BOND LABORATORIES, INC.
Form 10-Q
May 15, 2009

U.S. Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2009

o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act

For the transition period from N/A to N/A

Commission File No. 333-137170

Bond Laboratories, Inc.
(Name of small business issuer as specified in its charter)

Nevada	20-3464383
State of Incorporation	IRS Employer Identification No.

777 South Highway 101, Suite 215, Solana Beach, CA 92975
(Address of principal executive offices)

(858) 847-9000
(Issuer's telephone number)

Securities registered under Section 12(b) of the Exchange Act:
None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, $0.001 par value per share
(Title of Class)

Indicate by check mark whether the Registrant (1) has filed all reports required by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days: Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes o No o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non–accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b–2 of the Exchange Act. (Check one):

Large accelerated filer	¨	Accelerated filer	¨
Non–Accelerated filer	¨	Small Business Issuer	x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b–2 of the Exchange Act). Yes ¨ No x

Transitional Small Business Disclosure Format (check one): Yes o No x

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

Class	Outstanding at May 15, 2009
Common stock, $0.01 par value	35,992,595

BOND LABORATORIES, INC.
INDEX TO FORM 10-Q FILING
FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008

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PART I – FINANCIAL INFORMATION

ITEM 1 – FINANCIAL STATEMENTS

BOND LABORATORIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS:		March 31, 2009		December 31, 2008
CURRENT ASSETS				(Audited)
Cash	$	244,196	$	263,379
Accounts receivables - net		717,379		428,790
Inventory		1,788,753		1,984,245
Notes receivables		250,137		250,137
Prepaid expenses and other current assets		173,970		30,240
Total current assets		3,174,435		2,956,791
PROPERTY AND EQUIPMENT, net		226,515		238,328
Intangibles assets, net		2,105,923		2,160,860
Deposits		9,511		5,728
TOTAL ASSETS	$	5,516,384	$	5,361,707
LIABILITIES AND STOCKHOLDERS' EQUITY:				
CURRENT LIABILITIES:				
Accounts payable	$	1,189,178	$	950,947
Accrued expenses and other liabilities		222,509		238,617
Note payable - affiliate		103,019		50,769
Note payable - current		779,603		934,861
Total current liabilities		2,294,309		2,175,194
Notes payable - long term		118,102		118,102
TOTAL LIABILITIES		2,412,411		2,293,296
CONTINGENCIES AND COMMITMENTS		-		-
STOCKHOLDERS' EQUITY:				
Preferred stock series A, $.01 par value, 10,000,000 shares authorized; 9,659,477 and 5,659,477 issued and outstanding as of March 31, 2009 and December 31, 2008, respectively		96,595		56,595
Preferred stock series B, $.01 par value, 1,000 shares authorized; 171.3 and 0 issued and outstanding, 10% Cumulative Perpetual with a Stated Value of $10,000 per share; as of March 31, 2009 and December 31, 2008, respectively		216		-
		359,925		258,399

Common stock, $.01 par value, 75,000,000 shares authorized; 35,992,595 and 25,839,928 issued and outstanding as of March 31, 2009 and December 31, 2008, respectively				
Additional paid-in capital		14,540,533		12,306,023
Common stock subscribed, 7,500,000		-		1,249,792
Preferred A stock subscribed, 4,000,000		-		600,000
Preferred B stock subscribed, 125		-		208
Cost of raising capital		(17,430)		-
Foreign translation		(164)		-
Accumulated deficit		(11,875,702)		(11,402,606)
Total stockholders' equity		3,103,973		3,068,411
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	5,516,384	$	5,361,707

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

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BOND LABORATORIES, INC.
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
THREE MONTHS ENDED MARCH 31, 2009 AND 2008

	2009	2008
Revenue	$ 2,507,893	$ 226,717
Total	2,507,893	226,717
Cost of Goods Sold	1,801,034	149,836
Gross Profits	706,859	76,881
OPERATING EXPENSES:		
General and administrative	546,475	393,936
Selling and marketing	551,930	676,298
Depreciation and amortization	68,515	9,172
Research and development	-	80,774
Total operating expenses	1,166,920	1,160,180
OPERATING LOSS	(460,061)	(1,083,299)
OTHER (INCOME) AND EXPENSES		
Interest expense	9,771	-
Interest income	-	(2,022)
Loss on the sale of assets	3,264	
Rental income	-	(4,500)
Total other (income) expense	13,035	(6,522)
NET LOSS	$ (473,096)	$ (1,076,779)
NET LOSS PER SHARE:		
Basic	$ (0.01)	$ (0.05)
Diluted	$ (0.01)	$ (0.05)
Basic	34,865,795	20,199,587
Diluted	41,227,670	20,835,987

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

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BOND LABORATORIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2009 AND 2008

	2009	2008
Net loss	$ (473,096)	$ (1,076,779)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	68,515	9,172
Common stock issued for services	-	60,750
Common stock cancelled	(2,083)	-
Foreign translation	(164)	-
Loss on sale of assets	(1,765)	-
Warrants issued	47,907	-
Changes in operating assets and liabilities:		
Accounts receivables	(288,589)	157,000
Inventory	195,492	-
Prepaid expenses	(143,730)	(119,449)
Deposits	(3,783)	-
Accounts payables	238,231	377
Accrued liabilities	(15,860)	-
Net cash used in operating activities	(378,925)	(968,929)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of intangible asset	-	(1,175)
Net cash used in investing activities	-	(1,175)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from the issuances of common stock and preferred stock	463,000	388,000
Proceeds from affiliated note payable	52,000	-
Repayments of note payable	(155,258)	-
Net cash provided by financing activities	359,742	388,000
INCREASE (DECREASE) IN CASH	(19,183)	(582,103)
CASH, BEGINNING OF PERIOD	263,379	590,197
CASH, END OF PERIOD	$ 244,196	$ 8,094
Supplemental disclosure operating activities		
Interest expense	$ 9,771	$ -
Taxes paid	$ -	$ -
Supplemental disclosure for non cash investing and financing activities		
Common shares issued for cost of rasing captial	$ 17,430	$ -

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

BOND LABORATORIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008

NOTE 1 - DESCRIPTION OF BUSINESS

Bond Laboratories, Inc. ("The Company") was incorporated in the state of Nevada on July 26, 2005. The Company develops and distributes healthy-living and nutritional products designed to enhance energy, wellness and physical endurance. The Company currently markets two separate branded product families – Fusion Premium Energy, Inc. ("Fusion") and NDS Nutritional Products ("NDS") through all five of the major distribution channels.

Fusion offers a comprehensive line of energy products showcased by a 2-ounce shot and complemented by a unique set of alternative delivery forms including energy gums, capsules, powders and cookies. The Company currently distributes Fusion products through a network of convenience stores, drug and grocery stores, and sporting goods stores.

On October 1, 2008 Bond purchased all of the assets of NDS Nutritional Products, Inc. ("NDS" or "NDS Nutritional Products, Inc"). Established in 1998, NDS focuses its dynamic capabilities on providing cutting-edge quality products in the weight loss, sports nutrition and general health categories. Its emphasis is placed on the education of the consumer in regards to the unique attributes of its diverse product line. NDS wholesales nutritional supplements exclusively to GNC franchisees under multiple brand names including "Release Weight Loss", "Professional Muscular Development" and "Dr. Health." NDS also boasts a high-end line of sports nutrition products, "Infinite Labs", targeted at athletes, bodybuilders and fitness experts, and distributed through specialty vitamin shops, health stores and fitness clubs.

NOTE 2 - BASIS OF PRESENTATION

Interim Financial Statements

The accompanying interim unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In our opinion, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months period ended March 31, 2009 and 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. For further information, refer to the financial statements and footnotes thereto included in our Form 10-K Report for the fiscal year ended December 31, 2008.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company prepares its financial statements in accordance with accounting principles generally accepted in the United States of America. Significant accounting policies are as follows:

Principle of Consolidation

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Our

management periodically evaluates the estimates and judgments made. Management bases its estimates and judgments on historical experience and on various factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates as a result of different assumptions or conditions.

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Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenues, costs and expenses during the reporting period. Management evaluates these estimates and assumptions on a regular basis. Actual results could differ from those estimates.

These estimates and assumptions also affect the reported amounts of revenues, costs and expenses during the reporting period. Management evaluates these estimates and assumptions on a regular basis. Actual results could differ from those estimates.

Revenue Recognition

Revenue includes product sales. The Company recognizes revenue from product sales in accordance with Staff Accounting Bulletin (SAB) No. 104, “Revenue Recognition in Financial Statement” which is at the time customers are invoiced at shipping point, provided title and risk of loss has passed to the customer, evidence of an arrangement exists, fees are contractually fixed or determinable, collection is reasonably assured through historical collection results and regular credit evaluations, and there are no uncertainties regarding customer acceptance.

Accounts Receivable

Substantially all of the Company’s accounts receivable balance is relate to trade receivables. Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company’s best estimate of the amount of probable credit losses in its existing accounts receivable. The Company will maintain allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments for products. Accounts with known financial issues are first reviewed and specific estimates are recorded. The remaining accounts receivable balances are then grouped in categories by the amount of days the balance is past due, and the estimated loss is calculated as a percentage of the total category based upon past history. Account balances are charged off against the allowance when it is probable the receivable will not be recovered. No allowance for doubtful accounts and bad debts were written off in March 31, 2009 and 2008 as the Company was a development stage company.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. At March 31, 2009, cash and cash equivalents include cash on hand and cash in the bank.

