
Collectively Evaluated for Impairment	14,448	3,698	5,172	4,046	283	230	329	690
Acquired with Deteriorated Credit Quality	105	3	49	48	—	5	—	—
Total Ending Allowance Balance	$14,808	$3,725	$5,452	$4,094	$283	$235	$329	$ 690
Loans:								
Loans Individually Evaluated for Impairment	$1,239	$113	$832	$294	$—	$—	$—	n/m[2]
Loans Collectively Evaluated for Impairment	1,989,128	456,769	849,510	305,946	134,032	60,046	182,825	n/m[2]
Loans Acquired with Deteriorated Credit Quality	11,048	1,656	7,688	706	—	53	945	n/m[2]
Total Ending Loans Balance[1]	$2,001,415	$458,538	$858,030	$306,946	$134,032	$60,099	$183,770	n/m[2]

[1]Total recorded investment in loans includes $8,011 in accrued interest.
[2]n/m = not meaningful

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NOTE 6 - Loans (continued)

The following tables present loans individually evaluated for impairment by class of loans as of June 30, 2017 and December 31, 2016:

June 30, 2017	Unpaid Principal Balance[1]	Recorded Investment	Allowance for Loan Losses Allocated
With No Related Allowance Recorded:			
Commercial and Industrial Loans and Leases	$ 196	$ 139	$ —
Commercial Real Estate Loans	838	450	—
Agricultural Loans	199	162	—
Subtotal	1,233	751	—
With An Allowance Recorded:			
Commercial and Industrial Loans and Leases	105	64	13
Commercial Real Estate Loans	800	791	184
Agricultural Loans	806	715	118
Subtotal	1,711	1,570	315
Total	$ 2,944	$ 2,321	$ 315
Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above)	$ 581	$ 203	$ —
Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded (Included in the Total Above)	$ 844	$ 705	$ 55

[1] Unpaid Principal Balance is the remaining contractual payments gross of partial charge-offs and discounts.

December 31, 2016	Unpaid Principal Balance[1]	Recorded Investment	Allowance for Loan Losses Allocated
With No Related Allowance Recorded:			
Commercial and Industrial Loans and Leases	$ 85	$ 29	$ —
Commercial Real Estate Loans	1,278	784	—
Agricultural Loans	356	294	—
Subtotal	1,719	1,107	—
With An Allowance Recorded:			
Commercial and Industrial Loans and Leases	148	107	27
Commercial Real Estate Loans	839	827	280
Agricultural Loans	588	497	48
Subtotal	1,575	1,431	355
Total	$ 3,294	$ 2,538	$ 355
	$ 1,018	$ 531	$ —

Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above)			
Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded (Included in the Total Above)	$ 910	$ 768	$ 100

(1) Unpaid Principal Balance is the remaining contractual payments gross of partial charge-offs and discounts.

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NOTE 6 - Loans (continued)

The following tables present loans individually evaluated for impairment by class of loans for the three month period ended June 30, 2017 and 2016:

June 30, 2017	Average Recorded Investment	Interest Income Recognized	Cash Basis Recognized
With No Related Allowance Recorded:			
Commercial and Industrial Loans and Leases	$ 150	$ 2	$ 1
Commercial Real Estate Loans	1,124	26	26
Agricultural Loans	496	19	16
Subtotal	1,770	47	43
With An Allowance Recorded:			
Commercial and Industrial Loans and Leases	65	1	—
Commercial Real Estate Loans	795	4	—
Agricultural Loans	727	—	—
Subtotal	1,587	5	—
Total	$ 3,357	$ 52	$ 43
Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above)	$ 245	$ 25	$ 25
Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded (Included in the Total Above)	$ 712	$ 4	$ —

June 30, 2016	Average Recorded Investment	Interest Income Recognized	Cash Basis Recognized
With No Related Allowance Recorded:			
Commercial and Industrial Loans and Leases	$ 185	$ 3	$ 1
Commercial Real Estate Loans	3,397	6	1
Agricultural Loans	845	—	—
Subtotal	4,427	9	2
With An Allowance Recorded:			
Commercial and Industrial Loans and Leases	86	—	—
Commercial Real Estate Loans	2,198	1	—
Agricultural Loans	—	—	—
Subtotal	2,284	1	—
Total	$ 6,711	$ 10	$ 2
Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above)	$ 2,324	$ 4	$ 1
Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded (Included in the Total Above)	$ —	$ —	$ —

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NOTE 6 - Loans (continued)

The following tables present loans individually evaluated for impairment by class of loans for the six month period ended June 30, 2017 and 2016:

June 30, 2017	Average Recorded Investment	Interest Income Recognized	Cash Basis Recognized
With No Related Allowance Recorded:			
Commercial and Industrial Loans and Leases	$ 83	$ 2	$ 2
Commercial Real Estate Loans	823	30	29
Agricultural Loans	607	24	16
Subtotal	1,513	56	47
With An Allowance Recorded:			
Commercial and Industrial Loans and Leases	84	2	1
Commercial Real Estate Loans	1,609	10	6
Agricultural Loans	612	—	—
Subtotal	2,305	12	7
Total	$ 3,818	$ 68	$ 54
Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above)	$ 311	$ 25	$ 25
Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded (Included in the Total Above)	$ 721	$ 11	$ 7

June 30, 2016	Average Recorded Investment	Interest Income Recognized	Cash Basis Recognized
With No Related Allowance Recorded:			
Commercial and Industrial Loans and Leases	$ 133	$ 25	$ 12
Commercial Real Estate Loans	1,988	24	4
Agricultural Loans	428	2	1
Subtotal	2,549	51	17
With An Allowance Recorded:			
Commercial and Industrial Loans and Leases	108	—	—
Commercial Real Estate Loans	2,216	2	—
Agricultural Loans	—	—	—
Subtotal	2,324	2	—
Total	$ 4,873	$ 53	$ 17
Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above)	$ 1,697	$ 12	$ 2
Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded (Included in the Total Above)	$ —	$ —	$ —

All classes of loans, including loans acquired with deteriorated credit quality, are generally placed on non-accrual status when scheduled principal or interest payments are past due for 90 days or more or when the borrower’s ability to repay becomes doubtful. For purchased loans, the determination is made at the time of acquisition as well as over the life of the loan. Uncollected accrued interest for each class of loans is reversed against income at the time a loan is placed on non-accrual. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. All classes of loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments

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NOTE 6 - Loans (continued)

are reasonably assured. Loans are typically charged-off at 180 days past due, or earlier if deemed uncollectible. Exceptions to the non-accrual and charge-off policies are made when the loan is well secured and in the process of collection.

The following tables present the recorded investment in non-accrual loans and loans past due 90 days or more still on accrual by class of loans as of June 30, 2017 and December 31, 2016:

	Non-Accrual Loans		Loans Past Due 90 Days or More & Still Accruing	
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
Commercial and Industrial Loans and Leases	$60	$ 86	$ —	$ 2
Commercial Real Estate Loans	982	1,408	32	—
Agricultural Loans	878	792	31	—
Home Equity Loans	72	73	—	—
Consumer Loans	433	85	—	—
Residential Mortgage Loans	672	1,349	—	—
Total	$3,097	$ 3,793	$ 63	$ 2
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	$820	$ 1,264	$ —	$ —

The following tables present the aging of the recorded investment in past due loans by class of loans as of June 30, 2017 and December 31, 2016:

June 30, 2017	Total	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Loans Not Past Due
Commercial and Industrial Loans and Leases	$468,965	$ 51	$ 3	$ 53	$107	$468,858
Commercial Real Estate Loans	871,970	1,060	52	393	1,505	870,465
Agricultural Loans	316,764	110	—	746	856	315,908
Home Equity Loans	141,851	234	19	72	325	141,526
Consumer Loans	61,334	164	40	433	637	60,697
Residential Mortgage Loans	181,886	2,791	982	382	4,155	177,731
Total[(1)]	$2,042,770	$ 4,410	$ 1,096	$ 2,079	$7,585	$2,035,185
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	$9,513	$ —	$ —	$ 568	$568	$8,945

[(1)]Total recorded investment in loans includes $7,623 in accrued interest.

December 31, 2016	Total	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Loans Not Past Due
Commercial and Industrial Loans and Leases	$458,538	$ 20	$ 4	$ 77	$ 101	$458,437
Commercial Real Estate Loans	858,030	1,509	21	330	1,860	856,170

Agricultural Loans	306,946	84	50	610	744	306,202
Home Equity Loans	134,032	707	16	73	796	133,236
Consumer Loans	60,099	175	147	85	407	59,692
Residential Mortgage Loans	183,770	3,470	1,251	806	5,527	178,243
Total[(1)]	$2,001,415	$ 5,965	$ 1,489	$ 1,981	$ 9,435	$1,991,980
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	$11,048	$ 130	$ —	$ 627	$ 757	$10,291
Loans Acquired in Current Year (Included in the Total Above)	$262,809	$ 2,752	$ 862	$ 1,126	$ 4,740	$258,069

[(1)]Total recorded investment in loans includes $8,011 in accrued interest.

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NOTE 6 - Loans (continued)

Troubled Debt Restructurings:

In certain instances, the Company may choose to restructure the contractual terms of loans. A troubled debt restructuring occurs when the Bank grants a concession to the borrower that it would not otherwise consider due to a borrower's financial difficulty. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without modification. This evaluation is performed under the Company's internal underwriting policy. The Company uses the same methodology for loans acquired with deteriorated credit quality as for all other loans when determining whether the loan is a troubled debt restructuring.

During the three months ended June 30, 2017 there was one loan modified as a troubled debt restructuring. During the six months ended June 30, 2017, there were two loans modified as troubled debt restructurings. During the three and six months ended June 30, 2016, there were no loans modified as troubled debt restructurings.

The following tables present the recorded investment of troubled debt restructurings by class of loans as of June 30, 2017 and December 31, 2016:

June 30, 2017	Total	Performing	Non-Accrual[1]
Commercial and Industrial Loans and Leases	$127	$ 127	$ —
Commercial Real Estate Loans	27	27	—
Total	$154	$ 154	$ —
December 31, 2016	Total	Performing	Non-Accrual[1]
Commercial and Industrial Loans and Leases	$ 28	$ 28	$ —
Commercial Real Estate Loans	—	—	—
Total	$ 28	$ 28	$ —

[1]The non-accrual troubled debt restructurings are included in the Non-Accrual Loan table presented on a previous page.

The Company had not committed to lending any additional amounts as of June 30, 2017 and December 31, 2016 to customers with outstanding loans that are classified as troubled debt restructurings. The total allowance associated with the loans modified as troubled debt restructurings as of June 30, 2017 and December 31, 2016 was $16 and $3, respectively.

The following tables present loans by class modified as troubled debt restructurings that occurred during the three months ending June 30, 2017 and 2016:

June 30, 2017	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial and Industrial Loans and Leases	1	$ 127	$ 127
Commercial Real Estate Loans	—	—	—
Total	1	$ 127	$ 127

The troubled debt restructurings described above increased the allowance for loan losses by $8 and resulted in charge-offs of $0 during the three months ending June 30, 2017.

June 30, 2016	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	
Commercial and Industrial Loans and Leases	—	$ —	$	—
Commercial Real Estate Loans	—	—	—	
Total	—	$ —	$	—

The troubled debt restructurings described above increased the allowance for loan losses by $0 and resulted in charge-offs of $0 during the three months ending June 30, 2016.

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NOTE 6 - Loans (continued)

The following tables present loans by class modified as troubled debt restructurings that occurred during the six months ending June 30, 2017 and 2016:

June 30, 2017	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial and Industrial Loans and Leases	1	$ 127	$ 127
Commercial Real Estate Loans	1	28	28
Total	2	$ 155	$ 155

The troubled debt restructurings described above increased the allowance for loan losses by $10 and resulted in charge-offs of $0 during the six months ending June 30, 2017.

