

Advaxis, Inc.
Form 8-K
February 08, 2006

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

February 2, 2006

Date of Report (Date of earliest event reported)

ADVAXIS, INC.

(Exact name of registrant as specified in its charter)

Colorado
(State or other jurisdiction of
incorporation)

333-45241
(Commission File Number)

84-1521955
(IRS Employer Identification No.)

212 Carnegie Center, Suite 205, Princeton, New Jersey 08540

(Address of principal executive offices)

(201) 750- 2347

(Registrant's telephone number, including area code)

(Former name or former address, if changed since last report.)

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:

- ☐ 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 1.01. Entry into a Material Definitive Agreement.

Item 2.03. Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant.

Item 3.02. Unregistered Sales of Equity Securities.

On February 2, 2006, Registrant entered into a Security Purchase Agreement with Cornell Capital Partners, LP (“Cornell”) pursuant to which Cornell agreed to acquire \$3,000,000 principal amount of Registrant’s Secured Convertible Debentures due February 1, 2009 (the “Debentures”) at face amount, of which \$1,500,000 principal amount was sold and issued on the same date along with five year Warrants to purchase 4,200,000 shares of Common Stock at the price of \$0.287 per share and five year B Warrants to purchase 300,000 shares of Common Stock at a price of \$0.3444 per share. The \$1,500,000 balance of the Debentures are to be paid for and issued on a date two business days prior to the date of the filing by the Registrant of a registration statement to register for reoffering the shares of Common Stock acquired upon conversion of the Debenture and exercise of the Warrants and B Warrants.

The Debentures are convertible at a price equal to the lesser of (i) \$0.287 per share (“Fixed Conversion Price”), or (ii) 95% of the lowest volume weighted average price of the Common Stock on the market on which the shares are listed or traded during the 30 trading days immediately preceding the date of conversion (“Market Conversion Price”). Interest is payable at maturity at the rate of 6% per annum in cash or shares of Common Stock valued at the conversion price then in effect.

The holder of the Debenture has agreed that (i) it will not convert the Debenture or exercise the Warrants if the effect of such conversion or exercise would result in its holding of more than 4.9% of the outstanding shares of Common Stock, (ii) neither it nor its affiliates will maintain a short position or effect short sales of the Common Stock while the Debentures are outstanding, and (iii) no more than \$300,000 principal amount of the Debenture may be converted at the Market Conversion Price during a calendar month.

The Registrant may call the Debentures for redemption at the Redemption Price at any time or from time to time but not more than \$500,000 principal amount may be called during any 30 consecutive day period. The Redemption Price will be 120% of the principal redeemed plus accrued interest. Registrant has also granted the holder an 18-month right of first refusal assuming the Debentures are still outstanding with respect to Registrant’s issuance or sale of shares of capital stock, options, warrants or other convertible securities. It has also agreed to register at its expense under the Securities Act of 1933, as amended (the “Act”) the shares of Common Stock for reoffering by the holders of the Debentures and of the Warrants and B Warrants of the shares of Common Stock received upon following conversion or exercise.

Registrant has granted the holders a first security interest on its assets as security for payment of Registrant’s obligations. Registrant has agreed that in the event due to no fault of the holder the registration statement have not been filed under the Act by March 9, 2005 or be declared effective by the Securities Exchange Commission by June 2, 2006 or, if declared effective, sales of the registered shares cannot be made as a result of failure to provide material information or to keep the registration statement current, it will pay to the holders in cash or shares of Common Stock liquidated damages equal to 2% of the principal amount of Debentures then outstanding plus accrued interest for each 30-day period thereafter but not to exceed an aggregate of \$600,000.

The Registrant has also agreed that as long as there is outstanding at least \$500,000 principal amount of Debentures it would not, without the consent of the holder, issue or sell any securities at a price or warrants, options or convertible securities with an exercise or conversion price less than the bid price, as defined, immediately prior to the issuance; grant a further security interest in its assets or file a registration statement on Form S-8.

In the event of a Debenture default the Debenture shall, at the holder's election, become immediately due and payable in cash or, at the holder's option, in shares of Common Stock or may be converted into shares of Common Stock. Events of default include failure to pay principal when due or interest within five days following due date; failure to cure breaches or defaults of covenants, agreements or warrants within 10 days following written notice of such breach or default; the entry into a change of control transaction meaning (A) the acquisition of effective control of more than 50% of the outstanding voting securities by an individual or group (not including the holder or its affiliates), or (B) the replacement of more than one-half of the Directors not approved by a majority of Registrant's directors as of February 2, 2006 or by directors appointed by such directors or (C) Registrant entering into an agreement to effect any of the foregoing; bankruptcy or insolvency acts; breach or default which results in acceleration of the maturity of other debentures, mortgages or credit facilities, indebtedness or factor agreements involving outstanding principal of at least \$100,000; breach of the Registration Rights Agreement as to the scheduled filing, or effectiveness, and maintaining effectiveness of the registration statement which results in an inability to sell shares by holder for a designated period; failure to maintain the eligibility of the Common Stock to trade or the Over-the-Counter Bulletin Board, and failure to make delivery within five trading days of certificates for shares to be issued upon conversion for four trading days after the conversion or the date Registrant publicly announces intention not to comply with requests for conversion in accordance with the Debenture terms.