Inventory

The Company inventory is carried at the lower of cost or net realizable value using the first-in, first-out (“FIFO”) method. The Company evaluates the need to record adjustments for inventory on a regular basis. Our policy is to evaluate all inventories including raw material (component), and finished goods. These inventories consisted of energy drinks, pain relief, and weight loss products. At March 31, 209, the value of the Company’s inventory was $ 1,788,753 and $1,984,245 at December 31, 2008, respectively.

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Property and Equipment

Property and equipment is recorded at cost and depreciated over the estimated useful lives of the assets using principally the straight-line method. When items are retired or otherwise disposed of, income is charged or credited for the difference between net book value and proceeds realized. Ordinary maintenance and repairs are charged to expense as incurred, and replacements and betterments are capitalized.

The range of estimated useful lives used to calculated depreciation for principal items of property and equipment are as follow:

Asset Category	Depreciation/ Amortization Period
Furniture and Fixture	3 Years
Office equipment	3 Years
Leasehold improvements	5 Years

Goodwill and Other Intangible Assets

The Company adopted Statement of Financial Accounting Standard (“SFAS No.”) No. 142, Goodwill and Other Intangible Assets, effective July 1, 2002. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill, represents the excess of the purchase price and related costs over the value assigned to net tangible and identifiable intangible assets of businesses acquired and accounted for under the purchase method, acquired in business combinations is assigned to reporting units that are expected to benefit from the synergies of the combination as of the acquisition date. Under this standard, goodwill and intangibles with indefinite useful lives are no longer amortized. The Company assesses goodwill and indefinite-lived intangible assets for impairment annually during the fourth quarter, or more frequently if events and circumstances indicate impairment may have occurred in accordance with SFAS No. 142. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, the Company records an impairment loss equal to the difference. SFAS No. 142 also requires that the fair value of indefinite-lived purchased intangible assets be estimated and compared to the carrying value. The Company recognizes an impairment loss when the estimated fair value of the indefinite-lived purchased intangible assets is less than the carrying value. The Company has recorded goodwill associated with the acquisition of NDS Nutritional Products, Inc. in the amount of $2,190,000 and has recognized no impairment loss as of March 31, 2009.

Impairment of Long-Lived Assets

In accordance with SFAS No. 144, long-lived assets, such as property, plant, and equipment, and purchased intangibles, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Goodwill and other intangible assets are tested for impairment. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. There were no events or changes in circumstances that necessitated an impairment of long lived assets.

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Income Taxes

Deferred income taxes are provided based on the provisions of SFAS No. 109, "Accounting for Income Taxes" ("SFAS No. 109"), to reflect the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

Concentration of Credit Risk

The Company maintains its operating cash balances in banks in Solana Beach, California and Omaha Nebraska. The Federal Depository Insurance Corporation (FDIC) insures accounts at each institution up to $250,000.

Earnings Per Share

Basic earnings per share is computed by dividing net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the reporting period. Diluted earnings per share reflects the potential dilution that could occur if stock options, warrants, and other commitments to issue common stock were exercised or equity awards vest resulting in the issuance of common stock that could share in the earnings of the Company.

Fair Value of Financial Instruments

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties other than in a forced sale or liquidation.

The carrying amounts of the Company's financial instruments, including cash, accounts payable and accrued liabilities, income tax payable and related party payable approximate fair value due to their most maturities.

Reclassification

Certain prior period amounts have been reclassified to conform to current year presentations.

Recent Accounting Pronouncements

Recent accounting pronouncements that the Company has adopted or that will be required to adopt in the future are summarized below.

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Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities

In December 2008, the FASB issued FSP FAS No. 140-4 and FIN No. 46(R) -8, "Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities." This FSP amends SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," to require public entities to provide additional disclosures about transfers of financials assets. FSP FAS No. 140-4 also amends FIN No. 46(R)-8, "Consolidation of Variable Interest Entities," to require public enterprises, including sponsors that have a variable interest entity, to provide additional disclosures about their involvement with a variable interest entity. FSP FAS No. 140-4 also requires certain additional disclosures, in regards to variable interest entities, to provide greater transparency to financial statement users. FSP FAS No. 140-4 is effective for the first reporting period (interim or annual) ending after December 15, 2008, with early application encouraged. The Company is currently assessing the impact of FSP FAS No. 140-4 on its consolidated financial position and results of operations.

Accounting for an Instrument (or an Embedded Feature) with a Settlement Amount That is Based on the Stock of an Entity's Consolidated Subsidiary

In November 2008, the FASB issued FSP Emerging Issues Task Force ("EITF") Issue No. 08-8, "Accounting for an Instrument (or an Embedded Feature) with a Settlement Amount that is based on the Stock of an Entity's Consolidated Subsidiary." EITF No. 08-8 clarifies whether a financial instrument for which the payoff to the counterparty is based, in whole or in part, on the stock of an entity's consolidated subsidiary is indexed to the reporting entity's own stock. EITF No. 08-8 also clarifies whether or not stock should be precluded from qualifying for the scope exception of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," or from being within the scope of EITF No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock." EITF No. 08-8 is effective for fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years. The Company is currently assessing the impact of EITF No. 08-8 on its consolidated financial position and results of operations.

Accounting for Defensive Intangible Assets

In November 2008, the FASB issued EITF Issue No. 08-7, "Accounting for Defensive Intangible Assets." EITF No. 08-7 clarifies how to account for defensive intangible assets subsequent to initial measurement. EITF No. 08-7 applies to all defensive intangible assets except for intangible assets that are used in research and development activities. EITF No. 08-7 is effective for intangible assets acquired on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company is currently assessing the impact of EITF No. 08-7 on its consolidated financial position and results of operations.

Equity Method Investment Accounting Considerations

In November 2008, the FASB issued EITF Issue No. 08-6 ("EITF No. 08-6"), "Equity Method Investment Accounting Considerations." EITF No. 08-6 clarifies accounting for certain transactions and impairment considerations involving the equity method. Transactions and impairment dealt with are initial measurement, decrease in investment value, and change in level of ownership or degree of influence. EITF No. 08-6 is effective on a prospective basis for fiscal years beginning on or after December 15, 2008. The Company is currently assessing the impact of EITF No. 08-6 on its consolidated financial position and results of operations.

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Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active

In October 2008, the FASB issued FSP FAS No. 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active." This FSP clarifies the application of SFAS No. 157, "Fair Value Measurements," in a market that is not active. The FSP also provides examples for determining the fair value of a financial asset when the market for that financial asset is not active. FSP FAS No. 157-3 was effective upon issuance, including prior periods for which financial statements have not been issued. The impact of adoption was not material to the Company's consolidated financial condition or results of operations.

Issuer's Accounting for Liabilities Measured at Fair Value with a Third-Party Credit Enhancement

In September 2008, the FASB issued EITF Issue No. 08-5 ("EITF No. 08-5"), "Issuer's Accounting for Liabilities Measured at Fair Value with a Third-Party Credit Enhancement." This FSP determines an issuer's unit of accounting for a liability issued with an inseparable third-party credit enhancement when it is measured or disclosed at fair value on a recurring basis. FSP EITF No. 08-5 is effective on a prospective basis in the first reporting period beginning on or after December 15, 2008. The Company is currently assessing the impact of FSP EITF No. 08-5 on its consolidated financial position and results of operations.

Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161

In September 2008, the FASB issued FSP FAS No. 133-1, "Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161." This FSP amends FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," to require disclosures by sellers of credit derivatives, including credit derivatives embedded in a hybrid instrument. The FSP also amends FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," to require and additional disclosure about the current status of the payment/performance risk of a guarantee. Finally, this FSP clarifies the Board's intent about the effective date of FASB Statement No. 161, "Disclosures about Derivative Instruments and Hedging Activities." FSP FAS No. 133-1 is effective for fiscal years ending after November 15, 2008. The Company is currently assessing the impact of FSP FAS No. 133-1 on its consolidated financial position and results of operations.

Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities

In June 2008, the FASB issued EITF Issue No. 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities." EITF No. 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method. The EITF 03-6-1 affects entities that accrue dividends on share-based payment awards during the awards' service period when the dividends do not need to be returned if the employees forfeit the award. EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008. The Company is currently assessing the impact of EITF 03-6-1 on its consolidated financial position and results of operations.

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Determining Whether an Instrument (or an Embedded Feature) Is Indexed to an entity's Own Stock

In June 2008, the FASB ratified EITF Issue No. 07-5, "Determining Whether an Instrument (or an Embedded Feature) Is Indexed to an Entity's Own Stock." EITF 07-5 provides that an entity should use a two step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument's contingent exercise and settlement provisions. It also clarifies on the impact of foreign currency denominated strike prices and market-based employee stock option valuation instruments on the evaluation. EITF 07-5 is effective for fiscal years beginning after December 15, 2008. The Company is currently assessing the impact of EITF 07-5 on its consolidated financial position and results of operations.

Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)

In May 2008, the FASB issued FSP Accounting Principles Board ("APB") Opinion No. 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)." The FSP clarifies the accounting for convertible debt instruments that may be settled in cash (including partial cash settlement) upon conversion. The FSP requires issuers to account separately for the liability and equity components of certain convertible debt instruments in a manner that reflects the issuer's nonconvertible debt (unsecured debt) borrowing rate when interest cost is recognized. The FSP requires bifurcation of a component of the debt, classification of that component in equity and the accretion of the resulting discount on the debt to be recognized as part of interest expense in our consolidated statement of operations. The FSP requires retrospective application to the terms of instruments as they existed for all periods presented. The FSP is effective for fiscal years beginning after December 15, 2008 and early adoption is not permitted. The Company is currently evaluating the potential impact of FSP APB 14-1 upon its consolidated financial statements.