June 30, 2016	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial and Industrial Loans and Leases	—	$ —	$ —
Commercial Real Estate Loans	—	—	—
Total	—	$ —	$ —

The troubled debt restructurings described above increased the allowance for loan losses by $0 and resulted in charge-offs of $0 during the six months ending June 30, 2016.

Additionally, there were no loans modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the three and six months ending June 30, 2017 and 2016.

A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms.

Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company classifies loans as to credit risk by individually analyzing loans. This analysis includes commercial and industrial loans, commercial real estate loans, and agricultural loans with an outstanding balance greater than $250. This analysis is typically performed on at least an annual basis. The Company uses the following definitions for risk ratings:

Special Mention. Loans classified as special mention have a potential weakness that deserves management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution’s credit position at some future date.

Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

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NOTE 6 - Loans (continued)

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

June 30, 2017	Pass	Special Mention	Substandard	Doubtful	Total
Commercial and Industrial Loans and Leases	$449,772	$8,792	$ 10,401	$ —	$468,965
Commercial Real Estate Loans	833,572	23,865	14,533	—	871,970
Agricultural Loans	287,410	26,230	3,124	—	316,764
Total	$1,570,754	$58,887	$ 28,058	$ —	$1,657,699
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	$1,479	$3,120	$ 3,933	$ —	$8,532

December 31, 2016	Pass	Special Mention	Substandard	Doubtful	Total
Commercial and Industrial Loans and Leases	$437,353	$10,454	$ 10,731	$ —	$458,538
Commercial Real Estate Loans	814,033	26,549	17,448	—	858,030
Agricultural Loans	287,975	14,670	4,301	—	306,946
Total	$1,539,361	$51,673	$ 32,480	$ —	$1,623,514
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	$1,897	$3,121	$ 5,032	$ —	$10,050
Loans Acquired in Current Year (Included in the Total Above)	$175,915	$11,638	$ 8,145	$ —	$195,698

The Company considers the performance of the loan portfolio and its impact on the allowance for loan losses. For home equity, consumer and residential mortgage loan classes, the Company also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following table presents the recorded investment in home equity, consumer and residential mortgage loans based on payment activity as of June 30, 2017 and December 31, 2016:

June 30, 2017	Home Equity Loans	Consumer Loans	Residential Mortgage Loans
Performing	$141,779	$ 60,901	$ 181,214
Nonperforming	72	433	672
Total	$141,851	$ 61,334	$ 181,886
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	$—	$ 53	$ 928

December 31, 2016	Home Equity Loans	Consumer Loans	Residential Mortgage Loans
Performing	$133,959	$ 60,014	$ 182,421
Nonperforming	73	85	1,349
Total	$134,032	$ 60,099	$ 183,770
Loans Acquired With Deteriorated Credit Quality	$—	$ 53	$ 945

(Included in the Total Above)

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NOTE 6 - Loans (continued)

The Company has purchased loans, for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. The recorded investment of those loans is as follows:

	June 30, 2017	December 31, 2016
Commercial and Industrial Loans	$ 1,247	$ 1,656
Commercial Real Estate Loans	6,602	7,688
Agricultural Loans	683	706
Consumer Loans	53	53
Residential Mortgage Loans	928	945
Total	$ 9,513	$ 11,048
Carrying Amount, Net of Allowance	$ 9,453	$ 10,943

Accretable yield, or income expected to be collected, is as follows:

	2017	2016
Balance at April 1	$2,790	$2,613
New Loans Purchased	—	—
Accretion of Income	(240)	(415)
Reclassifications from Non-accretable Difference	155	—
Charge-off of Accretable Yield	—	—
Balance at June 30	$2,705	$2,198

For those purchased loans disclosed above, the Company did not increase the allowance for loan losses during the three months ended June 30, 2017 and 2016. The Company reversed allowances for loan losses of $56 during the three months ended June 30, 2017. No allowance for loan losses were reversed during the three months ended June 30, 2016.

	2017	2016
Balance at January 1	$2,521	$1,279
New Loans Purchased	—	1,395
Accretion of Income	(282)	(476)
Reclassifications from Non-accretable Difference	466	—
Charge-off of Accretable Yield	—	—
Balance at June 30	$2,705	$2,198

For those purchased loans disclosed above, the Company increased the allowance for loan losses by $11 and $0 during the six months ended June 30, 2017 and 2016. The Company reversed allowances for loan losses of $56 during the six months ended June 30, 2017. No allowance for loan losses was reversed during the six months ended June 30, 2016.

The carrying amount of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process according to local requirements of the applicable jurisdiction totaled $137 as of June 30, 2017 and $202 as of December 31, 2016.

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NOTE 7 – Repurchase Agreements Accounted for as Secured Borrowings

Repurchase agreements are short-term borrowings included in FHLB Advances and Other Borrowings and mature overnight and continuously. Repurchase agreements, which were secured by mortgage-backed securities, totaled $43,026 and $42,412 as of June 30, 2017 and December 31, 2016, respectively. Risk could arise when the collateral pledged to a repurchase agreement declines in fair value. The Company minimizes risk by consistently monitoring the value of the collateral pledged. At the point in time where the collateral has declined in fair value, the Company is required to provide additional collateral based on the value of the underlying securities.

NOTE 8 – Segment Information

The Company’s operations include three primary segments: core banking, trust and investment advisory services, and insurance operations. The core banking segment involves attracting deposits from the general public and using such funds to originate consumer, commercial and agricultural, commercial and agricultural real estate, and residential mortgage loans, primarily in the Company’s local markets. The core banking segment also involves the sale of residential mortgage loans in the secondary market. The trust and investment advisory services segment involves providing trust, investment advisory, and brokerage services to customers. The insurance segment offers a full range of personal and corporate property and casualty insurance products, primarily in the Company’s banking subsidiary’s local markets.

The core banking segment is comprised by the Company’s banking subsidiary, German American Bancorp, which operated through 52 banking offices at June 30, 2017. Net interest income from loans and investments funded by deposits and borrowings is the primary revenue for the core-banking segment. The trust and investment advisory services segment’s revenues are comprised primarily of fees generated by the trust operations of the Company's banking subsidiary and by German American Investment Services, Inc. These fees are derived by providing trust, investment advisory, and brokerage services to its customers. The insurance segment primarily consists of German American Insurance, Inc., which provides a full line of personal and corporate insurance products. Commissions derived from the sale of insurance products are the primary source of revenue for the insurance segment.

The following segment financial information has been derived from the internal financial statements of the Company which are used by management to monitor and manage financial performance. The accounting policies of the three segments are the same as those of the Company. The evaluation process for segments does not include holding company income and expense. Holding company amounts are the primary differences between segment amounts and consolidated totals, and are reflected in the column labeled “Other” below, along with amounts to eliminate transactions between segments.

	Core Banking	Trust and Investment Advisory Services	Insurance	Other	Consolidated Totals
Three Months Ended June 30, 2017					
Net Interest Income	$ 24,999	$ 1	$ 2	$(189)	$ 24,813
Net Gains on Sales of Loans	959	—	—	—	959
Net Gains on Securities	—	—	—	—	—
Trust and Investment Product Fees	1	1,350	—	(1)	1,350

Insurance Revenues	12	8	1,724	—	1,744
Noncash Items:					
Provision for Loan Losses	350	—	—	—	350
Depreciation and Amortization	1,103	4	19	64	1,190
Income Tax Expense (Benefit)	3,615	49	48	(287)	3,425
Segment Profit (Loss)	9,791	66	74	(92)	9,839
Segment Assets at June 30, 2017	3,001,898	1,907	9,774	(8,776)	3,004,803

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NOTE 8 - Segment Information (continued)

	Core Banking	Trust and Investment Advisory Services	Insurance	Other	Consolidated Totals
Three Months Ended June 30, 2016					
Net Interest Income	$ 24,873	$ 1	$ 1	$ (204)	$ 24,671
Net Gains on Sales of Loans	883	—	—	—	883
Net Gains on Securities	968	—	—	—	968
Trust and Investment Product Fees	2	1,221	—	—	1,223
Insurance Revenues	4	5	1,596	—	1,605
Noncash Items:					
Provision for Loan Losses	350	—	—	—	350
Depreciation and Amortization	1,089	1	25	64	1,179
Income Tax Expense (Benefit)	4,419	50	58	(278)	4,249
Segment Profit (Loss)	9,800	76	87	(175)	9,788
Segment Assets at December 31, 2016	2,958,585	1,851	8,494	(12,936)	2,955,994

	Core Banking	Trust and Investment Advisory Services	Insurance	Other	Consolidated Totals
Six Months Ended June 30, 2017					
Net Interest Income	$ 49,908	$ 2	$ 4	$ (376)	$ 49,538
Net Gains on Sales of Loans	1,646	—	—	—	1,646
Net Gains on Securities	—	—	—	—	—
Trust and Investment Product Fees	2	2,594	—	(3)	2,593
Insurance Revenues	14	13	4,357	—	4,384
Noncash Items:					
Provision for Loan Losses	850	—	—	—	850
Depreciation and Amortization	2,144	7	38	128	2,317
Income Tax Expense (Benefit)	7,237	83	475	(549)	7,246
Segment Profit (Loss)	18,756	110	747	(218)	19,395
Segment Assets at June 30, 2017	3,001,898	1,907	9,774	(8,776)	3,004,803

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NOTE 8 - Segment Information (continued)

	Core Banking	Trust and Investment Advisory Services	Insurance	Other	Consolidated Totals
Six Months Ended June 30, 2016					
Net Interest Income	$ 45,771	$ —	$ 3	$ (319)	$ 45,455
Net Gains on Sales of Loans	1,603	—	—	—	1,603
Net Gains on Securities	968	—	—	—	968
Trust and Investment Product Fees	3	2,241	—	—	2,244
Insurance Revenues	8	13	4,311	—	4,332
Noncash Items:					
Provision for Loan Losses	1,200	—	—	—	1,200
Depreciation and Amortization	2,064	2	51	110	2,227
Income Tax Expense (Benefit)	6,100	64	568	(718)	6,014
Segment Profit (Loss)	14,881	83	877	(907)	14,934
Segment Assets at December 31, 2016	2,958,585	1,851	8,494	(12,936)	2,955,994

NOTE 9 – Stock Repurchase Plan

On April 26, 2001, the Company announced that its Board of Directors approved a stock repurchase program for up to 911,631 of the outstanding shares of common stock of the Company. Shares may be purchased from time to time in the open market and in large block privately negotiated transactions. The Company is not obligated to purchase any shares under the program, and the program may be discontinued at any time before the maximum number of shares specified by the program are purchased. The Board of Directors established no expiration date for this program. As of June 30, 2017, the Company had purchased 502,447 shares under the program. No shares were purchased under the program during the three or six months ended June 30, 2017 and 2016.

NOTE 10 – Equity Plans and Equity Based Compensation

The Company maintains three equity incentive plans under which stock options, restricted stock, and other equity incentive awards can be granted. At June 30, 2017, the Company has reserved 412,104 shares of common stock for the purpose of issuance pursuant to outstanding and future grants of options, restricted stock, and other equity awards to officers, directors and other employees of the Company.

For the three and six months ended June 30, 2017 and 2016, the Company granted no options. The Company recorded no stock compensation expense applicable to options during the three and six months ended June 30, 2017 and 2016 because all outstanding options were fully vested prior to 2007. In addition, there was no unrecognized option expense.