Registrant paid and is to pay to Yorkville Advisor, LLC a fee of 8% of the principal amount of the Debentures sold (\$120,000 with respect to the \$1,500,000 Debentures sold to date) and paid Yorkville structuring and due diligence fees of \$15,000 and \$5,000, respectively.

The net proceeds of \$1,360,000 prior to deducting legal and accounting fees and other expenses, will be used for working capital including Phase I and initiation of Phase II testing of its Lovoxin C, its first Listeria cancer immunotherapy in cervical cancer patients, and acceleration of pre clinical testing for several pipeline vaccines including Lovaxin B and Lovaxin S for breast and ovarian cancer, respectively.

The sale of the Debenture was exempt from registration by virtue of Section 4(2) of the Act.

Item 9.01. Financial Statements and Exhibits

Exhibit 10.01	Securities Purchase Agreement
Exhibit 10.02	Secured Convertible Debenture
Exhibit 10.03	Warrant
Exhibit 10.04	B Warrant
Exhibit 10.05	Investor Registration Rights Agreement
Exhibit 10.06	Security Agreement (Cornell)
Exhibit 10.07	Security Agreement (Subsidiary)
Exhibit 10.08	Irrevocable Transfer Agent Instructions

SIGNATURE

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.

Dated: February 7, 2006

ADVAXIS, INC.

By: /s/ Roni Appel

Name: Roni Appel

Title: Chief Executive Officer

4

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Related Assets

333

—

—

—

333

Net Gain on Securities

—

—

—

—

—

Trust and Investment Product Fees

2

1,392

—

	(53)
)	
	1,341
Insurance Revenues	
	62
	20
	3,002
	(39)
)	
	3,045
Noncash Item:	
Provision for Loan Losses	
	2,303
	—
	—
	—
	2,303
Depreciation and Amortization	
	1,225
	10
	391
	—
	1,626
Income Tax Expense	
	1,875
	166
	192
	6

	(556)
)	
	1,677
Segment Profit / (Loss)	
	4,282
	253
	285
	(698)
)	
	4,122
Segment Assets	
	1,109,581
	2,186
	9,639
	499
	1,121,905

Note 7 - Stock Repurchase Plan

On April 26, 2001 the Company announced that its Board of Directors approved a stock repurchase program for up to 607,754 (as adjusted for subsequent stock dividends) of the outstanding Common Shares 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. As of June 30, 2008, the Company had purchased 334,965 (as adjusted for subsequent stock dividends) shares under the program. No shares were purchased under the plan during the six months ended June 30, 2008.

Note 8 - Equity Plans and Equity Based Compensation

The Company maintains two equity incentive plans under which stock options, restricted stock, and other equity incentive awards can be granted. At June 30, 2008, the Company has reserved 620,144 shares of Common Stock (as adjusted for subsequent stock dividends and subject to further customary anti-dilution adjustments) 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 six months ended June 30, 2008 and 2007 there were no stock options granted. There was no option expense during the three or six month periods ended June 30, 2008 and 2007. In addition, there was no unrecognized option expense as all outstanding options were fully vested prior to June 30, 2008 and 2007.

During the quarter and six months ended June 30, 2008, the Company granted awards of 385 shares of restricted stock. During the quarter and six months ended June 30, 2007, the Company granted awards of 350 shares and 21,400 shares of restricted stock. The expense recorded for the restricted stock grants totaled \$1, net of an income tax benefit of \$1, during the three and six months ended June 30, 2008, respectively. The expense recorded for the restricted stock grants totaled \$50, net of an income tax benefit of \$33, and \$83, net of an income tax benefit of \$55, during the three and six months ended June 30, 2007, respectively. Unrecognized expense associated with the restricted stock grants totaled \$3 and \$140 as of June 30, 2008 and 2007, 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 plan year for the Employee Stock Purchase Plan runs from August 17 through August 16 of the subsequent year. For years prior to the plan year beginning August 17, 2007, the purchase price of the shares were determined annually and in the range from 85% to 100% of the fair market value of such stock at either the beginning or end of the plan year. For the plan year beginning August 17, 2007, the purchase price of the shares under this Plan is 95% of the fair market value of the Company's common stock as of the last day of the plan year. The plan provides for the purchase of up to 542,420 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. Funding for the purchase of common stock is from employee and Company contributions.