The Hierarchy of Generally Accepted Accounting Principles

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles." SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements. SFAS No. 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles". The implementation of this standard will not have a material impact on the Company's consolidated financial position and results of operations.

Determination of the Useful Life of Intangible Assets

In April 2008, the FASB issued FSP FAS No. 142-3, "Determination of the Useful Life of Intangible Assets", which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of intangible assets under SFAS No. 142 "Goodwill and Other Intangible Assets". The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of the expected cash flows used to measure the fair value of the asset under SFAS No. 141 (revised 2007) "Business Combinations" and other U.S. generally accepted accounting principles. The Company is currently evaluating the potential impact of FSP FAS No. 142-3 on its consolidated financial statements.

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Disclosure about Derivative Instruments and Hedging Activities

In March 2008, the FASB issued SFAS No. 161, “Disclosure about Derivative Instruments and Hedging Activities, an amendment of SFAS No. 133.” This statement requires that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation. The Company is required to adopt SFAS No. 161 on January 1, 2009. The Company is currently evaluating the potential impact of SFAS No. 161 on the Company’s consolidated financial statements.

Delay in Effective Date

In February 2008, the FASB issued FSP FAS No. 157-2, “Effective Date of FASB Statement No. 157”. This FSP delays the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The impact of adoption was not material to the Company’s consolidated financial condition or results of operations.

Business Combinations

In December 2007, the FASB issued SFAS No. 141(R) “Business Combinations.” This Statement replaces the original SFAS No. 141. This Statement retains the fundamental requirements in SFAS No. 141 that the acquisition method of accounting (which SFAS No. 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. The objective of SFAS No. 141(R) is to improve the relevance, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. To accomplish that, SFAS No. 141(R) establishes principles and requirements for how the acquirer:

a. Recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree.

b. Recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase.

c. Determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 and may not be applied before that date. The Company is unable at this time to determine the effect that its adoption of SFAS No. 141(R) will have on its consolidated results of operations and financial condition.

Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51

In December 2007, the FASB issued SFAS No. 160 “Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51.” This Statement amends the original Accounting Review Board (ARB) No. 51 “Consolidated Financial Statements” to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. This Statement is effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008 and may not be applied before that date. The Company is unable at this time to determine the effect that its adoption of SFAS No. 160 will have on its consolidated results of operations and financial condition.

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Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of SFAS No. 115,” which becomes effective for the Company on February 1, 2008, permits companies to choose to measure many financial instruments and certain other items at fair value and report unrealized gains and losses in earnings. Such accounting is optional and is generally to be applied instrument by instrument. The election of this fair-value option did not have a material effect on its consolidated financial condition, results of operations, cash flows or disclosures.

Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements.” SFAS No. 157 provides guidance for using fair value to measure assets and liabilities. SFAS No. 157 addresses the requests from investors for expanded disclosure about the extent to which companies’ measure assets and liabilities at fair value, the information used to measure fair value and the effect of fair value measurements on earnings. SFAS No. 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, and does not expand the use of fair value in any new circumstances. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and was adopted by the Company in the first quarter of fiscal year 2008. There was no material impact on the Company’s consolidated results of operations and financial condition due to the adoption of SFAS No. 157.

Accounting Changes and Error Corrections

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections,” which replaces APB Opinion No. 20, "Accounting Changes," and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements - An Amendment of APB Opinion No. 28”. SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections, and it establishes retrospective application, or the latest practicable date, as the required method for reporting a change in accounting principle and the reporting of a correction of an error. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company adopted SFAS No. 154 in the first quarter of fiscal year 2007 and did not have a material impact on its consolidated results of operations and financial condition.

NOTE 4 - COMMITMENTS AND CONTINGENCIES

The Company has entered into various consulting agreements with outside consultants. However, certain of these agreements included additional compensation on the basis of performance. The consulting agreements are with key shareholders that are instrumental to the success of the Company and its development of it product.

NOTE 5 - RELATED PARTY TRANSACTIONS

The Company is managed by its key shareholder an officer and director, Scott Landow. This shareholder is the sole shareholder of Small World Traders and is the managing member of WWFD, LLC, both entities owning over 5% of the Company’s issued and outstanding shares of common stock respectively. The Company entered into Demand Note Payable with Bershert LLC an affiliate for $50,000 bearing an interest rate of 8%. This note matured on March 22, 2009 and now is a demand note and due and payable upon demand. The Company entered into an additional Demand Note Payable with Bershert LLC and affiliate for $52,000 in March of 2009 bearing an interest rate of 8%. This note is due and payable upon demand. The Company's officer is the managing member of Bershert LLC.

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NOTE 6 - NET LOSS PER SHARE

Restricted shares and warrants are included in the computation of the weighted average number of shares outstanding during the periods. The net loss per common share is calculated by dividing the consolidated loss by the weighted average number of shares outstanding during the periods.

NOTE 7 - EQUITY

On July 26, 2005, the Company authorized 75,000,000 shares of common stock, at $.01 par value and as of March 31, 2009 35,992,595 common shares were issued and outstanding. In August 2006, the Company authorized 10,000,000 of preferred series A shares at a par value of .01 and 9,659,477 shares were issued and outstanding as of March 31, 2009. In June 2008, the Company authorized 1000 of preferred series B shares that are 10% Cumulative Perpetual with a State Value of $10,000 per share there is 171.3 issued and outstanding as of March 31, 2009.

The fair value of each warrant grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions for March 31, 2009 and 2008:

	Issued		Price	Expired
January 31, 2008	1,875,000		1.50	January 31, 2013
June 30, 2008	1,952,359		1.25	June 30, 2013
June 30, 2008	634,516		1.10	June 30, 2013
December 31, 2008	1,900,000		0.375	December 31, 2013
December 31, 2008	109,375	Cashless		December 31, 2013
March 1, 2009	31,250	Cashless		March 1, 2013
March 31, 2009	87,500.00		0.375	March 31, 2013
Total Warrants Issued	6,590,000			

Dividend yield	None
Volatility	0.491
Risk free interest rate	4.18
Expected asset life	5 years

The Company valued the warrants using Black-Scholes option-pricing model. The assumptions under Black Scholes are based on the market value of the stock price at the time of issuance, the exercise price of the warrants, life, volatility, risk free interest rate of the warrants. The Black Scholes option-price model was the best determinable value of the warrants that the Company “knew up front” when issuing the warrants in accordance with EITF 96-18. The warrants had no vesting schedule and could be exercised at the option of the parties receiving the warrants until either terminated by contract or expiration. No discounts were applied to the calculation through the Black Scholes option-price model.”

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During three months ended March 31, 2009 and 2008:

Quarter Ended	Stock issued for Cash		Cash Received	Stock issued and cancelled for services
March 31, 2008	388,000	$	388,000	(439,500)
Total Issued	388,000	$	388,000	(439,500)
March 31, 2009	2,778,000	$	462,992	(125,333)
Total Issued	2,778,000	$	462,992	(125,333)

During the period ended March 31, 2008, the Company issued 388,000 shares of its common stock for $388,000. During the period ended March 31, 2008, the Company cancelled 439,500 shares of common stock valued at par value. The value of these shares issued were expensed in the period incurred.

During the period ended March 31, 2009, the Company issued 2,778,000 shares of its common stock for $462,992. The Company issued 46.3 Preferred B shares for $7.72 with total cash received in this transaction of 463,000. The Company cancelled 208,333 common share valued at par value which was the value of the stock issued.

There were no options granted in the three months ended March 31, 2009 and 2008. The Company had a total of 6,590,000 warrants outstanding as of March 31, 2009 having a strike price of between $.375 and $1.50 and some that are cashless. These warrants have a four and five year life which expires 2012 and 2013 respectively.

NOTE 8 – NOTE PAYABLES

Notes payable consist of the following as of March 31:

		2009		2008
Secured promissory note (Fixed Assets) dated October 1, 2008 at an interest rate of 6.00% per annum until April 1, 2010. Principal and interest are due in monthly payments of $9,514.27.	$	119,463	$	-
Secured promissory note (Component Inventory) dated October 1, 2008 at an interest rate of 6.00% per annum until October 1, 2009. Principal and interest are due in monthly payments of $25,114.01.		172,334		-
Secured promissory note (Installment) dated October 1, 2008 at an interest rate of 6.00% per annum until October 1, 2010. Principal and interest are due in quarterly payments of $20,381.11.		255,908		-
Other notes payable		350,000		-
Bershert LLC is affiliate and has advanced the Company $102,000 accrued 8% interest per annum until maturity at March 22, 2010.		103,019		
Total of Notes Payable		1,000,724		-
Less Current Portion		(882,622)		-
Long-Term Portion	$	118,102	$	-

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NOTE 9 – SUBSEQUENT EVENTS

On April 20, 2009, under the terms and conditions of the Preferred Purchase Agreement, we issued 78.3 Series B Shares to approximately 10 investors, resulting in gross proceeds of $783,000.