During the periods presented, awards of long-term incentives were granted in the form of restricted stock. Awards that were granted to management under a management incentive plan were granted in tandem with cash credit entitlements (typically in the form of 60% restricted stock grants and 40% cash credit entitlements). The management

and employee restricted stock grants and tandem cash credit entitlements awarded will vest in three equal installments of 33.3% with the first annual vesting on December 5th of the year of the grant and on December 5th of the next two succeeding years. Awards that were granted to directors as additional retainer for their services do not include any cash credit entitlement. These director restricted stock grants are subject to forfeiture in the event that the recipient of the grant does not continue in service as a director of the Company through December 5th of the year after grant or does not satisfy certain meeting attendance requirements, at which time they generally vest 100 percent. For measuring compensation costs, restricted stock awards are valued based upon the market value of the common shares on the date of grant. During the three months ended June 30, 2017, the Company granted awards of 210 shares of restricted stock. The Company granted no shares of restricted stock during the three months ended June 30, 2016. During the six months ended June 30, 2017 and 2016, the Company granted awards of 38,100 and 48,375 shares of restricted stock, respectively. Total unvested restricted stock awards at June 30, 2017 and December 31, 2016 were 91,263 and 53,163, respectively.

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NOTE 10 - Equity Plans and Equity Based Compensation (continued)

The following table presents expense recorded for restricted stock and cash entitlements as well as the related tax information for the periods presented:

	Three Months Ended June 30,	
	2017	2016
Restricted Stock Expense	$342	$267
Cash Entitlement Expense	181	142
Tax Effect	(205)	(165)
Net of Tax	$318	$244

	Six Months Ended June 30,	
	2017	2016
Restricted Stock Expense	$649	$855
Cash Entitlement Expense	340	284
Tax Effect	(388)	(461)
Net of Tax	$601	$678

Unrecognized expense associated with the restricted stock grants and cash entitlements totaled $2,739 and $2,411 as of June 30, 2017 and 2016, respectively.

The Company maintains an Employee Stock Purchase Plan whereby eligible employees have the option to purchase the Company’s common stock at a discount. The purchase price of the shares under this Plan has been set at 95% of the fair market value of the Company’s common stock as of the last day of the plan year. The plan provided for the purchase of up to 750,000 shares of common stock, which the Company may obtain by purchases on the open market or from private sources, or by issuing authorized but unissued common shares. At June 30, 2017, there were 577,426 shares available for future issuance under this plan. Funding for the purchase of common stock is from employee and Company contributions.

There was no expense recorded for the employee stock purchase plan during the three or six months ended June 30, 2017. There was no expense recorded for the employee stock purchase plan during the three and six months ended June 30, 2016. There was no unrecognized compensation expense as of June 30, 2017 and 2016 for the Employee Stock Purchase Plan.

NOTE 11 – Fair Value

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Investment Securities: The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted

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NOTE 11 - Fair Value (continued)

cash flows or other market indicators (Level 3). Level 3 pricing is obtained from a third-party based upon similar trades that are not traded frequently without adjustment by the Company. At June 30, 2017, the Company held $6.8 million in Level 3 securities which consist of $6.5 million of non-rated Obligations of State and Political Subdivisions and $353 thousand of equity securities that are not actively traded. Absent the credit rating, significant assumptions must be made such that the credit risk input becomes an unobservable input and thus these securities are reported by the Company in a Level 3 classification.

Derivatives: The fair values of derivatives are based on valuation models using observable market data as of the measurement date (Level 2).

Impaired Loans: Fair values for impaired collateral dependent loans are generally based on appraisals obtained from licensed real estate appraisers and in certain circumstances includes consideration of offers obtained to purchase properties prior to foreclosure. Appraisals for commercial real estate generally use three methods to derive value: cost, sales or market comparison and income approach. The cost method bases value in the cost to replace the current property. Value of market comparison approach evaluates the sales price of similar properties in the same market area. The income approach considers net operating income generated by the property and an investor's required return. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Comparable sales adjustments are based on known sales prices of similar type and similar use properties and duration of time that the property has been on the market to sell. Such adjustments made in the appraisal process are typically significant and result in a Level 3 classification of the inputs for determining fair value.

Appraisals for both collateral-dependent impaired loans and other real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. Once received, a member of the Company’s Risk Management Area reviews the assumptions and approaches utilized in the appraisal. In determining the value of impaired collateral dependent loans and other real estate owned, significant unobservable inputs may be used which include: physical condition of comparable properties sold, net operating income generated by the property and investor rates of return.

Other Real Estate: Nonrecurring adjustments to certain commercial and residential real estate properties classified as other real estate (ORE) are measured at the lower of carrying amount or fair value, less costs to sell. Fair values are generally based on third party appraisals of the property utilizing similar techniques as discussed above for Impaired Loans, resulting in a Level 3 classification. In cases where the carrying amount exceeds the fair value, less costs to sell, impairment loss is recognized.

Loan Servicing Rights: On a quarterly basis, loan servicing rights are evaluated for impairment based upon the fair value of the rights as compared to carrying amount resulting in a Level 2 classification. The valuation model utilizes interest rate, prepayment speed, and default rate assumptions that market participants would use in estimating future net servicing income and that can be validated against available market data.

Loans Held-for-Sale: The fair values of loans held for sale are determined by using quoted prices for similar assets, adjusted for specific attributes of that loan resulting in a Level 2 classification.

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NOTE 11 - Fair Value (continued)

Assets and Liabilities Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis, including financial assets and liabilities for which the Company has elected the fair value option, are summarized below:

	Fair Value Measurements at June 30, 2017 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Obligations of State and Political Subdivisions	$ —	$ 260,523	$ 6,464	$ 266,987
MBS/CMO - Residential	—	473,238	—	473,238
Equity Securities	—	—	353	353
Total Securities	$ —	$ 733,761	$ 6,817	$ 740,578
Loans Held-for-Sale	$ —	$ 9,844	$ —	$ 9,844
Derivative Assets	$ —	$ 1,655	$ —	$ 1,655
Mortgage Servicing Rights	$ —	$ 575	$ —	$ 575
Derivative Liabilities	$ —	$ 1,736	$ —	$ 1,736

	Fair Value Measurements at December 31, 2016 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Obligations of State and Political Subdivisions	$ —	$ 240,224	$ 7,295	$ 247,519
MBS/CMO - Residential	—	461,914	—	461,914
Equity Securities	—	—	353	353
Total Securities	$ —	$ 702,138	$ 7,648	$ 709,786
Loans Held-for-Sale	$ —	$ 15,273	$ —	$ 15,273
Derivative Assets	$ —	$ 1,291	$ —	$ 1,291
Mortgage Servicing Rights	$ —	$ 611	$ —	$ 611

Derivative Liabilities	$ —$ 1,238	$ —	$ 1,238

There were no transfers between Level 1 and Level 2 for the periods ended June 30, 2017 and December 31, 2016.

At June 30, 2017, the aggregate fair value of the Loans Held-for-Sale was $9,844. Aggregate contractual principal balance was $9,622 with a difference of $222. At December 31, 2016, the aggregate fair value of the Loans Held-for-Sale was $15,273. Aggregate contractual principal balance was $14,983 with a difference of $290.

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NOTE 11 - Fair Value (continued)

The tables below present a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and six months ended June 30, 2017 and 2016:

	Obligations of State and Political Subdivisions		Equity Securities	
	2017	2016	2017	2016
Balance of Recurring Level 3 Assets at April 1	$ 6,447	$ 8,196	$ 353	$ 353
Total Gains or Losses Included in Other Comprehensive Income	17	17	—	—
Maturities / Calls	—	—	—	—
Purchases	—	—	—	—
Balance of Recurring Level 3 Assets at June 30	$ 6,464	$ 8,213	$ 353	$ 353

	Obligations of State and Political Subdivisions		Equity Securities	
	2017	2016	2017	2016
Balance of Recurring Level 3 Assets at January 1	$ 7,295	$ 9,020	$ 353	$ 353
Total Gains or Losses Included in Other Comprehensive Income	34	38	—	—
Maturities / Calls	(865)	(845)	—	—
Purchases	—	—	—	—
Balance of Recurring Level 3 Assets at June 30	$ 6,464	$ 8,213	$ 353	$ 353

Of the total gain/loss for the three and six months ended June 30, 2017, $17 and $34 was attributable to other changes in fair value. Of the total gain/loss included in other comprehensive income for the three and six months ended June 30, 2016, $17 and $38, respectively, was attributable to other changes in fair value.

Assets and Liabilities Measured on a Non-Recurring Basis

Assets and liabilities measured at fair value on a non-recurring basis are summarized below:

	Fair Value Measurements at June 30, 2017 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Impaired Loans				
Commercial and Industrial Loans	$ —	$ —	$ 37	$ 37
Commercial Real Estate Loans	—	—	410	410
Agricultural Loans	—	—	158	158

	Fair Value Measurements at December 31, 2016 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Impaired Loans				
Commercial and Industrial Loans	$ —	$ —	$ 60	$ 60
Commercial Real Estate Loans	—	—	348	348
Agricultural Loans	—	—	—	—

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NOTE 11 - Fair Value (continued)

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $865 with a valuation allowance of $260, resulting in a decrease to the provision for loan losses of $273 for the three months ended June 30, 2017 and an increase to the provision for loan losses of $5 for the six months ended June 30, 2017. For the three and six months ended June 30, 2016, impaired loans resulted in a reduction to the provision for loan losses of $5 and $8, respectively. Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $663 with a valuation allowance of $255, resulting in an increase to the provision for loan losses of $115 for the year ended December 31, 2016.

There was no Other Real Estate carried at fair value less costs to sell at June 30, 2017. No charge to earnings was included in the three and six months ended June 30, 2017 and 2016. There was no Other Real Estate carried at fair value less costs to sell at December 31, 2016. A charge to earnings through Other Operating Income of $75 was included in the year ended December 31, 2016.

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at June 30, 2017 and December 31, 2016:

June 30, 2017	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Impaired Loans - Commercial and Industrial Loans	$ 37	Sales comparison approach	Adjustment for physical condition of comparable properties sold	0%-100% (95%)
Impaired Loans - Commercial Real Estate Loans	$ 410	Sales comparison approach	Adjustment for physical condition of comparable properties sold	33%-76% (52%)
Impaired Loans - Agricultural Loans	$ 158	Sales comparison approach	Adjustment for physical condition of comparable properties sold	35% (35%)
December 31, 2016	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Impaired Loans - Commercial and Industrial Loans	$ 60	Sales comparison approach	Adjustment for physical condition of comparable properties sold	0%-100% (89%)
Impaired Loans - Commercial Real Estate Loans	$ 348	Sales comparison approach	Adjustment for physical condition of comparable properties sold	33%-77% (56%)

The carrying amounts and estimated fair values of the Company’s financial instruments not previously presented are provided in the tables below for the periods ending June 30, 2017 and December 31, 2016. Not all of the Company’s assets and liabilities are considered financial instruments, and therefore are not included in the tables. Because no active market exists for a significant portion of the Company’s financial instruments, fair value estimates were based on subjective judgments, and therefore cannot be determined with precision.

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NOTE 11 - Fair Value (continued)

		Fair Value Measurements at June 30, 2017 Using			
	Carrying Value	Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash and Short-term Investments	$ 44,037	$36,833	$7,204	$ —	$44,037
Loans, Net	2,015,818	—	—	2,011,522	2,011,522
FHLB Stock and Other Restricted Stock	13,048	N/A	N/A	N/A	N/A
Accrued Interest Receivable	11,287	—	3,555	7,732	11,287
Financial Liabilities:					
Demand, Savings, and Money Market Deposits	(2,011,047)	(2,011,047)	—	—	(2,011,047)
Time Deposits	(352,274)	—	(351,112)	—	(351,112)
Short-term Borrowings	(118,703)	—	(118,703)	—	(118,703)
Long-term Debt	(144,766)	—	(133,346)	(11,110)	(144,456)
Accrued Interest Payable	(773)	—	(758)	(15)	(773)

		Fair Value Measurements at December 31, 2016 Using			
	Carrying Value	Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash and Short-term Investments	$ 64,816	$48,467	$16,349	$ —	$64,816
Loans, Net	1,974,074	—	—	1,980,523	1,980,523
FHLB Stock and Other Restricted Stock	13,048	N/A	N/A	N/A	N/A
Accrued Interest Receivable	11,413	—	3,289	8,124	11,413
Financial Liabilities:					
Demand, Savings, and Money Market Deposits	(1,971,370)	(1,971,370)	—	—	(1,971,370)
Time Deposits	(378,181)	—	(378,000)	—	(378,000)
Short-term Borrowings	(137,554)	—	(137,554)	—	(137,554)
Long-term Debt	(120,560)	—	(109,709)	(10,793)	(120,502)
Accrued Interest Payable	(789)	—	(775)	(14)	(789)

Cash and Short-term Investments:
The carrying amount of cash and short-term investments approximate fair values and are classified as Level 1 or Level 2.