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2008
(unaudited, dollars in thousands except per share data)

Note 8 - Equity Plans and Equity Based Compensation (continued)

Based on the above referenced setting of the purchase price at 95% of the fair market value of the Company's common stock for the 2007/2008 plan year, the Employee Stock Purchase Plan will not be considered compensatory and no expense will be recorded during the 2007/2008 plan year. The expense recorded for the Employee Stock Purchase Plan totaled \$11 net of an income tax benefit of \$7, and \$22, net of an income tax benefit of \$14, during the three and six months ended June 30, 2007, respectively. Unrecognized compensation expense as of June 30, 2007 totaled \$12 for the Employee Stock Purchase Plan.

Note 9 - Employee Benefit Plans

The Company acquired through previous bank mergers a noncontributory defined benefit pension plan with benefits based on years of service and compensation prior to retirement. The benefits under the plan were suspended in 1998. The following tables represent the components of net periodic benefit cost for the periods presented:

	Three Months Ended June 30,	
	2008	2007
Service Cost	\$ —	\$ —
Interest Cost	10	10
Expected Return on Assets	(3)	(3)
Amortization of Transition Amount	—	(1)
Amortization of Prior Service Cost	(1)	(1)
Recognition of Net (Gain)/Loss	5	7
Net Periodic Benefit Cost	\$ 11	\$ 12
Loss on Settlements and Curtailments	None	45

	Six Months Ended June 30,	
	2008	2007
Service Cost	\$ —	\$ —
Interest Cost	19	19
Expected Return on Assets	(6)	(6)
Amortization of Transition Amount	—	(1)
Amortization of Prior Service Cost	(2)	(2)
Recognition of Net (Gain)/Loss	10	14
Net Periodic Benefit Cost	\$ 21	\$ 24
Loss on Settlements and Curtailments	None	45

The Company previously disclosed in its financial statements for the year ended December 31, 2007, that it expected to contribute \$97 to the pension plan during the fiscal year ending December 31, 2008. As of June 30, 2008, the Company had contributed \$37 to the pension plan.

Note 10 - New Accounting Pronouncements

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements*. The standard is effective for fiscal years beginning after November 15, 2007. Statement 157 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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.

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2008
(unaudited, dollars in thousands except per share data)

Note 10 - New Accounting Pronouncements (continued)

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 fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

Assets and Liabilities Measured on a Recurring Basis

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

		Fair Value Measurements at June 30, 2008 Using		
		Quoted Prices in Active Markets for	Significant Other Observable Inputs	Significant Unobservable Inputs
	June 30, 2008	Identical Assets (Level 1)	(Level 2)	(Level 3)
Assets:				
Available for Sale Securities	\$ 162,753	\$ 3,116	\$ 157,544	\$ 2,093

Equity securities that do not have readily determinable fair values are carried at cost and are evaluated for impairment on a periodic basis. Equity securities carried at cost and included in the table above totaled \$2,093 at June 30, 2008. There were no changes in fair value for these equity securities during the first six months of 2008.

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, 2008 Using		
		Quoted Prices in Active Markets for	Significant Other Observable Inputs	Significant Unobservable Inputs
	June 30, 2008	Identical Assets (Level 1)	(Level 2)	(Level 3)
Assets:				
Impaired Loans	\$ 3,232	\$ —	\$ —	\$ 3,232

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of \$5,464, with a valuation allowance of \$2,232, resulting in an additional provision for loan losses of \$710 and \$1,777 for the three and six months ended June 30, 2008, respectively. Values for collateral

dependent loans are generally based on appraisals obtained from licensed real estate appraisals and in certain circumstances consideration of offers obtained to purchase properties prior to foreclosure or other factors management deems relevant to arrive at a representative fair value. 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. Values 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. The final fair value is based on the reconciliation of these three approaches.

In February 2007, the FASB issued Statement No. 159 - *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159). The standard provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The new standard is effective for the Company on January 1, 2008. The Company did not elect the fair value option for any financial assets or liabilities as of January 1, 2008.

GERMAN AMERICAN BANCORP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2008
(unaudited, dollars in thousands except per share data)

Note 10 - New Accounting Pronouncements (continued)

In September 2006, the FASB Emerging Issues Task Force finalized Issue No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*. This issue requires that a liability be recorded during the service period when a split-dollar life insurance agreement continues after participants' employment or retirement. The required accrued liability will be based on either the post-employment benefit cost for the continuing life insurance or based on the future death benefit depending on the contractual terms of the underlying agreement. This issue became effective for the Company on January 1, 2008. The impact of adoption of this issue was an adjustment to lower retained earnings of the Company by \$288 effective January 1, 2008.

On November 5, 2007, the SEC issued Staff Accounting Bulletin No. 109, *Written Loan Commitments Recorded at Fair Value through Earnings* ("SAB 109"). Previously, SAB 105, *Application of Accounting Principles to Loan Commitments*, stated that in measuring the fair value of a derivative loan commitment, a company should not incorporate the expected net future cash flows related to the associated servicing of the loan. SAB 109 supersedes SAB 105 and indicates that the expected net future cash flows related to the associated servicing of the loan should be included in measuring fair value for all written loan commitments that are accounted for at fair value through earnings. SAB 105 also indicated that internally-developed intangible assets should not be recorded as part of the fair value of a derivative loan commitment, and SAB 109 retains that view. SAB 109 is effective for derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. The impact of adoption of this standard was not material to the Company's financial statements.