On April 15, 2009, the Company entered into a twelve month Line of Credit Agreement with U.S. Bancorp. Pursuant to this Line of Credit, the Company may draw down up Two Hundred and Fifty-Thousand Dollars ($250,000) secured by the Company's inventory. Under the terms of the line of credit the Company will pay an annual rate equal to 3.5% plus the one month Libor rate not to be less than 4.5%.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis contains various "forward looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, regarding future events or the future financial performance of the Company that involve risks and uncertainties. Certain statements included in this Form 10-Q, including, without limitation, statements related to anticipated cash flow sources and uses, and words including but not limited to "anticipates", "believes", "plans", "expects", "future" and similar statements or expressions, identify forward looking statemen Any forward-looking statements herein are subject to certain risks and uncertainties in the Company's business, including but not limited to, reliance on key customers and competition in its markets, market demand, product performance, technological developments, maintenance of relationships with key suppliers, difficulties of hiring or retaining key personnel and any changes in current accounting rules, all of which may be beyond the control of the Company. The Company adopted at management's discretion, the most conservative recognition of revenue based on the most astringent guidelines of the SEC in terms of recognition of software licenses and recurring revenue. Management will elect additional changes to revenue recognition to comply with the most conservative SEC recognition on a forward going accrual basis as the model is replicated with other similar markets (i.e. SBDC). The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth therein.

Forward-looking statements involve risks, uncertainties and other factors, which may cause our actual results, performance or achievements to be materially different from those expressed or implied by such forward-looking statements. Factors and risks that could affect our results and achievements and cause them to materially differ from those contained in the forward-looking statements include those identified in the section titled "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2008, as well as other factors that we are currently unable to identify or quantify, but that may exist in the future.

In addition, the foregoing factors may affect generally our business, results of operations and financial position. Forward-looking statements speak only as of the date the statement was made. We do not undertake and specifically decline any obligation to update any forward-looking statements.

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Overview

Bond Laboratories brought together a veteran team of seasoned individuals with a solid track record of converting ideas into highly profitable, consumption-driven products. Bond's goal is to be on the leading edge of innovation. Bond is now pursuing its unique vision for the next generation of preventative health products; Healthy Beverages and Foods.
Bond Laboratories is set up to cater to all five of the major distribution channels; focusing on the three most profitable categories of the industry- Energy, Pain Relief and Sports Nutrition/Weight loss. Based upon our extensive research, we strongly believe that our liquid energy product would make for an extremely successful initial product offering to the public markets.

Fusion Premium Energy, Inc.

Fusion Premium Energy, Inc., "FPE", (previously known as Got Fusion Inc.) was incorporated in August of 2007. FPE is a wholly owned subsidiary of the Company and sells various "fusion" products.

John S. Wilson is the President of the Fusion Premium Energy, Inc. and Scott Slocum is the Executive Vice President of Fusion Premium Energy, Inc. John Wilson joins Fusion Premium Energy, Inc. with over seventeen years of experience at both Coca-Cola and Coca-Cola Enterprises. Most recently, Mr. Wilson was responsible for negotiating exclusive bottling agreements with national customers on behalf of all seventy-three of the Coca-Cola Bottlers in the United States. Scott Slocum joins Fusion with over 24 years experience in the beverage industry including numerous leadership roles within Coca-Cola Enterprises. Mr. Slocum's strength is his vast experience in the areas of channel distribution, customer management, as well as operations logistics.

Initial Target Market: Energy
Product: Fusion 6+ Hour Energy Boost

According to the Beverage Marketing Corporation (2007), the market for energy drinks in 2006 exceeded $2.5 billion, which represented a 516% gain from 2000. (The category grew an additional 9% in 2008.) New product introductions have numbered in the hundreds, accounted for a significant percentage of the sales growth. The principal marketing channels in 2006 were convenience/gasoline stores (35.7%), mass merchandisers (16.5%), and supermarkets (11.3%), with most of the growth occurring in mass merchandiser and supermarket channels.

Energy "Shots" have been particularly successful since their launch in 2004, rapidly growing to 11.7% of total energy drink spending. Benefits include convenient portability (small size), less carbohydrates and sugar than full-sized drinks, added vitamins and minerals, easy consumption of the small volume of liquid (two ounces), and no need for refrigeration. Retailers enjoy the small footprint of the marketing cubes, high margins, and rapid inventory turns. The small footprint allows retailers to merchandise the shots in high-impulse locations.

The significance of being one of the first brands to market cannot be overlooked. Energy Drinks began their popularity with products like Red Bull in the late 1980's. Although there are over 600 energy drinks on the market today, it is estimated that Red Bull sold over 5 Billion units in 2007. The concentrated 2 ounce energy shot drink began approximately 3 years ago with about 60 brands in the category today; the first, '5 Hour Energy' is expected to have had sales of well in excess of $100 million for 2007. Bond launched its Fusion 6+ Hour Energy Boost at the National Association of Convenience Stores in November of 2007 where it was voted Best Taste.

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Fusion 6+ Hour Energy Boost Product Features:

- 3X the kick of the typical canned energy drink in a small 2oz. bottle!
- Metabolizes faster than canned energy drink
- Zero carbs, Zero grams of sugar, only 8 calories per serving
- No crash- as associated with all sugar based energy drinks
- The strongest / longest lasting energy shot available on the market
- Voted the #1 tasting energy shot in the category at the 2007 NACS Show!

Available in Berry and Limon

Retailers have found that the energy shot product category is #1 in both dollar sales at the front-end checkout and in dollar sales per square inch of display space. The Fusion 6+Hour Energy Boost was first shipped to customers in January of 2008 and was No.7 in the category by the end of its first year on the market. (Source: A.C. Nielsen, Nov 2008). A 6-piece counter display for Fusion® is 12.75 square inches, and a 12-piece counter display is 25.9 square inches). Fusion® also has an attractive gross profit for the retailer. With a regular wholesale price of $1.40 per unit and a suggested retail price of $2.99, the retailer's gross profit is 49.8%.

NDS Nutritional Products, Inc.

In October 1, 2008 we purchased the entire interest of NDS Nutritional Products, Inc. (“NDS” or “NDS Nutritional Products, Inc”) NDS Nutritional Products, Inc. was formed in 2001. NDS Nutritional Products, Inc is a wholesaler and distributor of nutritional products focusing on Weight Loss, Sports Nutrition and General Health. Falling under NDS Nutritional Products, Inc are the Release Weight Loss line sold exclusively to GNC, the Professional Muscular Development line sold exclusively to GNC, the Dr. Health line sold exclusively to GNC, and the Infinite Labs product line sold through Distributors and large retailers in the United States, Canada, and Europe.

NDS Nutritional Products has a strong history and brings tremendous resources to our organization. Established in 1998, NDS focuses its dynamic capabilities on providing cutting-edge quality products in the weight loss, sports nutrition and general health categories. Its emphasis is placed on the education of the consumer in regards to the unique attributes of its diverse product line. Its strength is in the health and nutrition channel, which will nicely complement our current, rapidly growing retail distribution network in convenience stores and mass. We have built this growing network through the introduction of our first offering, the Fusion 6+ Hour 2 oz. Energy Shot.

NDS Nutritional Products, Inc. is the first of what management believes will be numerous acquisitions that will help us accomplish that goal. NDS is strategically involved with the development of the next generation of preventative health products, Fortified Foods and Beverages. Management believes NDS is an appropriate fit for our company as we .anticipate, but cannot guarantee, will immediately add significant revenue to our top line and be accretive to our earnings next year. We have already begun to integrate NDS distribution in the health and the nutrition channel alongside our rapidly growing retail distribution network in convenience stores (C-stores). Not only will the NDS acquisition allow us to add 40 additional SKUs in the fast growing sports nutrition market for our International broker network, we have gained a centralized infrastructure in Omaha, NE.

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Competition

Management anticipates that we will encounter competition in each market that we enter. Patent and Trademark applications that cover new embodiments of technology will be pursued wherever possible. While we cannot assure that the patents and applications will block competitive products, they should help us become a significant participant in the marketplace.

The industry leader is Red Bull with annual sales of approximately $5 billion. The other leaders in the category include Monster, (manufactured and distributed by Hanson Beverages), Rock Star, (now distributed by Coca Cola along with its own brand 'Full Throttle'), Amp, (manufactured and distributed by Pepsi) and SoBe, (also manufactured and distributed by Pepsi). To managements' knowledge and observation, almost all energy products are sold in 8 – 24 ounce cans. As of the end of 2007, there were more than 600 brands in the energy can drink business, with close to 200 going out of business that year and 200 new entries to take their place. Fusion is sold in a 2 ounce shot with the same 'kick' as a 24 ounce energy drink. This gives 'Fusion' a major advantage that is stressed to the consumers in all marketing materials. Not only is it easier to carry around a small bottle, vs. several cans, (which must stay cold), but cans use science and technology from over ten years ago. Where the energy can market is dominated by major brands with sales exceeding $500 mm - $5 billion, the shot market only has approximately 30 brands, of which only one, 5 Hour Energy, has sales exceeding $100 mm. Since 1995, there have been great discoveries in energy producing nutrients. More important, studies have clearly demonstrated that most ingredients are not stable in normal carbonated beverage products and that the longer they stay in contact with liquid, the less potent they become.

Marketing Program

The Company has worked hard to establish a 'Premium' Brand image. Consistent with this has been the sponsorship of elite athletes who have achieved champion status in their individual specialties.