FHLB Stock and Other Restricted Stock:
It is not practical to determine the fair values of FHLB stock and other restricted stock due to restrictions placed on their transferability.

Loans:
Fair values of loans, excluding loans held for sale and collateral dependent impaired loans carried at fair value, are estimated as follows: For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values resulting in a Level 3 classification. Fair values for other loans are estimated using discounted cash flow analysis, using interest rates currently being offered for loans with similar terms to borrowers of

similar credit quality resulting in a Level 3 classification. Impaired loans are valued as described previously. The methods utilized to estimate fair value of loans do not necessarily represent an exit price.

Accrued Interest Receivable:
The carrying amount of accrued interest approximates fair value resulting in a Level 2 or Level 3 classification consistent with the asset they are associated with.

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NOTE 11 - Fair Value (continued)

Deposits:
The fair values disclosed for demand deposits (e.g., interest and non-interest checking, savings and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amount) resulting in a Level 1 classification. Fair values for fixed rate time deposits are estimated using a discounted cash flows calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification.

Short-term Borrowings:
The carrying amounts of federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings, generally maturing within ninety days, approximate their fair values resulting in a Level 2 classification.

Long-term Debt:
The fair values of the Company's long-term borrowings are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification.

The fair values of the Company's subordinated debentures are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 3 classification.

Accrued Interest Payable:
The carrying amount of accrued interest approximates fair value resulting in a Level 2 or Level 3 classification consistent with the liability they are associated with.

NOTE 12 – Other Comprehensive Income (Loss)

The tables below summarize the changes in accumulated other comprehensive income (loss) by component for the three and six months ended June 30, 2017 and 2016, net of tax:

June 30, 2017	Unrealized Gains and Losses on Available-for-Sale Securities	Postretirement Benefit Items	Total
Beginning Balance at April 1, 2017	$ (2,314)	$ (92)	$(2,406)
Other Comprehensive Income (Loss) Before Reclassification	6,566	—	6,566
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	—	—	—
Net Current Period Other Comprehensive Income (Loss)	6,566	—	6,566
Ending Balance at June 30, 2017	$ 4,252	$ (92)	$4,160

June 30, 2017	Unrealized Gains and Losses on Available-for-Sale Securities	Postretirement Benefit Items	Total
Beginning Balance at January 1, 2017	$ (6,312)	$ (92)	$(6,404)
Other Comprehensive Income (Loss) Before Reclassification	10,564	—	10,564
	—	—	—

Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)			
Net Current Period Other Comprehensive Income (Loss)	10,564	—	10,564
Ending Balance at June 30, 2017	$ 4,252	$ (92)	$4,160

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(unaudited, dollars in thousands except share and per share data)

NOTE 12 - Other Comprehensive Income (Loss) (continued)

June 30, 2016	Unrealized Gains and Losses on Available-for-Sale Securities	Postretirement Benefit Items	Total
Beginning Balance at April 1, 2016	$ 7,919	$ (78)	$7,841
Other Comprehensive Income (Loss) Before Reclassification	3,983	—	3,983
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	(629)	—	(629)
Net Current Period Other Comprehensive Income (Loss)	3,354	—	3,354
Ending Balance at June 30, 2016	$ 11,273	$ (78)	$11,195

June 30, 2016	Unrealized Gains and Losses on Available-for-Sale Securities	Postretirement Benefit Items	Total
Beginning Balance at January 1, 2016	$ 3,890	$ (78)	$3,812
Other Comprehensive Income (Loss) Before Reclassification	8,012	—	8,012
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	(629)	—	(629)
Net Current Period Other Comprehensive Income (Loss)	7,383	—	7,383
Ending Balance at June 30, 2016	$ 11,273	$ (78)	$11,195

The tables below summarize the classifications out of accumulated other comprehensive income (loss) by component for the three and six months ended June 30, 2017 and 2016:

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified From Accumulated Other Comprehensive Income (Loss)	Affected Line Item in the Statement Where Net Income is Presented
Unrealized Gains and Losses on Available-for-Sale Securities	$ —	Net Gains on Securities
	—	Income Tax Expense
	—	Net of Tax
Total Reclassifications for the Three Months Ended June 30, 2017	$ —	

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified From Accumulated Other Comprehensive Income (Loss)	Affected Line Item in the Statement Where Net Income is Presented
Unrealized Gains and Losses on Available-for-Sale Securities	$ —	Net Gains on Securities

	—	Income Tax Expense
	—	Net of Tax
Total Reclassifications for the Six Months Ended June 30, 2017	$	—

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NOTE 12 - Other Comprehensive Income (Loss) (continued)

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified From Accumulated Other Comprehensive Income (Loss)	Affected Line Item in the Statement Where Net Income is Presented
Unrealized Gains and Losses on Available-for-Sale Securities	$ 968	Net Gains on Securities
	(339)	Income Tax Expense
	629	Net of Tax
Total Reclassifications for the Three Months Ended June 30, 2016	$ 629	

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified From Accumulated Other Comprehensive Income (Loss)	Affected Line Item in the Statement Where Net Income is Presented
Unrealized Gains and Losses on Available-for-Sale Securities	$ 968	Net Gains on Securities
	(339)	Income Tax Expense
	629	Net of Tax
Total Reclassifications for the Six Months Ended June 30, 2016	$ 629	

NOTE 13 - Newly Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (the "FASB") amended existing guidance (ASU 2014-09 Revenue From Contracts With Customers) related to revenue from contracts with customers. This amendment supersedes and replaces nearly all existing revenue recognition guidance, including industry-specific guidance, establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time, provides new and more detailed guidance on specific topics and expands and improves disclosures about revenue. In addition, this amendment specifies the accounting for some costs to obtain or fulfill a contract with a customer. These amendments are effective for public business entities for fiscal periods beginning after December 15, 2017, including interim periods within that reporting period. The Company does not expect this pronouncement to have a material impact on the Company's consolidated results of operations and financial condition as the Company's core revenue does not fall under this guidance.

In January 2016, the FASB amended existing guidance (ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities) that requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. Also, it requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. It requires separate presentation of financial assets and financial liabilities by measurement category and

form of financial asset (i.e., securities or loans and receivables). It eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost. These amendments are effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. The Company notes that the impact of adoption is to carry the equity security at fair value through the income statement or at cost, less impairment when fair value is not readily determinable, with observable price changes being recognized in earnings. The Company doesn't expect the impact to be material. For additional information on this equity security, see Note 4 - Securities.

In February 2016, the FASB amended existing guidance (ASU No. 2016-02, Leases (Topic 842)) that requires lessees recognize the following for all leases (with the exception of short-term leases) at the commencement date (1) A lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. Under the new

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NOTE 13 - Newly Issued Accounting Pronouncements (continued)

guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. These amendments are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within that reporting period. Based on our leases outstanding as of June 30, 2017, the Company does not expect this new guidance to have a material impact on the consolidated results of operation. However as a result of this new guidance, the Company anticipates an estimated increase in its Consolidated Balance Sheet of approximately $6,000. This impact will vary based on the Company's future decisions to enter into new lease agreements or exit/renew current lease agreements prior to the date of implementation.

In June 2016, the FASB issued guidance (ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326)) to replace the incurred loss model with an expected loss model, which is referred to as the current expected credit loss (CECL) model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables, held-to-maturity debt securities, and reinsurance receivables. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor. These amendments are effective for public business entities for fiscal years beginning after December 15, 2019, including interim periods within that reporting period. The Company anticipates there may be an increase in its allowance for loan losses at the time of adoption of this standard, but can not estimate the amount at this time.

In August 2016, the FASB issued this ASU (ASU No. 2016-15, Statement of Cash Flows (Topic 320): Classification of Certain Cash Receipts and Cash Payments) to address the diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows including the following:

- Debt Prepayment or Debt Extinguishment Costs;
- Settlement of Zero-Coupon Bonds or Debt with Coupon Interest Rates That Are Insignificant in Relation to the Effective Interest Rate;
- Contingent Consideration payments Made Soon After a Business Combination;
- Proceeds From the Settlement of Insurance Claims;
- Proceeds From the Settlement of BOLI and COLI Policies;
- Distributions Received From Equity Method Investees;
- Beneficial Interests in Securitization Transactions; and
- Application of the Predominance Principle.

These amendments are effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. This guidance currently has no material impact on the Company's Consolidated Statements of Cash Flows; however, the Company will continue to monitor it going forward.

In March 2017, the FASB issued this ASU (ASU No. 2017-08, Premium Amortization on Purchased Callable Debt Securities) to align the accounting with the economics of a callable debt security and to align the amortization period with expectations that already are included in market pricing on the callable debt securities. This ASU will shorten the amortization period for premiums on purchased callable debt securities by requiring that premiums be amortized to the first (or earliest) call date instead of as an adjustment to the yield over the contractual life. This guidance is

effective for for public business entities for fiscal years beginning after December 15, 2018, including interim period within that reporting period. As a result of the Company's analysis, the Company doesn't expect this pronouncement to have a material impact on its consolidated results of operations and financial condition.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

GERMAN AMERICAN BANCORP, INC.
MANAGEMENT’S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

German American Bancorp, Inc., is a NASDAQ-traded (symbol: GABC) financial services holding company based in Jasper, Indiana. German American Bancorp, Inc., through its banking subsidiary German American Bancorp, operates 52 banking offices in 19 contiguous southern Indiana counties and one northern Kentucky county. The Company also owns an investment brokerage subsidiary (German American Investment Services, Inc.) and a full line property and casualty insurance agency (German American Insurance, Inc.).

Throughout this Management’s Discussion and Analysis, as elsewhere in this Report, when we use the term “Company,” we will usually be referring to the business and affairs (financial and otherwise) of German American Bancorp, Inc. and its subsidiaries and affiliates as a whole. Occasionally, we will refer to the term “parent company” or “holding company” when we mean to refer to only German American Bancorp, Inc.

This section presents an analysis of the consolidated financial condition of the Company as of June 30, 2017 and December 31, 2016 and the consolidated results of operations for the three and six months ended June 30, 2017 and 2016. This discussion should be read in conjunction with the consolidated financial statements and other financial data presented elsewhere herein and with the financial statements and other financial data, as well as the Management’s Discussion and Analysis of Financial Condition and Results of Operations, included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016.

MANAGEMENT OVERVIEW

This updated discussion should be read in conjunction with the Management Overview that was included in our Management’s Discussion and Analysis of Financial Condition and Results of Operations in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016.

On March 1, 2016, the Company completed its acquisition of River Valley Bancorp ("River Valley") and its subsidiaries, including River Valley Financial Bank. This acquisition was consistent with the Company's strategy to build a regional presence in Southern Indiana. The acquisition offers the Company the opportunity to increase profitability by introducing existing products and services to the acquired customer base as well as add new customers in the expanded region.