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 financial services holding company based in Jasper, Indiana. The Company's Common Stock is traded on NASDAQ's Global Select Market, under the symbol GABC. The principal subsidiary of German American Bancorp, Inc. is its banking subsidiary, German American Bancorp, which operates through six community banking affiliates with 28 retail banking offices in the ten contiguous Southern Indiana counties of Daviess, Dubois, Gibson, Knox, Lawrence, Martin, Monroe, Perry, Pike, and Spencer. German American Bancorp owns a trust, brokerage, and financial planning subsidiary, which operates from its banking offices, and a full line property and casualty insurance agency with six insurance agency offices throughout its market area.

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 the Company 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, 2008 and December 31, 2007 and the consolidated results of operations for the three and six months ended June 30, 2008 and 2007. 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 December 31, 2007 Annual Report on Form 10-K.

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 December 31, 2007 Annual Report on Form 10-K.

During the second quarter of 2008, the Company generated earnings of \$3,111,000 or \$0.28 per share, an 18% increase from the \$2,643,000 or \$0.24 per share in the second quarter of 2007. This level of quarterly earnings represents the third successive quarter that the Company has reported the highest level of quarterly earnings in its history. In comparison with prior year results, the Company produced enhanced performance during the second quarter of 2008 in each major category within the income statement reflecting increased revenue from both net interest income and total non-interest income coupled with a reduction in non-interest expense. Partially offsetting these improvements was an increased level of provision for loan loss. Each of these areas will be discussed in more detail below.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The financial condition and results of operations for German American Bancorp, Inc. 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, and income tax expense.

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 when graded substandard or special mention, or 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 collectibility 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 those graded substandard or special mention and 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 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 a five-year historical average for loan losses for these portfolios, judgmentally adjusted for economic factors and portfolio trends.

Due to the imprecise nature of estimating the allowance for loan losses, the Company's allowance for loan losses may include 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, all securities are required to be written down to fair value when a decline in fair value is other than temporary; 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 and the duration of the decline. As of June 30, 2008, gross unrealized losses on the securities available-for-sale portfolio totaled approximately \$1,996,000.

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.

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 carryback and carryforward periods, including consideration of available tax planning strategies. As of December 31, 2007, the Company had a deferred tax asset of \$649,000 which includes tax credit carryforwards of \$403,000. Based on the long carryforward periods available, management has assessed it more likely than not that these credits will be realized and no valuation allowance has been established on this asset.

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.

RESULTS OF OPERATIONS**Net Income:**

Net income increased \$468,000 or 18% to \$3,111,000 or \$0.28 per share for the quarter ended June 30, 2008, compared to \$2,643,000 or \$0.24 per share for the second quarter of 2007. The increase in net income during the second quarter 2008 compared with same quarter of 2007 was due to improvement across the major categories of the income statement including net interest income, non-interest income, non-interest expense, partially offset by an increased level of provision for loan losses.

Net income for the first six months of 2008 totaled \$6,131,000 or \$0.55 per share representing an increase of \$2,009,000 or 49% over the \$4,122,000 or \$0.37 per share recorded in the six months ended June 30, 2007. The increase in net income during the first half of 2008 compared with the same period of 2007 was attributable to improvement in net interest income, non-interest income and expense, and a relatively flat level of provision for loan losses.

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. The following table summarizes the Company's net interest income (on a tax-equivalent basis, at an effective tax rate of 34%) for each of the periods presented herein (dollars in thousands):

	Three Months Ended June 30,		Change from Prior Period	
	2008	2007	Amount	Percent
Interest Income (T/E)	\$ 16,911	\$ 18,109	\$ (1,198)	(6.6)%
Interest Expense	6,713	8,464	(1,751)	(20.7)%
Net Interest Income (T/E)	\$ 10,198	\$ 9,645	\$ 553	5.7%

Net interest income increased \$571,000 or 6% (an increase of \$553,000 or 6% on a tax-equivalent basis) for the quarter ended June 30, 2008 compared with the same quarter of 2007. The net interest margin represents tax-equivalent net interest income expressed as a percentage of average earning assets. The tax equivalent net interest margin for the second quarter 2008 was 3.75% compared to 3.78% for the second quarter of 2007. The yield on earning assets totaled 6.23% during the quarter ended June 30, 2008 compared to 7.11% in the same period of 2007 while the cost of funds (expressed as a percentage of average earning assets) totaled 2.48% during 2008 compared to 3.33% in 2007.