2008 - L&M Racing: Competing in Supercross Motorcycle racing, L&M has two racers, Chad Reed and Nathan Ramsey. For the 2008 season, Chad Reed was the world champion winning 11 of 18 races. Nathan Ramsey placed 6th place overall. The Fusion logo was prominently displayed on jerseys, motorcycles, the team rig and hats as well as the water bottle held on the podium. Races were broadcast on Speed TV and CBS.

2008- – Tara Dakides: Tara is recognized as the most accomplished female snowboarder ever. She competes in numerous events every year including the Winter X games which is broadcast on national television. In addition, during the warmer months, Tara competes on the only all women Baja 1000 team and CORR, (Champion Off Road Racing), seen on Speed TV and NBC. The Fusion logo was prominently displayed on jerseys, her snowboard, the team rig, hats and cars as well as the water bottle held on the podium.

2008 – Steve McCann: Steve is a worldwide recognized BMX rider who competes in the Dew Tour, the X Games, the US Open and several other events that are picked up by national broadcasters. He is the 1st athlete in history to make the finals in every BMX specialty on the Dew Tour, ever. The Fusion logo was prominently displayed on the helmet as well as the water bottle held on the podium.

2008 - Darrell Lanigan: Amazing Consistency Propelled Darrell Lanigan To First Career World of Outlaws Late Model Series Championship In 2008. Lanigan's sparkling '08 stats show two wins, 25 top-five and 36 top-10 finishes in 43 A-Mains, plus one fast time honor and 17 heat-race wins. He led 168 laps and completed 2,254 of a possible 2,285 laps, with only three of the 31 laps he missed coming in full-points races.

2008-2009 – Jason Ellis: Skate, MMA, Drift car and Radio personality. Jason competes at several events throughout the year in his various disciplines, but his greatest value to the Company comes as a radio personality on Sirius

Satellite radio where he can be heard Monday-Friday for 3 hours per day focusing on Action Sports and the athletes who compete in them. His estimate audience is 500K – 1 million listeners per day.

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2008 – “Ruthless” Robbie Lawler: Mixed Martial Arts, (MMA). Robbie is the Elite XC Middleweight Champion having won his most recent match against Scott Smith on CBS Saturday night fights, broadcast on July 26th nationwide. The Fusion logo was prominently displayed on the middle of his shorts where it could be seen for a good portion of the fight.

Revenues

Revenue from product sales is recognized upon shipment to customers at which time such customers are invoiced. Units are shipped under the terms of FOB shipping point when determination is made that collectibility is probable. Revenues for services are recognized upon completion of the services. For consulting services and other fee-for-service arrangements, revenue is recognized upon completion of the services. Our company has adopted the Securities and Exchange Commission’s Staff Accounting Bulletin (SAB) No. 104, which provides guidance on the recognition, presentation and disclosure of revenue in financial statements.

Results of Operations

This increase in revenue was a direct result in the growth in sales and marketing of the Company’s products. The Company continued its focus on the integration of the NDS/Infinite Labs Fusion sales teams. Fusion Premium Energy built its distribution primarily through the convenience store channel and FD&M, (Food, Drug and Mass). NDS/Infinite Labs has strong ties to the specialty retail channels with its exclusive line of sports nutrition products sold through GNC stores The Company began to see synergies in our Military and sporting goods distribution.

Revenues for the three months ended March 31, 2009 increased to $2,507,893 from $226,717 for the three months ended March 31, 2008. A ten-fold increase, future revenue plans rely upon our ability to effectively introduce our products to our target consumers, generate sales, and obtain contract manufacturing opportunities.

Cost of goods sold for the three months ended March 31, 2009 increased to $1,801,034 as compared to three months ended March 31, 2008 of $149,836. Our cost of goods sold is directly related to the increase in our sales. Management believes, but can provide no assurances the current difficult economic climate will enable the Company to negotiate superior supplier prices and terms throughout 2009.

General and administrative expenses for the three months ended March 31, 2009 increased to $546,475 from $393,936 for three months ended March 31, 2008. The increase in general and administrative expenses relates to employing full time employees and officers during 2008 rather than consultants, along with a reduction in costs associated with the our status as a reporting company, including costs associated with our filings with the U.S. Securities and Exchange Commission which matches with our overall business plan. With the acquisition of NDS, we inherited a seasoned back office with excellent administration skills. In January, we completed the consolidation of all of our corporate operations to Omaha, NE and expect this to further decrease the administrative expenses as a percentage of revenues.

Selling and marketing expenses for the three months ended March 31, 2009 decreased to $551,929 from $676,298 for three months ended March, 31, 2008. In 2008 we incurred heavy marketing expenses during the initial launch of our Fusion products like athlete endorsements and multiples of trade shows that were not part of our ongoing 2009 marketing program.

Depreciation and amortization for the three months ended March 31, 2009 increased to $68,515 from $9,172 for three months ended March 31, 2008. The increase in depreciation and amortization relates to the acquisition of new assets from Nutrition Products, Inc. in the fourth quarter of the year.

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We incurred losses of approximately $460,061, and $1,076,779 for three months ended March 31, 2009 and March 31, 2008, respectively. During 2008 we made major investments in building our products, brands and distribution, which will not be recurring expenses going forward, but the results of which are reflected in our increased revenues from quarter to quarter.

Liquidity and Capital Resources

We have maintained a minimum of three months of working capital since September of 2005. This reserve was intended to allow for an adequate amount of time to secure additional funds from investors as needed. To date, management has succeeded in securing capital as needed. Our monthly cash requirement amount is approximately $125,000. During the three months ended March 31, 2009, we sold 3,861,000 common shares for $463,000.

Our cash used in operating activities is $378,925 and $968,929 three months ended March 31, 2009 and 2008 respectively. The decrease is mainly attributable to the decrease in operating expenses including inventory buildup during the prior year.

Cash used by investing activities was $0 and $1,175 three months ended March 31, 2009 and 2008, respectively. The decrease in asset was the decrease in the purchase of assets for the Company.

Cash provided by financing activities was $359,742 and $388,000 for the three months ended March 31, 2009 and 2008, respectively. The decrease is due to a decrease in raising funds from our shareholders to develop our products for sale in the market. We sold common shares and received proceeds of $463,000 and received proceeds from an affiliate of 52,000, and repaid our notes payables of 155, 258 the three months ended March 31, 2009 as compared to $388,000 in the proceeds from the sale of our common stock three months ended 2008.

On April 20, 2009, under the terms and conditions of the Preferred Purchase Agreement, we issued 78.3 Series B Shares to approximately 10 investors, resulting in gross proceeds of $783,000.

On April 15, 2009, the Company entered into a twelve month Line of Credit Agreement with U.S. Bancorp. Pursuant to this Line of Credit, the Company may draw down up Two Hundred and Fifty-Thousand Dollars ($250,000) secured by the Company's inventory. Under the terms of the line of credit the Company will pay an annual rate equal to 3.5% plus the one month Libor rate not to be less than 4.5%.

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Critical Accounting Policies

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Our management periodically evaluates the estimates and judgments made. Management bases its estimates and judgments on historical experience and on various factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates as a result of different assumptions or conditions.

Accounting Policies and Estimates

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires our management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Our management periodically evaluates the estimates and judgments made. Management bases its estimates and judgments on historical experience and on various factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates as a result of different assumptions or conditions.
As such, in accordance with the use of accounting principles generally accepted in the United States of America, our actual realized results may differ from management's initial estimates as reported. A summary of significant accounting policies are detailed in notes to the financial statements which are an integral component of this filing.

Revenue Recognition

Revenue from product sales is recognized upon shipment to customers at which time such customers are invoiced. Units are shipped under the terms of FOB shipping point when determination is made that collectibility is probable. Revenues for services are recognized upon completion of the services. For consulting services and other fee-for-service arrangements, revenue is recognized upon completion of the services. The Company has adopted the Securities and Exchange Commission's Staff Accounting Bulletin (SAB) No. 104, which provides guidance on the recognition, presentation and disclosure of revenue in financial statements.

WHERE YOU CAN FIND MORE INFORMATION

You are advised to read this Form 10-Q in conjunction with other reports and documents that we file from time to time with the SEC. In particular, please read our Quarterly Reports on Form 10-Q, Annual report on Form 10-K, and Current Reports on Form 8-K that we file from time to time. You may obtain copies of these reports directly from us or from the SEC at the SEC's Public Reference Room at 100 F. Street, N.E. Washington, D.C. 20549, and you may obtain information about obtaining access to the Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains information for electronic filers at its website http://www.sec.gov.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We do not hold any derivative instruments and do not engage in any hedging activities. Most of our activity is the sale of our nutricutical products.

ITEM 4. CONTROLS AND PROCEDURES

a) Evaluation of Disclosure Controls and Procedures

Scott Landow our Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report were effective such that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure. A controls system cannot provide absolute assurance, however, that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

Our Chief Executive Officer and Chief Financial Officer is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance of achieving their control objectives. Furthermore, smaller reporting companies face additional limitations. Smaller reporting companies employ fewer individuals and find it difficult to properly segregate duties. Often, one or two individuals control every aspect of the Company's operation and are in a position to override any system of internal control. Additionally, smaller reporting companies tend to utilize general accounting software packages that lack a rigorous set of software controls.

Our Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the Company's internal control over financial reporting as of March 31, 2009. In making this assessment, our Chief Executive Officer and Chief Financial Officer used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control -- Integrated Framework. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer, concluded that, as of March 31, 2009, our internal control over financial reporting was effective.