Net income for the quarter ended June 30, 2017 totaled $9,839,000, or $0.43 per diluted share, compared to net income of $9,788,000, or $0.43 per diluted share for the quarter ended June 30, 2016. For the first half 2017, earnings improved $4,461,000, or 30%, to $19,395,000 as compared to $14,934,000 for the first six months of 2016. On a per share basis, net income totaled $0.85 per diluted share during the first six months of 2017 representing a 25% increase from the $0.68 per diluted share for the first half of 2016. The first half of 2016 included four months of operations of River Valley and was impacted by merger related charges associated with the closing of the River Valley transaction effective March 1, 2016. The merger related charges totaled approximately $4,129,000, or $2,612,000 on an after-tax basis, which represented approximately $0.12 per share during the first half of 2016.

On March 27, 2017, the Company declared a 3-for-2 stock split on the Company’s authorized and outstanding common shares. The stock split was distributed on April 21, 2017 to shareholders of record as of April 6, 2017. All share and per share data in this Quarterly Report on Form 10-Q relating to a date or period that precedes April 21, 2017 have been adjusted and are reflective of the stock split.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The financial condition and results of operations for the Company presented in the Consolidated Financial Statements, accompanying Notes to the Consolidated Financial Statements, and selected financial data appearing elsewhere within this Report, are, to a large degree, dependent upon the Company's accounting policies. The selection of and application of these policies involve estimates, judgments, and uncertainties that are subject to change. The critical accounting policies and estimates that the Company has determined to be the most susceptible to change in the near term relate to the determination of the allowance for loan losses, the valuation of securities available for sale, income tax expense, and the valuation of goodwill and other intangible assets.

Allowance for Loan Losses

The Company maintains an allowance for loan losses to cover probable incurred credit losses at the balance sheet date. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off. A provision for loan losses is charged to operations based on management's periodic evaluation of the necessary allowance balance. Evaluations are conducted at least quarterly and more often if deemed necessary. The ultimate recovery of all loans is susceptible to future market factors beyond the Company's control.

The Company has an established process to determine the adequacy of the allowance for loan losses. The determination of the allowance is inherently subjective, as it requires significant estimates, including the amounts and timing of expected future cash flows on impaired loans, estimated losses on other classified loans and pools of homogeneous loans, and consideration of past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors, all of which may be susceptible to significant change. The allowance consists of two components of allocations, specific and general. These two components represent the total allowance for loan losses deemed adequate to cover losses inherent in the loan portfolio.

Commercial and agricultural loans are subject to a standardized grading process administered by an internal loan review function. The need for specific reserves is considered for credits identified as impaired when: (a) the customer's cash flow or net worth appears insufficient to repay the loan; (b) the loan has been criticized in a regulatory examination; (c) the loan is on non-accrual; or (d) other reasons where the ultimate collectability of the loan is in question, or the loan characteristics require special monitoring. Specific allowances are established in cases where management has identified significant conditions or circumstances related to an individual credit that we believe indicates the loan is impaired.

Specific allocations on impaired loans are determined by comparing the loan balance to the present value of expected cash flows or expected collateral proceeds. Allocations are also applied to categories of loans not considered individually impaired but for which the rate of loss is expected to be greater than historical averages, including non-performing consumer or residential real estate loans. Such allocations are based on past loss experience and information about specific borrower situations and estimated collateral values.

General allocations are made for commercial and agricultural loans that are graded as substandard based on migration analysis techniques to determine historical average losses for similar types of loans. General allocations are also made for other pools of loans, including non-classified loans, homogeneous portfolios of consumer and residential real estate loans, and loans within certain industry categories believed to present unique risk of loss. General allocations of the allowance are primarily made based on historical averages for loan losses for these portfolios, judgmentally adjusted for economic, external and internal factors and portfolio trends. Economic factors include evaluating changes in international, national, regional and local economic and business conditions that affect the collectability of the loan portfolio. Internal factors include evaluating changes in lending policies and procedures; changes in the nature and volume of the loan portfolio; and changes in experience, ability and depth of lending management and staff. In setting our external and internal factors we also consider the overall level of the allowance for loan losses to total loans; our allowance coverage as compared to similar size bank holding companies; and regulatory requirements.

Due to the imprecise nature of estimating the allowance for loan losses, the Company's allowance for loan losses includes a minor unallocated component. The unallocated component of the allowance for loan losses incorporates the Company's judgmental determination of inherent losses that may not be fully reflected in other allocations, including factors such as economic uncertainties, lending staff quality, industry trends impacting specific portfolio segments,

and broad portfolio quality trends. Therefore, the ratio of allocated to unallocated components within the total allowance may fluctuate from period to period.

Securities Valuation

Securities available-for-sale are carried at fair value, with unrealized holding gains and losses reported separately in accumulated other comprehensive income (loss), net of tax. The Company obtains market values from a third party on a monthly basis in order to adjust the securities to fair value. Equity securities that do not have readily determinable fair values are carried at cost. Additionally, when securities are deemed to be other than temporarily impaired, a charge will be recorded through earnings; therefore, future changes in the fair value of securities could have a significant impact on the Company's operating results. In determining whether a market value decline is other than temporary, management considers the reason for the decline, the extent of the decline, the duration of the decline and whether the Company intends to sell or believes it will be required to sell the securities prior to recovery. As of June 30, 2017, gross unrealized gains on the securities available-for-sale portfolio totaled approximately $11,433,000 and gross unrealized losses totaled approximately $4,890,000.

Income Tax Expense

Income tax expense involves estimates related to the valuation allowance on deferred tax assets and loss contingencies related to exposure from tax examinations presumed to occur.

A valuation allowance reduces deferred tax assets to the amount management believes is more likely than not to be realized. In evaluating the realization of deferred tax assets, management considers the likelihood that sufficient taxable income of appropriate character will be generated within carry-back and carry-forward periods, including consideration of available tax planning strategies. Tax-related loss contingencies, including assessments arising from tax examinations and tax strategies, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. In considering the likelihood of loss, management considers the nature of the contingency, the progress of any examination or related protest or appeal, the views of legal counsel and other advisors, experience of the Company or other enterprises in similar matters, if any, and management's intended response to any assessment.

Goodwill and Other Intangible Assets

Goodwill resulting from business combinations represents the excess of the purchase price over the fair value of the net assets of businesses acquired. Goodwill resulting from business combinations is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually. The Company has selected December 31 as the date to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on the Company's balance sheet.

Other intangible assets consist of core deposit and acquired customer relationship intangible assets. They are initially measured at fair value and then are amortized over their estimated useful lives, which range from 6 to 10 years.

RESULTS OF OPERATIONS

Net Income:

Net income for the quarter ended June 30, 2017 totaled $9,839,000, or $0.43 per diluted share compared to net income of $9,788,000, or $0.43 per diluted share for the quarter ended June 30, 2016. For the first half 2017, earnings improved $4,461,000, or 30%, to $19,395,000 as compared to $14,934,000 for the first six months of 2016. On a per share basis, net income totaled $0.85 per diluted share during the first six months of 2017 representing a 25% increase from the $0.68 per diluted share for the first half of 2016. The first half of 2016 included four months of operations of River Valley and was impacted by merger related charges associated with the closing of the River Valley transaction effective March 1, 2016. The merger related charges totaled approximately $4,129,000, or $2,612,000 on an after-tax basis, which represented approximately $0.12 per share during the first half of 2016.

On March 27, 2017, the Company declared a 3-for-2 stock split on the Company's authorized and outstanding common shares. The stock split was distributed on April 21, 2017 to shareholders of record as of April 6, 2017. All share and per share data in this Quarterly Report on Form 10-Q relating to a date or period that precedes April 21, 2017 have been adjusted and are reflective of the stock split.

Net Interest Income:

Net interest income is the Company’s single largest source of earnings, and represents the difference between interest and fees realized on earning assets, less interest paid on deposits and borrowed funds. Several factors contribute to the determination of net interest income and net interest margin, including the volume and mix of earning assets, interest rates, and income taxes. Many factors affecting net interest income are subject to control by management policies and actions. Factors beyond the control of management include the general level of credit and deposit demand, Federal Reserve Board monetary policy, and changes in tax laws.

The following table summarizes net interest income (on a tax-equivalent basis). For tax-equivalent adjustments, an effective tax rate of 35% was used for all periods presented[1].

Average Balance Sheet (Tax-equivalent basis / dollars in thousands)	Three Months Ended June 30, 2017			Three Months Ended June 30, 2016		
	Principal Balance	Income / Expense	Yield / Rate	Principal Balance	Income / Expense	Yield / Rate
ASSETS						
Federal Funds Sold and Other Short-term Investments	$13,268	$27	0.79%	$25,918	$20	0.30%
Securities:						
Taxable	481,556	2,702	2.24%	483,465	2,287	1.89%
Non-taxable	261,798	3,185	4.87%	239,757	2,881	4.81%
Total Loans and Leases[2]	2,011,518	22,780	4.54%	1,935,246	22,791	4.73%
TOTAL INTEREST EARNING ASSETS	2,768,140	28,694	4.15%	2,684,386	27,979	4.19%
Other Assets	218,038			216,089		
Less: Allowance for Loan Losses	(15,433)			(15,310)		
TOTAL ASSETS	$2,970,745			$2,885,165		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-bearing Demand, Savings and Money Market Deposits	$1,446,994	$939	0.26%	$1,369,446	$672	0.20%
Time Deposits	360,938	687	0.76%	426,917	654	0.62%
FHLB Advances and Other Borrowings	233,197	962	1.65%	235,435	853	1.46%
TOTAL INTEREST-BEARING LIABILITIES	2,041,129	2,588	0.51%	2,031,798	2,179	0.43%
Demand Deposit Accounts	560,763			502,070		
Other Liabilities	21,818			25,543		
TOTAL LIABILITIES	2,623,710			2,559,411		
Shareholders' Equity	347,035			325,754		
TOTAL LIBABILITIES AND SHAREHOLDERS' EQUITY	$2,970,745			$2,885,165		
COST OF FUNDS			0.37%			0.33%
NET INTEREST INCOME		$26,106			$25,800	
NET INTEREST MARGIN			3.78%			3.86%

(1) Effective tax rates were determined as though interest earned on the Company's investments in municipal bonds and loans was fully taxable.

(2) Loans held-for-sale and non-accruing loans have been included in average loans.

Net interest income increased $142,000, or 1% (an increase of $306,000 or 1% on a tax-equivalent basis), for the quarter ended June 30, 2017 compared with the same quarter of 2016. The net interest margin represents tax-equivalent net interest income expressed as a percentage of average earning assets. The tax equivalent net interest margin was 3.78% for the second quarter of 2017 compared to 3.86% during the second quarter of 2016. The tax equivalent yield on earning assets totaled 4.15% during the quarter ended June 30, 2017 compared to 4.19% in the same period of 2016, while the cost of funds (expressed as a percentage of average earning assets) totaled 0.37% during the quarter ended June 30, 2017 compared to 0.33% in the same period of 2016.

The decline in the net interest margin during the second quarter of 2017 was primarily attributable to a decrease in the amount of accretion of loan discounts on acquired loans. Accretion of loan discounts on acquired loans contributed approximately 10 basis points to the net interest margin on an annualized basis in the second quarter of 2017 compared with 23 basis points in the second quarter of 2016. The higher level of accretion in the second quarter of 2016 was largely attributable to the pay-off activity on loans acquired in the River Valley transaction.

The Company's cost of funds increased approximately 4 basis points in the second quarter of 2017 compared with the second quarter of 2016. The higher cost of funds was largely attributable to an increase in short-term market interest rates over the past several quarters.

The following table summarizes net interest income (on a tax-equivalent basis). For tax-equivalent adjustments, an effective tax rate of 35% was used for all periods presented[1].