Average earning assets totaled approximately \$1.090 billion for the quarter ended June 30, 2008 compared with \$1.021 billion for the quarter ended June 30, 2007. During the second quarter of 2008, average loans outstanding totaled \$872.3 million, an increase of \$37.8 million or 5%, compared to the \$834.5 million in average loans outstanding during the second quarter of 2007. Average commercial and agricultural loans totaled \$629.4 million, an increase of \$45.5 million or 8% during the quarter ended June 30, 2008 compared with the same quarter of the prior year. Average residential mortgage loans and consumer loans totaled \$242.9 million during the quarter ended June 30, 2008 representing an decline of \$7.7 million or 3% over 2007.

	Six Months Ended June 30,		Change from Prior Period	
	2008	2007	Amount	Percent
Interest Income (T/E)	\$ 34,862	\$ 35,616	\$ (754)	(2.1)%

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Interest Expense		14,419		16,418		(1,999)		(12.2)%
Net Interest Income (T/E)	\$	20,443	\$	19,198	\$	1,245		6.5%

Net interest income increased \$1,315,000 or 7% (an increase of \$1,245,000 or 7% on a tax-equivalent basis) for the six months ended June 30, 2008 compared with the six months ended June 30, 2007. The tax equivalent net interest margin for the six months ended June 30, 2008 was 3.82% compared to 3.83% for the same period of 2007. The yield on earning assets totaled 6.53% during the first half of 2008 compared to 7.10% in the same period of 2007 while the cost of funds (expressed as a percentage of average earning assets) totaled 2.71% during 2008 compared to 3.27% in 2007.

Average earning assets totaled approximately \$1.073 billion for the six months ended June 30, 2008 compared with \$1.010 billion for the six months ended June 30, 2007. During the first half of 2008, average loans outstanding totaled \$870.3 million, an increase of \$53.4 million or 7%, compared to the \$816.9 million in average loans outstanding during the first half of 2007. Average commercial and agricultural loans totaled \$623.8 million, an increase of \$56.0 million or 10% during the six months ended June 30, 2008 compared with the same period of the prior year. Average residential mortgage loans and consumer loans totaled \$246.5 million during the six months ended June 30, 2008 representing a decrease of \$2.5 million or 1% over 2007.

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. The provision for loan loss totaled \$934,000 during the quarter ended June 30, 2008, representing an increase of \$559,000 from the second quarter 2007 provision of \$375,000. During the second quarter of 2008, the annualized provision for loan loss represented 0.43% of average loans outstanding compared with 0.18% on an annualized basis of average loans outstanding during the second quarter of 2007. The higher level of provision during the second quarter of 2008 compared with the same period of 2007 was largely attributable to loan growth and an increased level of non-performing loans.

The provision for loan loss totaled \$2,278,000 during the six months ended June 30, 2008, representing a decline of \$25,000 from the first half of 2007 provision of \$2,303,000. During the six months ended June 30, 2008, the annualized provision for loan loss represented 0.52% of average loans outstanding compared with 0.56% on an annualized basis of average loans outstanding during the six months ended June 30, 2007.

Net charge-offs totaled \$279,000 or 0.13% on an annualized basis of average loans outstanding during the three months ended June 30, 2008 compared with \$219,000 or 0.10% on an annualized basis of average loans outstanding during the same period of 2007. Net charge-offs totaled \$469,000 or 0.11% on an annualized basis of average loans outstanding during the six months ended June 30, 2008 compared with \$1,656,000 or 0.41% on an annualized basis of average loans outstanding during the same period of 2007. The significantly higher level of net charge-offs during the six months ended June 30, 2007, was primarily attributable to the charge-off related to a single large commercial credit facility.

The provisions for loan losses made during the quarter ended June 30, 2008 were made at a level deemed necessary by management to absorb 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 provisions 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 second quarter of 2008, non-interest income totaled \$4,493,000 representing an increase of \$268,000 or 6% over the second quarter of 2007. During the six months ended June 30, 2008, non-interest income totaled \$9,525,000 representing an increase of \$1,348,000 or 16% over 2007.

Trust and investment product fees totaled \$636,000 during the quarter ended June 30, 2008 representing a decline of \$24,000 or 4% from the same period of 2007. Trust and investment product fees totaled \$1,223,000 during the six months ended June 30, 2008 representing a decline of \$118,000 or 9% from the same period of 2007.

Deposit service charges and fees totaled \$1,245,000 during the quarter ended June 30, 2008 representing an increase of \$131,000 or 12% over the same period of 2007. Deposit service charges and fees totaled \$2,428,000 during the six months ended June 30, 2008 representing an increase of \$396,000 or 19% over the same period of 2007. The increase was attributable to a combination of increased gross fees and a reduced level of refunded and waived fees.

During the second quarter of 2008, insurance commission and fees totaled \$1,307,000 which is a decline of \$234,000 or 15% compared to the second quarter of 2007. The decline was largely attributable to the receipt of \$109,000 in contingency revenue at the Company's property and casualty insurance subsidiary, German American Insurance during the second quarter of 2007 while all 2008 contingency revenues were received during the first quarter of 2008. During the six month period ended June 30, 2008, insurance commission and fees totaled \$3,210,000 which is an increase of

\$165,000 or 5% compared to 2007. The increase was attributable to an increase of \$316,000 in contingency revenue during the first half of 2008 compared with the first half of 2007.