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b) Changes in Internal Control over Financial Reporting.

During the Quarter ended March 31, 2009, there was no change in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

LACK OF INDEPENDENT BOARD OF DIRECTORS AND AUDIT COMMITTEE

Management is aware that an audit committee composed of the requisite number of independent members along with a qualified financial expert has not yet been established. Considering the costs associated with procuring and providing the infrastructure to support an independent audit committee and the limited number of transactions, Management has concluded that the risks associated with the lack of an independent audit committee are not justified. Management will periodically reevaluate this situation.

LACK OF SEGREGATION OF DUTIES

Management is aware that there is a lack of segregation of duties at the Company due to the small number of employees dealing with general administrative and financial matters. However, at this time management has decided that considering the abilities of the employees now involved and the control procedures in place, the risks associated with such lack of segregation are low and the potential benefits of adding employees to clearly segregate duties do not justify the substantial expenses associated with such increases. Management will periodically reevaluate this situation

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PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are currently not involved in any litigation that we believe could have a material adverse effect on our financial condition or results of operations. There is no action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the executive officers of our company or any of our subsidiaries, threatened against or affecting our company, our common stock, any of our subsidiaries or of our companies or our subsidiaries' officers or directors in their capacities as such, in which an adverse decision could have a material adverse effect.

ITEM 1A - Risk Factors

An investment in our common stock involves a high degree of risk. You should carefully consider the following information about these risks, together with the other information contained in this Annual Report on Form 10-K, before investing in our common stock. If any of the events anticipated by the risks described below occur, our results of operations and financial condition could be adversely affected which could result in a decline in the market price of our common stock, causing you to lose all or part of your investment. We have updated the risk factors previously disclosed in our registration statement on Form SB-2, filed November 22, 2006 (the “Form SB-2”) and in our Annual Report on Form 10–K for the year ended December 31, 2008, which was filed with the Securities and Exchange Commission on March 20, 2009 (the “Fiscal 2008 10–K”). We believe there are no changes that constitute material changes from the risk factors previously disclosed in the Fiscal 2008 10–K and the Form SB-2 except as disclosed below.

Our Common Stock Is Subject To Penny Stock Regulation

Our shares are subject to the provisions of Section 15(g) and Rule 15g-9 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), commonly referred to as the "penny stock" rule. Section 15(g) sets forth certain requirements for transactions in penny stocks and Rule 15g-9(d)(1) incorporates the definition of penny stock as that used in Rule 3a51-1 of the Exchange Act. The Commission generally defines penny stock to be any equity security that has a market price less than $5.00 per share, subject to certain exceptions. Rule 3a51-1 provides that any equity security is considered to be penny stock unless that security is: registered and traded on a national securities exchange meeting specified criteria set by the Commission; authorized for quotation on the NASDAQ Stock Market; issued by a registered investment company; excluded from the definition on the basis of price (at least $5.00 per share) or the registrant's net tangible assets; or exempted from the definition by the Commission. Since our shares are deemed to be "penny stock", trading in the shares will be subject to additional sales practice requirements on broker/dealers who sell penny stock to persons other than established customers and accredited investors.

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FINRA Sales Practice Requirements May Also Limit A Stockholder's Ability To Buy And Sell Our Stock.

In addition to the “penny stock” rules described above, the Financial Industry Regulatory Authority (FINRA) has adopted rules that require that in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative low priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer's financial status, tax status, investment objectives and other information. Under interpretations of these rules, FINRA believes that there is a high probability that speculative low priced securities will not be suitable for at least some customers. FINRA requirements make it more difficult for broker-dealers to recommend that their customers buy our common stock, which may limit your ability to buy and sell our stock and have an adverse effect on the market for our shares.

We May Not Have Access To Sufficient Capital To Pursue Our Business And Therefore Would Be Unable To Achieve Our Planned Future Growth.

We intend to pursue a growth strategy that includes development of the Company business and technology. Currently we have limited capital which is insufficient to pursue our plans for development and growth. Our ability to implement our growth plans will depend primarily on our ability to obtain additional private or public equity or debt financing. We are currently seeking additional capital. Such financing may not be available at all, or we may be unable to locate and secure additional capital on terms and conditions that are acceptable to us. Our failure to obtain additional capital will have a material adverse effect on our business.

Nevada Law And Our Articles Of Incorporation Protect Our Directors From Certain Types Of Lawsuits, Which Could Make It Difficult For Us To Recover Damages From Them In The Event Of A Lawsuit.

Nevada law provides that our directors will not be liable to our company or to our stockholders for monetary damages for all but certain types of conduct as directors. Our Articles of Incorporation require us to indemnify our directors and officers against all damages incurred in connection with our business to the fullest extent provided or allowed by law. The exculpation provisions may have the effect of preventing stockholders from recovering damages against our directors caused by their negligence, poor judgment or other circumstances. The indemnification provisions may require our company to use our assets to defend our directors and officers against claims, including claims arising out of their negligence, poor judgment, or other circumstances.

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Because We Are Quoted On The OTCBB Instead Of An Exchange Or National Quotation System, Our Investors May Have A Tougher Time Selling Their Stock Or Experience Negative Volatility On The Market Price Of Our Stock.

Our common stock is traded on the OTCBB. The OTCBB is often highly illiquid. There is a greater chance of volatility for securities that trade on the OTCBB as compared to a national exchange or quotation system. This volatility may be caused by a variety of factors, including the lack of readily available price quotations, the absence of consistent administrative supervision of bid and ask quotations, lower trading volume, and market conditions. Investors in our common stock may experience high fluctuations in the market price and volume of the trading market for our securities. These fluctuations, when they occur, have a negative effect on the market price for our securities. Accordingly, our stockholders may not be able to realize a fair price from their shares when they determine to sell them or may have to hold them for a substantial period of time until the market for our common stock improves.

Failure To Achieve And Maintain Effective Internal Controls In Accordance With Section 404 Of The Sarbanes-Oxley Act Could Have A Material Adverse Effect On Our Business And Operating Results.

It may be time consuming, difficult and costly for us to develop and implement the additional internal controls, processes and reporting procedures required by the Sarbanes-Oxley Act. We may need to hire additional financial reporting, internal auditing and other finance staff in order to develop and implement appropriate additional internal controls, processes and reporting procedures. If we are unable to comply with these requirements of the Sarbanes-Oxley Act, we may not be able to obtain the independent accountant certifications that the Sarbanes-Oxley Act requires of publicly traded companies.

If we fail to comply in a timely manner with the requirements of Section 404 of the Sarbanes-Oxley Act regarding internal control over financial reporting or to remedy any material weaknesses in our internal controls that we may identify, such failure could result in material misstatements in our financial statements, cause investors to lose confidence in our reported financial information and have a negative effect on the trading price of our common stock.

Pursuant to Section 404 of the Sarbanes-Oxley Act and current SEC regulations, beginning with our annual report on Form 10-K for our fiscal period ending May 31, 2008, we will be required to prepare assessments regarding internal controls over financial reporting and beginning with our annual report on Form 10-K for our fiscal period ending May 31, 2009, furnish a report by our management on our internal control over financial reporting. We have begun the process of documenting and testing our internal control procedures in order to satisfy these requirements, which is likely to result in increased general and administrative expenses and may shift management time and attention from revenue-generating activities to compliance activities. While our management is expending significant resources in an effort to complete this important project, there can be no assurance that we will be able to achieve our objective on a timely basis. There also can be no assurance that our auditors will be able to issue an unqualified opinion on management’s assessment of the effectiveness of our internal control over financial reporting. Failure to achieve and maintain an effective internal control environment or complete our Section 404 certifications could have a material adverse effect on our stock price.

In addition, in connection with our on-going assessment of the effectiveness of our internal control over financial reporting, we may discover “material weaknesses” in our internal controls as defined in standards established by the Public Company Accounting Oversight Board, or the PCAOB. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The PCAOB defines “significant deficiency” as a deficiency that results in more than a remote likelihood that a misstatement of the financial statements that is more than inconsequential will not be prevented or detected.

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In the event that a material weakness is identified, we will employ qualified personnel and adopt and implement policies and procedures to address any material weaknesses that we identify. However, the process of designing and implementing effective internal controls is a continuous effort that requires us to anticipate and react to changes in our business and the economic and regulatory environments and to expend significant resources to maintain a system of internal controls that is adequate to satisfy our reporting obligations as a public company. We cannot assure you that the measures we will take will remediate any material weaknesses that we may identify or that we will implement and maintain adequate controls over our financial process and reporting in the future.

Any failure to complete our assessment of our internal control over financial reporting, to remediate any material weaknesses that we may identify or to implement new or improved controls, or difficulties encountered in their implementation, could harm our operating results, cause us to fail to meet our reporting obligations or result in material misstatements in our financial statements. Any such failure could also adversely affect the results of the periodic management evaluations of our internal controls and, in the case of a failure to remediate any material weaknesses that we may identify, would adversely affect the annual auditor attestation reports regarding the effectiveness of our internal control over financial reporting that are required under Section 404 of the Sarbanes-Oxley Act. Inadequate internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our common stock.