	Average Balance Sheet (Tax-equivalent basis / dollars in thousands)					
	Six Months Ended June 30, 2017			Six Months Ended June 30, 2016		
	Principal Balance	Income / Expense	Yield / Rate	Principal Balance	Income / Expense	Yield / Rate
ASSETS						
Federal Funds Sold and Other Short-term Investments	$12,913	$54	0.83%	$23,148	$37	0.32%
Securities:						
Taxable	480,720	5,421	2.26%	481,447	4,564	1.90%
Non-taxable	256,924	6,300	4.90%	228,252	5,530	4.85%
Total Loans and Leases[2]	1,993,283	45,220	4.57%	1,814,944	41,546	4.60%
TOTAL INTEREST EARNING ASSETS	2,743,840	56,995	4.18%	2,547,791	51,677	4.07%
Other Assets	219,923			191,077		
Less: Allowance for Loan Losses	(15,220)			(14,936)		
TOTAL ASSETS	$2,948,543			$2,723,932		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-bearing Demand, Savings and Money Market Deposits	$1,416,341	$1,677	0.24%	$1,256,441	$1,136	0.18%
Time Deposits	380,935	1,392	0.74%	413,635	1,345	0.65%
FHLB Advances and Other Borrowings	230,009	1,827	1.60%	239,232	1,594	1.34%
TOTAL INTEREST-BEARING LIABILITIES	2,027,285	4,896	0.49%	1,909,308	4,075	0.43%
Demand Deposit Accounts	559,345			484,793		
Other Liabilities	20,570			24,831		
TOTAL LIABILITIES	2,607,200			2,418,932		
Shareholders' Equity	341,343			305,000		
TOTAL LIBABILITIES AND SHAREHOLDERS' EQUITY	$2,948,543			$2,723,932		
COST OF FUNDS			0.36%			0.32%
NET INTEREST INCOME		$52,099			$47,602	
NET INTEREST MARGIN			3.82%			3.75%

(1) Effective tax rates were determined as though interest earned on the Company's investments in municipal bonds and loans was fully taxable.

(2) Loans held-for-sale and non-accruing loans have been included in average loans.

Net interest income increased $4,083,000, or 9% (an increase of $4,497,000 or 9% on a tax-equivalent basis), for the six months ended June 30, 2017 compared with the same period of 2016. The increased level of net interest income during the first half of 2017 compared with the first half of 2016 was driven primarily by a higher level of earning assets resulting from the acquisition of River Valley and from organic loan growth excluding River Valley and by an improved net interest margin.

The tax equivalent net interest margin was 3.82% for the first six months of 2017 compared to 3.75% during the same period of 2016. The tax equivalent yield on earning assets totaled 4.18% during the six months ended June 30, 2017

compared to 4.07% in the same period of 2016, while the cost of funds (expressed as a percentage of average earning assets) totaled 0.36% during the six months ended June 30, 2017 compared to 0.32% in the same period of 2016.

The increase in the net interest margin during the six months ended June 30, 2017 compared with the same period of the prior year was primarily attributable to an improved yield on the Company's securities portfolio partially offset by a higher cost of funds. Accretion of loan discounts on acquired loans remained relatively stable during the first half of 2017 compared with the same period of 2016. Accretion of loan discounts on acquired loans contributed approximately 14 basis points to the net interest margin on an annualized basis in the first half of 2017 and 15 basis points in the same period of 2016.

Provision for Loan Losses:

The Company provides for loan losses through regular provisions to the allowance for loan losses. The provision is affected by net charge-offs on loans and changes in specific and general allocations of the allowance. During the quarter ended June 30, 2017, the provision for loan losses totaled $350,000 which remained stable with the second quarter of 2016 provision of $350,000. The provision for loan loss represented approximately 7 basis points of average loans on an annualized basis in both the second quarter of 2017 and second quarter of 2016.

The provision for loan losses totaled $850,000 for the six months ended June 30, 2017, a decrease of $350,000, or 29%, compared to the provision of $1,200,000 during the six months ended June 30, 2016. During the first half of 2017, the provision for loan loss represented approximately 9 basis points of average loans on an annualized basis compared with 13 basis points of average loans on an annualized basis during the first half of 2016. The level of provision during all periods presented was done in accordance with the Company's standard methodology for determining the adequacy of its allowance for loan loss.

Net charge-offs totaled $196,000 or 4 basis points on an annualized basis of average loans outstanding during the three months ended June 30, 2017, compared with $207,000 or 4 basis points on an annualized basis of average loans outstanding during the same period of 2016. The Company realized net charge-offs of $338,000 or 3 basis points on an annualized basis of average loans outstanding during the six months ended June 30, 2017, compared with net charge-offs of $334,000 or 4 basis points on an annualized basis of average loans outstanding during the same period of 2016.

The provision for loan losses made during the three and six months ended June 30, 2017 was made at a level deemed necessary by management to absorb changes in estimated, probable incurred losses in the loan portfolio. A detailed evaluation of the adequacy of the allowance for loan losses is completed quarterly by management, the results of which are used to determine provision for loan losses. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors.

Non-interest Income:

During the quarter ended June 30, 2017, non-interest income totaled $7,797,000, a decrease of $258,000, or 3%, compared with the second quarter of 2016.

Non-interest Income (dollars in thousands)	Three Months Ended June 30,		Change From Prior Period	
			Amount	Percent
	2017	2016	Change	Change
Trust and Investment Product Fees	$1,350	$1,223	$127	10 %
Service Charges on Deposit Accounts	1,478	1,534	(56)	(4)
Insurance Revenues	1,744	1,605	139	9
Company Owned Life Insurance	480	247	233	94
Interchange Fee Income	1,156	873	283	32
Other Operating Income	630	722	(92)	(13)
Subtotal	6,838	6,204	634	10
Net Gains on Sales of Loans	959	883	76	9
Net Gains on Securities	—	968	(968)	(100)
Total Non-interest Income	$7,797	$8,055	$(258)	(3)

Trust and investment product fees increased $127,000, or 10%, during the second quarter of 2017 compared with the second quarter of 2016. The increase was primarily attributable to fees generated from increased assets under management in the Company's wealth advisory group.

Company owned life insurance revenue increased $233,000, or 94%, during the quarter ended June 30, 2017, compared with the second quarter of 2016. The increase was largely related to death benefits received from life insurance policies during the quarter ended June 30, 2017.

Interchange fee income increased $283,000, or 32%, during the second quarter of 2017 compared with the second quarter of 2016. The increase was primarily attributable to increased card utilization by customers.

The Company realized no gains on sales of securities during the second quarter of 2017 compared with a net gain on the sale of securities of $968,000 in the second quarter of 2016 related to the sale of $41.4 million of securities.

Non-interest Income (dollars in thousands)	Six Months Ended June 30,		Change From Prior Period	
	2017	2016	Amount Change	Percent Change
Trust and Investment Product Fees	$2,593	$2,244	$349	16 %
Service Charges on Deposit Accounts	2,962	2,767	195	7
Insurance Revenues	4,384	4,332	52	1
Company Owned Life Insurance	734	462	272	59
Interchange Fee Income	2,179	1,661	518	31
Other Operating Income	1,487	1,235	252	20
Subtotal	14,339	12,701	1,638	13
Net Gains on Sales of Loans	1,646	1,603	43	3
Net Gains on Securities	—	968	(968)	(100)
Total Non-interest Income	$15,985	$15,272	$713	5

During the six months ended June 30, 2017, non-interest income totaled $15,985,000, an increase of $713,000, or 5%, compared with the first half of 2016.

Trust and investment product fees increased $349,000, or 16%, during the first half of 2017 compared with the first half of 2016. The increase was primarily attributable to fees generated from increased assets under management in the Company's wealth advisory group.

Service charges on deposit accounts increased $195,000, or 7%, during the first half of 2017 compared with the first half of 2016. The increase was primarily attributable to the inclusion of River Valley for the full first six months of 2017 compared to four months during the first half of 2016.

Company owned life insurance revenue increased $272,000, or 59%, during the six months ended June 30, 2017, compared with the same period of 2016. The increase was largely related to death benefits received from life insurance policies during 2017.

Interchange fee income increased $518,000, or 31%, during the first half of 2017 compared with the same period of 2016. The increase was attributable to a full six months of operations from River Valley included in 2017 and increased card utilization by customers.

Other operating income increased $252,000, or 20%, during the six months ended June 30, 2017 compared with the first half of 2016. The increase in 2017 compared with the first half of 2016 was largely attributable to increased fees and fair value adjustments associated with swap transactions with loan customers.

The Company realized no gains on sales of securities during the first half of 2017 compared with a net gain on the sale of securities of $968,000 in the first half of 2016 related to the sale of $41.4 million of securities.

Non-interest Expense:

During the quarter ended June 30, 2017, non-interest expense totaled $18,996,000, an increase of $657,000, or 4%, compared with the second quarter of 2016.

Non-interest Expense (dollars in thousands)	Three Months Ended June 30,		Change From Prior Period	
	2017	2016	Amount Change	Percent Change
Salaries and Employee Benefits	$11,460	$10,184	$1,276	13 %
Occupancy, Furniture and Equipment Expense	2,224	2,218	6	—
FDIC Premiums	232	339	(107)	(32)
Data Processing Fees	1,044	1,181	(137)	(12)
Professional Fees	913	780	133	17
Advertising and Promotion	630	629	1	—
Intangible Amortization	242	312	(70)	(22)
Other Operating Expenses	2,251	2,696	(445)	(17)
Total Non-interest Expense	$18,996	$18,339	$657	4

Salaries and benefits increased $1,276,000, or 13%, during the quarter ended June 30, 2017 compared with the second quarter of 2016. The increase in salaries and benefits during the second quarter of 2017 compared with the second quarter of 2016 was primarily attributable to an increased number of full-time equivalent employees and higher levels employee benefit costs including incentive compensation plan costs and health insurance costs.

Data processing fees declined $137,000, or 12%, in the second quarter of 2017 compared with the second quarter of 2016. The decline during 2017 compared with 2016 was primarily attributable to expenses related to the River Valley transaction.

Professional fees increased $133,000, or 17%, during the quarter ended June 30, 2017 compared with the second quarter of 2016. The increase was largely attributable to costs associated with the three-for-two stock split completed during the second quarter of 2017.

Other operating expenses decreased $445,000, or 17%, during the quarter ended June 30, 2017 compared with the second quarter of 2016. The decline was primarily attributable to various card and deposit account expenses which were higher in 2016 related to the River Valley transaction, to deposit gathering strategic initiatives and to a lower level of debit card fraud losses in 2017 compared with 2016.

Non-interest Expense (dollars in thousands)	Six Months Ended June 30,		Change From Prior Period	
	2017	2016	Amount Change	Percent Change
Salaries and Employee Benefits	$22,904	$21,785	$1,119	5 %
Occupancy, Furniture and Equipment Expense	4,406	4,105	301	7
FDIC Premiums	471	667	(196)	(29)
Data Processing Fees	2,055	3,346	(1,291)	(39)
Professional Fees	1,716	2,098	(382)	(18)
Advertising and Promotion	1,408	1,173	235	20
Intangible Amortization	495	520	(25)	(5)
Other Operating Expenses	4,577	4,885	(308)	(6)
Total Non-interest Expense	$38,032	$38,579	$(547)	(1)

During the six months ended June 30, 2017, non-interest expense totaled $38,032,000, a decrease of $547,000, or 1%, compared with the first six months of 2016. During the first half of 2016, the Company recorded costs related to the River Valley merger transaction that totaled $4,129,000.

Salaries and benefits increased $1,119,000, or 5%, during the six months ended June 30, 2017 compared with the same period of 2016. The increase in 2017 compared with 2016 was primarily attributable to having River Valley's operations included for the entire first six months of 2017 compared with only four months of 2016 combined with an increased number of full-time equivalent

employees and higher levels employee benefit costs including incentive compensation plan costs and health insurance costs. For comparison purposes, the increased salary and benefit costs in 2017 were partially offset by the settlement of various employment and benefit arrangements which totaled $1,934,000 related to the River Valley merger in the first half of 2016.