During the quarter ended June 30, 2008, the net gain on sale of residential loans totaled \$404,000, an increase of \$231,000 or 134% over the gain recognized in the quarter ended June 30, 2007. The increase was primarily attributable to higher levels of residential loan sales which totaled \$32.3 million in the second quarter of 2008, compared to \$15.5 million in the same period of 2007. During the six months ended June 30, 2008, the net gain on sale of residential loans totaled \$728,000, an increase of \$395,000 or 119% over the gain of \$333,000 recognized in the six months ended June 30, 2007. The increase was attributable to higher levels of residential loan sales which totaled \$60.7 million in the first half of 2008, compared to \$27.6 million in the same period of 2007.

Net gain on securities totaled \$285,000 during the six months ended June 30, 2008, compared with no gains during the same period of 2007. The Company recognized a net gain on securities of \$285,000 in the first quarter of 2008. The Company sold approximately \$16 million of agency mortgage related securities at a gain of \$189,000. In addition, the Company recognized a gain of \$96,000 on the mandatory redemption on a portion of VISA stock acquired as part of the initial public offering of VISA, Inc.

Non-interest Expense:

During the quarter ended June 30, 2008, non-interest expense totaled \$8,985,000, a decline of \$483,000 or 5% from the same period of 2007. During the six months ended June 30, 2008, non-interest expense totaled \$18,333,000, a decline of \$611,000 or 3% from the same period of 2007.

Salaries and benefits totaled \$5,118,000 in the quarter ended June 30, 2008 representing a decline of \$436,000 or 8% from 2007. Salaries and benefits totaled \$10,445,000 in the first half of 2008 representing a decline of \$612,000 or 6% from 2007. The declines were largely attributable to a decrease in excess of 30 full-time equivalent employees, or 8% of total full-time equivalent employees, during the three and six months ended June 30, 2008 compared with the same periods of 2007. The decline in salaries and benefits was achieved while the Company recognized \$196,000 and \$466,000 in the three and six months ended June 30, 2008, respectively, for post-retirement benefits for employees that were accrued as part of the Company's formal review of effectiveness and efficiency.

In the quarter ended June 30, 2008, occupancy and furniture and equipment expense totaled \$1,398,000, an increase of \$50,000 or 4% compared to the quarter ended June 30, 2007. During the six months ended June 30, 2008, occupancy and furniture and equipment expense totaled \$2,870,000, an increase of \$172,000 or 6% compared to the six months ended June 30, 2007. The increases were largely attributable to higher levels of real estate taxes and higher levels of furniture, fixtures and equipment depreciation.

Professional fees increased \$91,000 or 26% during the second quarter of 2008 and \$264,000 or 36% during the six months ended June 30, 2008, compared with the same periods of 2007. The increases were due primarily to professional fees associated with the Company's formal review of effectiveness and efficiency.

During the three and six months ended June 30, 2008, collection costs declined by \$120,000 and \$239,000, respectively, as compared with the same periods of 2007. The declines were largely due to elevated levels in 2007 related to the resolution of a single large non-performing commercial credit facility. During the three and six months ended June 30, 2008, losses related to fraudulent ATM/debit card transactions decreased by \$168,000 and \$244,000, respectively, compared with the same periods of 2007; however, losses of this type have been incurred at an increased level during the third quarter of 2008 and it is therefore likely that losses of this type for the full year 2008 could be closer to those incurred in 2007 than the partial year comparisons might otherwise suggest.

Income Taxes:

The Company's effective income tax rate approximated 32.9% during the three months ended June 30, 2008 compared with 31.8% during the same period of 2007. The Company's effective income tax rate approximated 32.6% during the six months ended June 30, 2008 compared with 28.9% during the same period of 2007. The higher effective tax rate during the three and six month periods ended June 30, 2008 compared with the same periods of 2007 was the result of higher levels of before tax net income combined with a lower level of tax-exempt investment income. The effective tax rate in both 2008 and 2007 was lower than the blended statutory rate of 39.6% resulting primarily from the Company's tax-exempt investment income on securities and loans, income tax credits generated from investments in affordable housing projects, and income generated by subsidiaries domiciled in a state with no state or local income tax.

FINANCIAL CONDITION

Total assets at June 30, 2008 increased \$43.3 million to \$1.175 billion compared with \$1.132 billion in total assets at December 31, 2007. Cash and cash equivalents increased \$18.6 million to \$46.5 million at June 30, 2008 compared with \$27.9 million at year-end 2007. This increase was largely attributable to an increase in deposits during 2008. Securities available-for-sale and held-to-maturity increased \$14.0 million to \$166.8 million at June 30, 2008 compared with \$152.8 million at year-end 2007. Loans, net of unearned income, increased \$9.5 million to \$877.2 million at June 30, 2008 compared to \$867.7 million at December 31, 2007. Commercial and industrial loans increased \$36.5 million or 8%, agricultural based loans decreased \$11.2 million or 7%, consumer loans decreased \$5.6 million or 4% and residential mortgage loans declined \$10.2 million or 9% during the six months ended June 30, 2008.