Operating History And Lack Of Profits Which Could Lead To Wide Fluctuations In Our Share Price. The Price At Which You Purchase Our Common Shares May Not Be Indicative Of The Price That Will Prevail In The Trading Market. You May Be Unable To Sell Your Common Shares At Or Above Your Purchase Price, Which May Result In Substantial Losses To You. The Market Price For Our Common Shares Is Particularly Volatile Given Our Status As A Relatively Unknown Company With A Small And Thinly Traded Public Float, Limited

The market for our common shares is characterized by significant price volatility when compared to seasoned issuers, and we expect that our share price will continue to be more volatile than a seasoned issuer for the indefinite future. The volatility in our share price is attributable to a number of factors. First, as noted above, our common shares are sporadically and thinly traded. As a consequence of this lack of liquidity, the trading of relatively small quantities of shares by our shareholders may disproportionately influence the price of those shares in either direction. The price for our shares could, for example, decline precipitously in the event that a large number of our common shares are sold on the market without commensurate demand, as compared to a seasoned issuer which could better absorb those sales without adverse impact on its share price. Secondly, we are a speculative or “risky” investment due to our limited operating history and lack of profits to date, and uncertainty of future market acceptance for our potential products. As a consequence of this enhanced risk, more risk-adverse investors may, under the fear of losing all or most of their investment in the event of negative news or lack of progress, be more inclined to sell their shares on the market more quickly and at greater discounts than would be the case with the stock of a seasoned issuer. Many of these factors are beyond our control and may decrease the market price of our common shares, regardless of our operating performance. We cannot make any predictions or projections as to what the prevailing market price for our common shares will be at any time, including as to whether our common shares will sustain their current market prices, or as to what effect that the sale of shares or the availability of common shares for sale at any time will have on the prevailing market price.

Shareholders should be aware that, according to SEC Release No. 34-29093, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include (1) control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer; (2) manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases; (3) boiler room practices involving high-pressure sales tactics and unrealistic price projections by inexperienced sales persons; (4) excessive and undisclosed bid-ask differential and markups by selling broker-dealers; and (5) the wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the resulting inevitable collapse of those prices and with consequent investor losses. Our management is aware of the abuses that have occurred historically in the penny stock market. Although we do not expect to be in a position to dictate the behavior of the market or of broker-dealers who participate in the market, management will strive within the confines of practical limitations to prevent the described patterns from being established with respect to our securities. The occurrence of these patterns or practices could increase the volatility of our share price.

We Depend Upon Key Management Personnel and the Loss of Any of Them Would Seriously Disrupt Our Operations:

The success of our company is largely dependent on the personal efforts of Scott Landow, Ryan Zink, John Wilson and other key executives. The loss of the services of Scott Landow, Ryan Zink, John Wilson or other key executives would have a material adverse effect on our business and prospects. In addition, in order for us to undertake our operations as contemplated, it will be necessary for us to locate and hire experienced personnel who are knowledgeable in the Nutraceutical Dietary Supplement business. Our failure to attract and retain such experienced personnel on acceptable terms will have a material adverse impact on our ability to grow our business.

The nutritional supplements industry is intensely competitive. We have many well-established competitors with substantially greater financial and other resources than it. These factors may make it more difficult for us to successfully implement its business plan and may adversely affect its results of operations.

The nutritional supplements industry is a large, highly fragmented and growing industry, with, to management's knowledge, no single industry participant accounting for more than 10% of total industry retail sales. Participants include specialty retailers, supermarkets, drugstores, mass merchants (wholesalers), multi-level marketing organizations, mail order companies and a variety of other smaller participants. The market is also highly sensitive to the introduction of new products, including various prescription drugs, which may rapidly capture a significant share of the market. Increased competition from companies that distribute through retail or wholesale channels could have a material adverse effect on our financial condition and results of operations. We are a development stage business and the only revenues we have received from product sales since inception were nominal. Accordingly, we have not been operational long enough to experience any of the above problems. However, since we are a development stage business, most, if not all companies in our industry have greater financial and other resources available to them and possess manufacturing, distribution and marketing capabilities greater than ours. In addition, our competitors may be more effective and efficient in integrating new products. We may not be able to compete effectively and any of the factors listed above may cause price reductions, reduced margins and difficulties in gaining market share.

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ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS SECURITIES

During three months ended March 31, 2009, the Company issued 2,778,000 shares of its common stock and 46.3 Preferred Series B stock for $463,000. The offer and sale of such shares of our common stock were effected in reliance on the exemptions for sales of securities not involving a public offering, as set forth in Rule 506 promulgated under the Securities Act and in Section 4(2) of the Securities Act, based on the following: (a) the investors confirmed to us that they were “accredited investors,” as defined in Rule 501 of Regulation D promulgated under the Securities Act and had such background, education and experience in financial and business matters as to be able to evaluate the merits and risks of an investment in the securities; (b) there was no public offering or general solicitation with respect to the offering; (c) the investors were provided with certain disclosure materials and all other information requested with respect to our company; (d) the investors acknowledged that all securities being purchased were “restricted securities” for purposes of the Securities Act, and agreed to transfer such securities only in a transaction registered under the Securities Act or exempt from registration under the Securities Act; and (e) a legend was placed on the certificates representing each such security stating that it was restricted and could only be transferred if subsequent registered under the Securities Act or transferred in a transaction exempt from registration under the Securities Act.

During the three months ended March 31, 2009, the Company issued shares of its common stock as consideration to consultants for the fair value of the services rendered. The value of those shares is determined based on the trading value of the stock at the dates on which the agreements were into for the services and the value of services rendered. During the three months ended March 31, 2009, the Company granted to consultants, 83,000 shares of common stock at a value of $17,430. The offer and sale of such shares of our common stock were effected in reliance on the exemptions for sales of securities not involving a public offering, as set forth in Rule 506 promulgated under the Securities Act and in Section 4(2) of the Securities Act. A legend was placed on the certificates representing each such security stating that it was restricted and could only be transferred if subsequent registered under the Securities Act or transferred in a transaction exempt from registration under the Securities Act.

During the three months ended March 31, 2008, the Company has issued 388,000 shares of its common stock for $388,000. The offer and sale of such shares of our common stock were effected in reliance on the exemptions for sales of securities not involving a public offering, as set forth in Rule 506 promulgated under the Securities Act and in Section 4(2) of the Securities Act, based on the following: (a) the investors confirmed to us that they were “accredited investors,” as defined in Rule 501 of Regulation D promulgated under the Securities Act and had such background, education and experience in financial and business matters as to be able to evaluate the merits and risks of an investment in the securities; (b) there was no public offering or general solicitation with respect to the offering; (c) the investors were provided with certain disclosure materials and all other information requested with respect to our company; (d) the investors acknowledged that all securities being purchased were “restricted securities” for purposes of the Securities Act, and agreed to transfer such securities only in a transaction registered under the Securities Act or exempt from registration under the Securities Act; and (e) a legend was placed on the certificates representing each such security stating that it was restricted and could only be transferred if subsequent registered under the Securities Act or transferred in a transaction exempt from registration under the Securities Act.

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ITEM 3. DEFAULTS UPON SENIOR SECURITIES

There were no defaults upon senior securities during the period ended March 31, 2009.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to the vote of securities holders during the period ended March 31, 2009.

ITEM 5. OTHER INFORMATION

There is no information with respect to which information is not otherwise called for by this form.

ITEM 6. EXHIBITS

31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act.
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act.
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Registrant	Bond Laboratories, Inc.
Date: May 15, 2009	By: /s/ Scott Landow Scott Landow Chairman, Chief Executive Officer (Principle Executive Officer, Principle Financial Officer)

31, 2016.

Activity in the valuation allowance for other real estate owned was as follows for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2017	2016	2017	2016
Balance, beginning of period	$ 3,044	$ 3,225	$ 3,129	$ 3,233
Provision for other real estate owned	183	38	215	76
Charge-offs	(53)	(55)	(170)	(101)
Balance, end of period	$ 3,174	$ 3,208	$ 3,174	$ 3,208

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Notes to the Consolidated Financial Statements

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(4) Investment Securities

The amortized cost and fair value of debt securities classified as available-for-sale at June 30, 2017 and December 31, 2016 were as follows:

(in thousands)	Total Amortized Cost	Gross Gains	Unrealized Losses	Fair Value
June 30, 2017				
U.S. government and federal agency obligations	$ 12,945	$ 0	$ (233)	$ 12,712
Government sponsored enterprises	37,568	0	(256)	37,312
Obligations of states and political subdivisions	48,031	261	(298)	47,994
Mortgage-backed securities:				
Residential - government agencies	118,491	157	(1,315)	117,333
Commercial - government agencies	990	12	0	1,002
Total mortgage-backed securities	119,481	169	(1,315)	118,335
Total available-for-sale securities	$ 218,025	$ 430	$ (2,102)	$ 216,353
December 31, 2016				
U.S. government and federal agency obligations	$ 13,667	$ 0	$ (303)	$ 13,364
Government sponsored enterprises	32,786	2	(329)	32,459
Obligations of states and political subdivisions	42,666	123	(757)	42,032
Mortgage-backed securities:				
Residential - government agencies	127,527	124	(1,995)	125,656
Commercial - government agencies	989	12	0	1,001
Total mortgage-backed securities	128,516	136	(1,995)	126,657
Total available-for-sale securities	$ 217,635	$ 261	$ (3,384)	$ 214,512

All of the Company’s investment securities are classified as available for sale. Agency bonds and notes, small business administration guaranteed loan certificates (SBA), residential and commercial agency mortgage-backed securities, and

agency collateralized mortgage obligations (CMO) include securities issued by the Government National Mortgage Association (GNMA), a U.S. government agency, and the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC) and the Federal Home Loan Bank (FHLB), which are U.S. government-sponsored enterprises.