Occupancy, furniture and equipment expense increased $301,000, or 7%, during the six months ended June 30, 2017 compared with the same period of 2016. This increase was related to the operation of River Valley's 15 branch network during all of the first half of 2017 compared with four months in the first half of 2016.

Data processing fees declined $1,291,000, or 39%, in the first half of 2017 compared with the first half of 2016. The decline during 2017 compared with 2016 was primarily related to expenses totaling $1,198,000 associated with the acquisition of River Valley that were incurred during the first quarter of 2016.

Professional fees declined $382,000, or 18%, during the first six months of 2017 compared with the first half of 2016. The decline during 2017 compared with 2016 was attributable to expenses totaling $724,000 associated with the acquisition of River Valley that were incurred during the first half of 2016 partially offset by fees incurred during 2017 related to the three-for-two stock split completed during the second quarter of 2017.

Advertising and promotion increased $235,000, or 20%, during the six months ended June 30, 2017 compared with the six months ended June 30, 2016. The increase in advertising and promotion was largely related to charitable contribution activity in the first half of 2017.

Income Taxes:

The Company’s effective income tax rate was 25.8% and 30.3%, respectively, during the three months ended June 30, 2017 and 2016. The Company’s effective income tax rate was 27.2% and 28.7%, respectively, during the six months ended June 30, 2017 and 2016. The effective tax rate in all periods presented was lower than the blended statutory rate resulting primarily from the Company’s tax-exempt investment income on securities, loans and company-owned life insurance, income tax credits generated from affordable housing projects, and income generated by subsidiaries domiciled in a state with no state or local income tax.

FINANCIAL CONDITION

Total assets for the Company increased to $3.005 billion at June 30, 2017, representing an increase of $48.8 million, or 3% on an annualized basis, compared with December 31, 2016.

Total loans increased $41.7 million, or 4% on an annualized basis at June 30, 2017 compared with year-end 2016. Included in the first half of 2017 loan growth was an increase of approximately $24.4 million, or 4% on annualized basis, of commercial real estate and commercial and industrial loans while agricultural loans grew $10.1 million, or 7% on an annualized basis. Retail loans which include home equity, consumer and residential loans grew by approximately $7.2 million, or 4% on an annualized basis, during the first half of 2017.

End of Period Loan Balances: (dollars in thousands)	June 30, 2017	December 31, 2016	Current Period Change
Commercial & Industrial Loans and Leases	$467,754	$457,372	$10,382
Commercial Real Estate Loans	870,100	856,094	14,006
Agricultural Loans	313,254	303,128	10,126
Home Equity & Consumer Loans	202,562	193,520	9,042

Residential Mortgage Loans	181,477	183,290	(1,813)
Total Loans	$2,035,147	$1,993,404	$41,743

The following table indicates the breakdown of the allowance for loan losses for the periods indicated (dollars in thousands):

	June 30, 2017	December 31, 2016
Commercial and Industrial Loans and Leases	$3,672	$ 3,725
Commercial Real Estate Loans	5,316	5,452
Agricultural Loans	4,829	4,094
Home Equity and Consumer Loans	554	518
Residential Mortgage Loans	353	329
Unallocated	596	690
Total Allowance for Loan Loss	$15,320	$ 14,808

The Company's allowance for loan losses totaled $15.3 million at June 30, 2017 compared to $14.8 million at December 31, 2016 representing an increase of $512,000, or 7% on an annualized basis. The increase in the allowance for loan loss during the first half of 2017 was primarily related to the down-grade of two agricultural relationships during the first half of 2017 from pass rated credits to special mention credits. The allowance for loan losses represented 0.75% of period-end loans at June 30, 2017 compared with 0.74% of period-end loans at December 31, 2016. Under acquisition accounting treatment, loans acquired are recorded at fair value which includes a credit risk component, and therefore the allowance on loans acquired is not carried over from the seller. The Company held a discount on acquired loans of $8.2 million as of June 30, 2017 and $10.0 million at December 31, 2016.

The following is an analysis of the Company's non-performing assets at June 30, 2017 and December 31, 2016:

Non-performing Assets: (dollars in thousands)	June 30, 2017	December 31, 2016
Non-accrual Loans	$3,097	$3,793
Past Due Loans (90 days or more)	62	2
Total Non-performing Loans	3,159	3,795
Other Real Estate	1,289	242
Total Non-performing Assets	$4,448	$4,037
Restructured Loans	$154	$28
Non-performing Loans to Total Loans	0.16 %	0.19 %
Allowance for Loan Loss to Non-performing Loans	484.96 %	390.20 %

The following tables present non-accrual loans and loans past due 90 days or more still on accrual by class of loans:

	Non-Accrual Loans		Loans Past Due 90 Days or More & Still Accruing	
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
Commercial and Industrial Loans and Leases	$60	$ 86	$ —	$ 2
Commercial Real Estate Loans	982	1,408	32	—
Agricultural Loans	878	792	30	—

Home Equity Loans	72	73	—	—
Consumer Loans	433	85	—	—
Residential Mortgage Loans	672	1,349	—	—
Total	$3,097	$ 3,793	$ 62	$ 2

Non-performing assets totaled $4.4 million at June 30, 2017 compared to $4.0 million of non-performing assets at December 31, 2016. Non-performing assets represented 0.15% of total assets at June 30, 2017 compared to 0.14% of total assets at December 31, 2016. Non-performing loans totaled $3.2 million at June 30, 2017 compared to $3.8 million at December 31, 2016. Non-performing loans represented 0.16% of total loans at June 30, 2017 compared to 0.19% at December 31, 2016. The increase in

non-performing assets during the first half of 2017 compared with December 31, 2016 levels was attributable to a single commercial real estate credit relationship that was placed on non-accrual status in the first quarter of 2017 and subsequently placed into other real estate owned during the second quarter of 2017.

Loan impairment is reported when repayment under the terms of the loan is not expected. If a loan is impaired, a portion of the allowance is specifically allocated so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate, or at the fair value of collateral if repayment is expected solely from the collateral. Commercial and industrial loans, commercial real estate loans, and agricultural loans are evaluated individually for impairment. Smaller balance homogeneous loans are evaluated for impairment in total. Such loans include real estate loans secured by one-to-four family residences and loans to individuals for household, family and other personal expenditures. Individually evaluated loans on non-accrual are generally considered impaired. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

Total deposits increased $13.8 million, or 1% on an annualized basis, as of June 30, 2017 compared with December 31, 2016.

End of Period Deposit Balances: (dollars in thousands)	June 30, 2017	December 31, 2016	Current Period Change
Non-interest-bearing Demand Deposits	$557,535	$571,989	$(14,454)
Interest-bearing Demand, Savings, & Money Market Accounts	1,453,512	1,399,381	54,131
Time Deposits < $100,000	203,923	207,824	(3,901)
Time Deposits of $100,000 or more	148,351	170,357	(22,006)
Total Deposits	$2,363,321	$2,349,551	$13,770

Capital Resources:

As of June 30, 2017, shareholders' equity increased by $24.7 million to $355.0 million compared with $330.3 million at year-end 2016. The increase in shareholders' equity was primarily attributable to an increase of $13.5 million in retained earnings and an increase of $10.6 million in accumulated other comprehensive income primarily related to the increase in value of the Company's available-for-sale securities portfolio. Shareholders' equity represented 11.8% of total assets at June 30, 2017 and 11.2% of total assets at December 31, 2016. Shareholders' equity included $56.6 million of goodwill and other intangible assets at June 30, 2017 compared to $56.9 million of goodwill and other intangible assets at December 31, 2016.

Federal banking regulations provide guidelines for determining the capital adequacy of bank holding companies and banks. These guidelines provide for a more narrow definition of core capital and assign a measure of risk to the various categories of assets. The Company is required to maintain minimum levels of capital in proportion to total risk-weighted assets and off-balance sheet exposures.

As of January 1, 2015, the Company and its subsidiary bank adopted the new Basel III regulatory capital framework. The adoption of this new framework modified the regulatory capital calculations, minimum capital levels and well-capitalized thresholds and added the new Common Equity Tier 1 capital ratio. Additionally, under the new rules, in order to avoid limitations on capital distributions, including dividend payments, the Company is required to maintain a capital conservation buffer above the adequately capitalized regulatory capital ratios. The capital conservation buffer is being phased in from 0.00% in 2015 to 2.50% in 2019. For June 30, 2017, the capital conservation buffer was 1.25% and for December 31, 2016, the capital conservation buffer was 0.625%. At June 30, 2017, the capital levels for the Company and its subsidiary bank remained well in excess of of the minimum amounts needed for capital adequacy purposes and the bank's capital levels met the necessary requirements to be considered well-capitalized.

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The table below presents the Company’s consolidated and the subsidiary bank's capital ratios under regulatory guidelines:

	6/30/2017 Ratio		12/31/2016 Ratio		Minimum for Capital Adequacy Purposes		Well-Capitalized Guidelines	
Total Capital (to Risk Weighted Assets)								
Consolidated	13.56	%	13.30	%	8.00	%	N/A	
Bank	12.17	%	12.48	%	8.00	%	10.00	%
Tier 1 (Core) Capital (to Risk Weighted Assets)								
Consolidated	12.92	%	12.66	%	6.00	%	N/A	
Bank	11.52	%	11.84	%	6.00	%	8.00	%
Common Tier 1, (CET 1) Capital Ratio (to Risk Weighted Assets)								
Consolidated	12.46	%	12.19	%	4.50	%	N/A	
Bank	11.52	%	11.84	%	4.50	%	6.50	%
Tier 1 Capital (to Average Assets)								
Consolidated	10.52	%	10.09	%	4.00	%	N/A	
Bank	9.39	%	9.46	%	4.00	%	5.00	%

Under the the final rules provided for by Basel III, accumulated other comprehensive income ("AOCI") was to be included in a banking organization's Common Equity Tier 1 capital. The final rules allowed community banks to make a one-time election not to include the additional components of AOCI in regulatory capital and instead use the existing treatment under the general risk-based capital rules that excludes most AOCI components from regulatory capital. The Company elected, in its March 31, 2015 regulatory filings (Call Report and FR Y-9), to opt-out and continue the existing treatment of AOCI for regulatory capital purposes.

Liquidity:

The Consolidated Statement of Cash Flows details the elements of changes in the Company’s consolidated cash and cash equivalents. Total cash and cash equivalents decreased $20.8 million during the six months ended June 30, 2017 ending at $44.0 million. During the six months ended June 30, 2017, operating activities resulted in net cash inflows of $28.5 million. Investing activities resulted in net cash outflows of $62.6 million during the six months ended June 30, 2017. Financing activities resulted in net cash inflows for the six months ended June 30, 2017 of $13.3 million.

The parent company is a corporation separate and distinct from its bank and other subsidiaries. The Company uses funds at the parent-company level to pay dividends to its shareholders, to acquire or make other investments in other businesses or their securities or assets, to repurchase its stock from time to time, and for other general corporate purposes including debt service. The parent company does not have access at the parent-company level to the deposits and certain other sources of funds that are available to its bank subsidiary to support its operations. Instead, the parent company has historically derived most of its revenues from dividends paid to the parent company by its bank subsidiary. The Company’s banking subsidiary is subject to statutory restrictions on its ability to pay dividends to the parent company. The parent company has in recent years supplemented the dividends received from its subsidiaries with borrowings. As of June 30, 2017, the parent company had approximately $23.0 million of cash and cash equivalents available to meet its cash flow needs.

FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISKS

The Company from time to time in its oral and written communications makes statements relating to its expectations regarding the future. These types of statements are considered “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. The Company may include forward-looking statements in filings with the Securities and Exchange Commission (“SEC”), such as this Form 10-Q, in other written materials, and in oral statements made by senior management to analysts, investors, representatives of the media, and others. Such forward looking statements can include statements about the Company’s net interest income or net interest margin; its adequacy of allowance for loan losses, levels of provisions for loan losses, and the quality of the Company’s loans, investment securities and other assets; simulations of changes in interest rates; expected results from mergers with or acquisitions of other businesses; litigation results; tax estimates and recognition; dividend policy; parent company cash resources and cash requirements, and parent company capital resources; estimated cost savings, plans and objectives for future operations; and expectations about the Company’s financial and business performance and other business matters as well as economic and market conditions and trends. They often can be identified by the use of words like “expect,” “may,” “will,” “would,” “could,” “should,” “intend,” “project,” “estimate,” “believe” or “anticipate,” or similar expressions.

Forward-looking statements speak only as of the date they are made, and the Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the forward-looking statement is made.

Readers are cautioned that, by their nature, all forward-looking statements are based on assumptions and are subject to risks, uncertainties, and other factors. Actual results may differ materially and adversely from the expectations of the Company that are expressed or implied by any forward-looking statement. The discussions in this Item 2 list some of the factors that could cause the Company’s actual results to vary materially from those expressed or implied by any forward-looking statements. Other risks, uncertainties, and factors that could cause the Company’s actual results to vary materially from those expressed or implied by any forward-looking statement include the unknown future direction of interest rates and the timing and magnitude of any changes in interest rates; changes in competitive conditions; the introduction, withdrawal, success and timing of asset/liability management strategies or of mergers and acquisitions and other business initiatives and strategies; changes in customer borrowing, repayment, investment and deposit practices; changes in fiscal, monetary and tax policies; changes in financial and capital markets; deterioration in general economic conditions, either nationally or locally, resulting in, among other things, credit quality deterioration; capital management activities, including possible future sales of new securities, or possible repurchases or redemptions by the Company of outstanding debt or equity securities; risks of expansion through acquisitions and mergers, such as unexpected credit quality problems of the acquired loans or other assets, unexpected attrition of the customer base of the acquired institution or branches, and difficulties in integration of the acquired operations; factors driving impairment charges on investments; the impact, extent and timing of technological changes; potential cyber-attacks, information security breaches and other criminal activities; litigation liabilities, including related costs, expenses, settlements and judgments, or the outcome of matters before regulatory agencies, whether pending or commencing in the future; actions of the Federal Reserve Board; changes in accounting principles and interpretations; potential increases of federal deposit insurance premium expense, and possible future special assessments of FDIC premiums, either industry wide or specific to the Company’s banking subsidiary; actions of the regulatory authorities under the Dodd-Frank Wall Street Reform and Consumer Protection Act and the Federal Deposit Insurance Act and other possible legislative and regulatory actions and reforms; and the continued availability of earnings and excess capital sufficient for the lawful and prudent declaration and payment of cash dividends. Such statements reflect our views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to the operations, results of operations, growth strategy and liquidity of the Company. Readers are cautioned not to place undue reliance on these forward-looking statements.

Investors should consider these risks, uncertainties, and other factors, in addition to those mentioned by the Company in its Annual Report on Form 10-K for its fiscal year ended December 31, 2016, and other SEC filings from time to time, when considering any forward-looking statement.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's exposure to market risk is reviewed on a regular basis by the Asset/Liability Committee and Boards of Directors of the parent company and its subsidiary bank. Primary market risks which impact the Company's operations are liquidity risk and interest rate risk.

The liquidity of the parent company is dependent upon the receipt of dividends from its subsidiary bank, which is subject to certain regulatory limitations. The Bank's source of funding is predominately core deposits, maturities of securities, repayments of loan principal and interest, federal funds purchased, securities sold under agreements to repurchase and borrowings from the Federal Home Loan Bank.

The Company monitors interest rate risk by the use of computer simulation modeling to estimate the potential impact on its net interest income under various interest rate scenarios, and by estimating its static interest rate sensitivity position. Another method by which the Company's interest rate risk position can be estimated is by computing estimated changes in its net portfolio value ("NPV"). This method estimates interest rate risk exposure from movements in interest rates by using interest rate sensitivity analysis to determine the change in the NPV of discounted cash flows from assets and liabilities. NPV represents the market value of portfolio equity and is equal to the estimated market value of assets minus the estimated market value of liabilities.

Computations for measuring both net interest income and NPV are based on a number of assumptions, including the relative levels of market interest rates and prepayments in mortgage loans and certain types of investments. These computations do not contemplate any actions management may undertake in response to changes in interest rates, and should not be relied upon as indicative of actual results. In addition, certain shortcomings are inherent in the method of computing both net interest income and NPV. Should interest rates remain or decrease below current levels, the proportion of adjustable rate loans could decrease in future periods due to refinancing activity. In the event of an interest rate change, prepayment levels would likely be different from those assumed in the modeling. Lastly, the ability of many borrowers to repay their adjustable rate debt may decline during a rising interest rate environment.

The Company from time to time utilizes derivatives to manage interest rate risk. Management continuously evaluates the merits of such interest rate risk products but does not anticipate the use of such products to become a major part of the Company's risk management strategy.

The table below provides an assessment of the risk to net interest income over the next 12 months in the event of a sudden and sustained 1% and 2% increase and decrease in prevailing interest rates (dollars in thousands).

Interest Rate Sensitivity as of June 30, 2017 - Net Interest Income

	Net Interest Income	
Changes in Rates	Amount	% Change
+2%	$98,356	(3.01)%
+1%	99,931	(1.46)%
Base	101,410	—
-1%	96,447	(4.89)%
-2%	92,903	(8.39)%

The above table is a measurement of the Company's net interest income at risk, assuming a static balance sheet as of June 30, 2017 and instantaneous parallel changes in interest rates. The Company also monitors interest rate risk under other scenarios including a more gradual movement in market interest rates. This type of scenario can at times produce different modeling results in measuring interest rate risk sensitivity.

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The table below provides an assessment of the risk to NPV in the event of a sudden and sustained 1% and 2% increase and decrease in prevailing interest rates (dollars in thousands).

Interest Rate Sensitivity as of June 30, 2017 - Net Portfolio Value

	Net Portfolio Value		Net Portfolio Value as a % of Present Value of Assets	
Changes in Rates	Amount	% Change	NPV Ratio	Change
+2%	$366,174	(8.55)%	13.10%	(52) b.p.
+1%	385,019	(3.84)%	13.43%	(19) b.p.
Base	400,394	—	13.62%	—
-1%	380,287	(5.02)%	12.68%	(94) b.p.
-2%	318,297	(20.50)%	10.51%	(311) b.p.

This Item 3 includes forward-looking statements. See “Forward-looking Statements and Associated Risks” included in Part I, Item 2 of this Report for a discussion of certain factors that could cause the Company’s actual exposure to market risk to vary materially from that expressed or implied above. These factors include possible changes in economic conditions; interest rate fluctuations, competitive product and pricing pressures within the Company’s markets; and equity and fixed income market fluctuations. Actual experience may also vary materially to the extent that the Company’s assumptions described above prove to be inaccurate.

Item 4. Controls and Procedures

As of June 30, 2017, the Company carried out an evaluation, under the supervision and with the participation of its principal executive officer and principal financial officer, of the effectiveness of the design and operation of its disclosure controls and procedures. Based on this evaluation, the Company’s principal executive officer and principal financial officer concluded that the Company’s disclosure controls and procedures were, as of that date, effective in timely alerting them to material information required to be included in the Company’s periodic reports filed with the Securities and Exchange Commission. There are inherent limitations to the effectiveness of systems of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective systems of disclosure controls and procedures can provide only reasonable assurances of achieving their control objectives.

There was no change in the Company’s internal control over financial reporting that occurred during the Company’s second fiscal quarter of 2017 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

There are no pending legal proceedings, other than litigation incidental to the ordinary business of the Company, of a material nature to which the Company is a party or of which any of its properties are subject.

Item 1A. Risk Factors

There have been no material changes to the risk factors previously disclosed in German American Bancorp, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2016.

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

Issuer Purchases of Equity Securities
The following table sets forth information regarding the Company’s purchases of its common shares during each of the three months ended June 30, 2017.

Period	Total Number of Shares (or Units) Purchased	Average Price Paid Per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased under the Plans or Programs [1]
April 2017	—	—	—	409,184
May 2017	—	—	—	409,184
June 2017	—	—	—	409,184

[1] On April 26, 2001, the Company announced that its Board of Directors had approved a stock repurchase program for up to 911,631 of its outstanding common shares, of which the Company had purchased 502,447 common shares through June 30, 2017. The Board of Directors established no expiration date for this program. The Company purchased no shares under this program during the three months ended June 30, 2017.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The exhibits described by the Exhibit Index immediately following the Signature Page of this Report are incorporated herein by reference.

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.

GERMAN AMERICAN BANCORP, INC.

Date: August 4, 2017 By/s/Mark A. Schroeder
Mark A. Schroeder
Chairman and Chief Executive Officer
(Principal Executive Officer)

Date: August 4, 2017 By/s/Bradley M. Rust
Bradley M. Rust
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

INDEX OF EXHIBITS

Exhibit No.	Description
3.1	Restatement of the Articles of Incorporation of German American Bancorp, Inc., as amended, is incorporated by reference to Exhibit 3.1 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 filed on May 9, 2017 (SEC File No. 001-15877).
3.2	Restated Bylaws of German American Bancorp, Inc., as amended and restated July 27, 2009, is incorporated by reference to Exhibit 3.2 of the Registrant's Annual Report on Form 10-K filed March 9, 2015 (SEC File No. 001-15877).
4.1	No long-term debt instrument issued by the Registrant exceeds 10% of consolidated total assets or is registered. In accordance with paragraph 4 (iii) of Item 601(b) of Regulation S-K, the Registrant will furnish the Securities and Exchange Commission copies of long-term debt instruments and related agreements upon request.
4.2	Terms of Common Shares and Preferred Shares of the Registrant (included in Restatement of Articles of Incorporation) are incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed July 1, 2011 (SEC File No. 001-15877).
4.3	Specimen stock certificate for Common Shares of the Registrant is incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed October 21, 2010 (SEC File No. 001-15877).
4.4	Description of Assumed Junior Deferrable Interest Subordinated Debentures of River Valley Bancorp and Agreement to Furnish Copies of Related Instruments and Documents are incorporated by reference to Exhibit 4.4 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 filed on May 10, 2016 (SEC File No. 001-15877).
10.1*	Description of Director Compensation Arrangements for the twelve-month period ending June 30, 2018 is incorporated by reference from the description included in Item 5.02 of the Registrant's Current Report on Form 8-K filed June 29, 2017 (SEC File No. 001-15877).
31.1**	Sarbanes-Oxley Act of 2002, Section 302 Certification for Chairman of the Board and Chief Executive Officer.
31.2**	Sarbanes-Oxley Act of 2002, Section 302 Certification for Executive Vice President and Chief Financial Officer.
32.1**	Sarbanes-Oxley Act of 2002, Section 906 Certification for Chairman of the Board and Chief Executive Officer.
32.2**	Sarbanes-Oxley Act of 2002, Section 906 Certification for Executive Vice President and Chief Financial Officer.
101+	The following materials from German American Bancorp, Inc.'s Form 10-Q Report for the quarterly period ended June 30, 2017, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Cash Flows, and (v) the Notes to Consolidated Financial Statements.

*Exhibits that describe or evidence management contracts or compensatory plans or arrangements required to be filed as exhibits to this Report are indicated by an asterisk.

**Exhibits that are filed with this Report (other than through incorporation by reference to other disclosures or exhibits) are indicated by a double asterisk.

+Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are furnished and not deemed filed or part of a registration statement or prospectus for purposes of Sections 11 and 12 of the Securities Act of 1933, as amended, and are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as

amended, and otherwise are not subject to liability under those sections.

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