Total Deposits at June 30, 2008, increased \$46.3 million to \$923.7 million compared with \$877.4 million in total deposits at December 31, 2007. Demand, savings, and money market accounts increased \$91.6 million while time deposits decreased \$45.3 million.

Non-performing Assets:

The following is an analysis of the Company's non-performing assets at June 30, 2008 and December 31, 2007 (dollars in thousands):

	June 30, 2008	December 31, 2007
Non-accrual Loans	\$ 9,633	\$ 4,356
Past Due Loans (90 days or more)	16	8
Restructured Loans	—	—
Total Non-performing Loans	9,649	4,364
Other Real Estate	1,815	1,517
Total Non-performing Assets	\$ 11,464	\$ 5,881
Non-performing Loans to Total Loans	1.10%	.50%
Allowance for Loan Loss to Non-performing Loans	102.11%	184.33%

The Company's level of overall non-performing assets increased by approximately \$5.6 million and non-performing loans increased by approximately \$5.3 million during the six months ended June 30, 2008. This level of non-performing loans represents 1.10% of total loans outstanding at June 30, 2008, an increase from 0.50% as of year-end 2007. The majority of the increase was related to a single commercial real estate credit which is secured by a newly constructed apartment complex. This credit is a participation loan in which the Company is a 53% participant, with the Company's outstanding balance at June 30, 2008 totaling approximately \$2.9 million. The remaining increase in non-performing loans was primarily related to commercial credits that each totaled less than \$1.0 million.

The largest credit facility, other than the above referenced apartment complex credit, included in non-performing assets is an approximately \$736,000 loan (after a partial charge-off during 2006) to a manufacturing entity which has ceased operations. During the third quarter of 2005, the real estate and equipment of the manufacturing entity were sold at auction to an unrelated third party. The closing of this auction sale was completed during the third quarter of 2008, with no additional write-down required.

Capital Resources:

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 such as loan commitments and standby letters of credit.

Tier 1, or core capital, consists of shareholders' equity less goodwill, core deposit intangibles, other identifiable intangibles and certain deferred tax assets defined by bank regulations. Tier 2 capital currently consists of the amount of the allowance for loan losses which does not exceed a defined maximum allowance limit of 1.25 percent of gross risk adjusted assets and subordinated debenture obligations. Total capital is the sum of Tier 1 and Tier 2 capital.

The minimum requirements under these standards are generally at least a 4.0 percent leverage ratio, which is Tier 1 capital divided by defined "total assets"; 4.0 percent Tier 1 capital to risk-adjusted assets; and, an 8.0 percent total capital to risk-adjusted assets ratios. Under these guidelines, the Company, on a consolidated basis, and its subsidiary bank, have capital ratios that exceed the regulatory minimums.

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) requires federal regulatory agencies to define capital tiers. These are: well-capitalized, adequately-capitalized, under-capitalized, significantly under-capitalized, and critically under-capitalized. Under these regulations, a “well-capitalized” entity must achieve a Tier 1 risk-based capital ratio of at least 6.0 percent; a total capital ratio of at least 10.0 percent; and, a leverage ratio of at least 5.0 percent, and not be under a capital directive. The Company’s subsidiary bank was categorized as well-capitalized as of June 30, 2008.

At June 30, 2008, management was not under such a capital directive, nor was it aware of any current recommendations by banking regulatory authorities which, if they were to be implemented, would have or are reasonably likely to have, a material effect on the Company's liquidity, capital resources or operations.

The table below presents the Company's consolidated capital ratios under regulatory guidelines:

	Minimum for Capital Adequacy Purposes	To be Well Capitalized Under Prompt Corrective Action Provisions (FDICIA)	At June 30, 2008	At December 31, 2007
Leverage Ratio	4.00%	5.00%	7.35%	7.41%
Tier 1 Capital to Risk-adjusted Assets	4.00%	6.00%	9.09%	8.69%
Total Capital to Risk-adjusted Assets	8.00%	10.00%	11.23%	10.63%

As of June 30, 2008, shareholders' equity increased by \$1.1 million to \$98.2 million compared with \$97.1 million at year-end 2007. The increase in shareholders' equity was attributable to an increase of \$2.8 million in retained earnings and a decline of \$1.7 million in accumulated other comprehensive income ("AOCI"). The decline in AOCI was related to a higher unrealized loss in the securities available for sale portfolio. Shareholders' equity represented 8.4% of total assets at June 30, 2008 compared with 8.6% at December 31, 2007. Shareholders' equity included \$13.2 million of goodwill and other intangible assets at June 30, 2008, compared to \$13.7 million of goodwill and other intangible assets at December 31, 2007.

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 increased \$18.6 million during the six months ended June 30, 2008 ending at \$46.5 million. During the six months ended June 30, 2008, cash flows from operating activities provided \$7.4 million of available cash, which included net income of \$6.1 million. Investing activities resulted in net cash outflows of \$27.4 million during the six months ended June 30, 2008 due primarily to growth in the Company's loan portfolio and securities portfolio. Financing activities resulted in net cash inflows for the period ended June 30, 2008 of \$38.6 million due primarily to growth of deposits of \$46.3 million offset partially by a net cash outflow of \$3.1 million in dividends paid to shareholders.

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 operating effectiveness and the impact of its Effectiveness Plan (described above in Management Overview) upon future non-interest income and non-interest expense: 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 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,” “believe” or “anticipate,” or similar expressions.

It is intended that these 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, forward-looking statements are based on assumptions and are subject to risks, uncertainties, and other factors. Actual results may differ materially from the expectations of the Company that are expressed or implied by any forward-looking statement.

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; the effects of changes in competitive conditions; of the possibility that the Company may acquire other businesses or intangible customer relationships of other companies and the costs of integrations of such acquired businesses and intangible customer relationships; the introduction, withdrawal, success, and timing of 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 including those arising from the continuing uncertainties commonly associated with the mortgage-backed securities markets and the auction-rate securities markets, and those arising from uncertainties concerning the financial stability of bond insurers; the possibility of a recession or other adverse change in general economic conditions, either nationally or regionally, resulting in, among other things, credit quality deterioration; the impact, extent and timing of technological changes; capital management activities; actions of the Federal Reserve Board and legislative and regulatory actions and reforms; changes in accounting principles and interpretations; the inherent uncertainties involved in litigation and regulatory proceedings which could result in the Company's incurring loss or damage regardless of the merits of the Company's claims or defenses; and the continued availability of earnings and excess capital sufficient for the lawful and prudent declaration and payment of cash dividends.

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, 2007, and its Quarterly Report on Form 10-Q for its quarter ended March 31, 2008, 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 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 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 table. Lastly, the ability of many borrowers to repay their adjustable rate debt may decline during a rising interest rate environment.

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

Interest Rate Sensitivity as of June 30, 2008

Changes in rates	Net Portfolio Value		Net Portfolio Value as a % of Present Value of Assets	
	\$ Amount	% Change	NPV Ratio	Change
+2%	\$136,436	-4.70%	11.85%	(24) b.p.
Base	143,162	—	12.09%	—
-2%	137,015	-4.29%	11.35%	(74) b.p.

This Item 3 includes forward-looking statements. See “Forward-looking Statements” 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, 2008, 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 2008 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II. OTHER INFORMATION**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

(e) The following table sets forth information regarding the Company's purchases of its common shares during each of the three months ended June 30, 2008.

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⁾
4/1/08 - 4/30/08	—	—	—	272,789
5/1/08 - 5/31/08	—	—	—	272,789
6/1/08 - 6/30/08	—	—	—	272,789
	—	—	—	

⁽¹⁾ On April 26, 2001, the Company announced that its Board of Directors had approved a stock repurchase program for up to 607,754 of its outstanding common shares, of which the Company had purchased 334,965 common shares through June 30, 2008 (both such numbers adjusted for subsequent stock dividends). The Board of Directors established no expiration date for this program. The Company purchased no shares under this program during the six months ended June 30, 2008.

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

The Company held its Annual Meeting of Shareholders on April 24, 2008. At the Annual Meeting, the shareholders elected the following Directors for three-year terms expiring in the year 2011:

Nominee	Votes Cast for	Votes Withheld/Abstained	Broker Non-Votes
Christina M. Ernst	8,160,506	162,960	—
Gene C. Mehne	8,163,016	160,449	—
Mark A. Schroeder	8,133,230	190,235	—

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, 2008

By: /s/ Mark A. Schroeder

Mark A. Schroeder
President and Chief Executive Officer

Date: August 4, 2008

By: /s/ Bradley M. Rust

Bradley M. Rust
Executive Vice President and
Chief Financial Officer

INDEX OF EXHIBITS

Exhibit No.	Description
10.1	Early Retirement and General Release Agreement dated May 7, 2008 between German American Bancorp and Stan Ruhe.*
10.2	Description of Director Compensation Arrangements for the 12 month period ending at the 2009 Annual Meeting of Shareholders.*
31.1	Sarbanes-Oxley Act of 2002, Section 302 Certification for President and Chief Executive Officer.
31.2	Sarbanes-Oxley Act of 2002, Section 302 Certification for Senior Vice President and Chief Financial Officer.
32.1	Sarbanes-Oxley Act of 2002, Section 906 Certification for President and Chief Executive Officer.
32.2	Sarbanes-Oxley Act of 2002, Section 906 Certification for Senior Vice President and Chief Financial Officer.

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