Other Investments and securities primarily consist of Federal Home Loan Bank stock, subordinated debt equity securities, and the Company’s interest in statutory trusts. These securities are reported at cost in other assets in the amount of $10.8 million and $9.8 million as of June 30, 2017 and December 31, 2016, respectively.

Debt securities with carrying values aggregating approximately $155.1 million and $167.6 million at June 30, 2017 and December 31, 2016, respectively, were pledged to secure public funds, securities sold under agreements to repurchase, and for other purposes as required or permitted by law.

The amortized cost and fair value of debt securities classified as available-for-sale at June 30, 2017, by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers have the right to call or prepay obligations with or without prepayment penalties.

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(in thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 5,781	$ 5,832
Due after one year through five years	60,749	60,531
Due after five years through ten years	26,266	25,956
Due after ten years	5,748	5,699
Total	98,544	98,018
Mortgage-backed securities	119,481	118,335
Total available-for-sale securities	$ 218,025	$ 216,353

Gross unrealized losses on debt securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2017 and December 31, 2016 were as follows:

	Less than 12 months		12 months or more		Total	Total
(in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
At June 30, 2017						
U.S. government and federal agency obligations	$ 7,788	$ (133)	$ 4,925	$ (100)	$ 12,713	$ (233)
Government sponsored enterprises	32,339	(229)	2,473	(27)	34,812	(256)
Obligations of states and political subdivisions	22,886	(264)	1,912	(34)	24,798	(298)
Mortgage-backed securities:						
Residential - government agencies	77,979	(924)	20,188	(391)	98,167	(1,315)
Total	$ 140,992	$ (1,550)	$ 29,498	$ (552)	$ 170,490	$ (2,102)
(in thousands)						
At December 31, 2016						
U.S. government and federal agency obligations	$ 13,365	$ (303)	$ 0	$ 0	$ 13,365	$ (303)

Government sponsored enterprises	29,432	(329)	0	0	29,432	(329)
Obligations of states and political subdivisions	32,318	(757)	0	0	32,318	(757)
Mortgage-backed securities:						
Residential - government agencies	109,772	(1,848)	3,742	(147)	113,514	(1,995)
Total	$ 184,887	$ (3,237)	$ 3,742	$ (147)	$ 188,629	$ (3,384)

The total available for sale portfolio consisted of approximately 324 securities at June 30, 2017. The portfolio included 202 securities having an aggregate fair value of $170.5 million that were in a loss position at June 30, 2017. Securities identified as temporarily impaired which had been in a loss position for 12 months or longer totaled $29.5 million at fair value. The $2.1 million aggregate unrealized loss included in accumulated other comprehensive income at June 30, 2017 was caused by interest rate fluctuations.

The total available for sale portfolio consisted of approximately 298 securities at December 31, 2016. The portfolio included 216 securities having an aggregate fair value of $188.6 million that were in a loss position at December 31, 2016. Securities identified as temporarily impaired which had been in a loss position for 12 months or longer had a fair value of $3.7 million at December 31, 2016. The $3.4 million aggregate unrealized loss included in accumulated other comprehensive income at December 31, 2016 was caused by interest rate fluctuations.

Because the decline in fair value is attributable to changes in interest rates and not credit quality, these investments were not considered other-than-temporarily impaired at June 30, 2017 and December 31, 2016, respectively. In the absence of changes in credit quality of these investments, the fair value is expected to recover on all debt securities as they approach their maturity date or re-pricing date, or if market yields for such investments decline. In addition, the Company does not have the intent to sell these investments over the period of recovery, and it is not more likely than not that the Company will be required to sell such investment securities.

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The table presents the components of investment securities gains and losses, which have been recognized in earnings:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2017	2016	2017	2016
Gains realized on sales	$ 0	$ 18	$ 0	$ 490
Losses realized on sales	0	0	0	0
Other-than-temporary impairment recognized	0	0	0	0
Investment securities gains	$ 0	$ 18	$ 0	$ 490

(5) Intangible Assets

Mortgage Servicing Rights

At June 30, 2017, the Company was servicing approximately $289.8 million of loans sold to the secondary market compared to $294.4 million at December 31, 2016, and $304.7 million at June 30, 2016. Mortgage loan servicing fees, reported as non-interest income, earned on loans sold were $211,000 and $420,000 for the three and six months ended June 30, 2017, respectively, compared to $211,000 and $421,000 for the three and six months ended June 30, 2016, respectively.

The table below presents changes in mortgage servicing rights (MSRs) for the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2017	2016	2017	2016
Balance at beginning of period	$ 2,877	$ 2,745	$ 2,584	$ 2,847

Originated mortgage servicing rights	66	63	115	117
Changes in fair value:				
Due to change in model inputs and assumptions (1)	(56)	(142)	319	(145)
Other changes in fair value (2)	(121)	(155)	(252)	(308)
Balance at end of period	$ 2,766	$ 2,511	$ 2,766	$ 2,511

(1) The change in fair value resulting from changes in valuation inputs or assumptions used in the valuation model reflects the change in discount rates and prepayment speed assumptions primarily due to changes in interest rates.

(2) Other changes in fair value reflect changes due to customer payments and passage of time.

The following key data and assumptions were used in estimating the fair value of the Company's MSRs as of the six months ended June 30, 2017 and 2016:

	Six Months Ended June 30,	
	2017	2016
Weighted average constant prepayment rate	9.28 %	12.16 %
Weighted average note rate	3.86 %	3.90 %
Weighted average discount rate	9.75 %	9.19 %
Weighted average expected life (in years)	6.10	5.10

(6) Federal funds purchased and securities sold under agreements to repurchase

	June 30, 2017	December 31, 2016
Federal funds purchased	$0	$ 992
Repurchase agreements	29,118	30,023
Total	$29,118	$ 31,015

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The Company offers a sweep account program whereby amounts in excess of an established limit are "swept" from the customer's demand deposit account on a daily basis into retail repurchase agreements pursuant to individual repurchase agreements between the Company and its customers. Repurchase agreements are agreements to sell securities subject to an obligation to repurchase the same or similar securities. They are accounted for as collateralized financing transactions, not as sales and purchases of the securities portfolio. The securities collateral pledged for the repurchase agreements with customers is maintained by a designated third party custodian. The collateral amounts pledged to repurchase agreements by remaining maturity in the table below are limited to the outstanding balances of the related asset or liability; thus amounts of excess collateral are not shown.

Repurchase Agreements	Remaining Contractual Maturity of the Agreements			
(in thousands)	Overnight and continuous	Less than 90 days	Greater than 90 days	Total
At June 30, 2017				
U.S. government and federal agency obligations	$ 3,189	$ 0	$ 0	$ 3,189
Government sponsored enterprises	7,882	0	0	7,882
Asset-backed securities	18,047	0	0	18,047
Total	$ 29,118	$ 0	$ 0	$ 29,118
At December 31, 2016				
U.S. government and federal agency obligations	$ 3,489	$ 0	$ 0	$ 3,489
Government sponsored enterprises	7,324	0	0	7,324
Asset-backed securities	19,210	0	0	19,210
Total	$ 30,023	$ 0	$ 0	$ 30,023

(7) Income Taxes

Income taxes as a percentage of earnings before income taxes as reported in the consolidated financial statements were 33.9% for the three months ended June 30, 2017 compared to 34.1% for the three months ended June 30, 2016. Income taxes as a percentage of earnings before income taxes as reported in the consolidated financial statements

were 34.1% for the six months ended June 30, 2017 compared to 33.2% for the six months ended June 30, 2016. The increase in the tax rate for the six months ended June 30, 2017 in comparison to the six months ended June 30, 2016 is primarily due to an immaterial return to provision adjustment made in the first quarter of 2016.

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income of the appropriate character during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, taxable income available in carryback years, and tax planning strategies in making this assessment. With the exception of certain capital losses generated during 2013 and 2014, it is management's opinion that the Company will more likely than not realize the benefits of these temporary differences as of June 30, 2017 and, therefore, only established a valuation reserve against the Company's capital loss carry forward. Management arrived at this conclusion based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible. As indicated above, the Company generated approximately $219,000 of capital losses during 2013 and 2014 as a result of disposing of certain limited partnership interests. The capital losses will expire between 2018 and 2019, and it is management's opinion that the Company will not more likely than not generate the capital gain income necessary to utilize the capital loss carry forwards before the capital losses expire. As such, the Company has established an $83,000 valuation reserve against its capital loss carry forward deferred tax asset.

(8) Stockholders' Equity

Accumulated Other Comprehensive Loss

The following details the change in the components of the Company's accumulated other comprehensive loss for the six months ended June 30, 2017 and 2016:

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	Six months ended June 30, 2017		
(in thousands)	Unrealized Gain (Loss) on Securities (1)	Unrecognized Net Pension and Postretirement Costs (2)	Accumulated Other Comprehensive Loss
Balance at beginning of period	$ (1,936)	$ (1,865)	$ (3,801)
Other comprehensive income, before reclassifications	1,452	45	1,497
Amounts reclassified from accumulated other comprehensive income (loss)	0	0	0
Current period other comprehensive income, before tax	1,452	45	1,497
Income tax expense	(552)	(18)	(570)
Current period other comprehensive income, net of tax	900	27	927
Balance at end of period	$ (1,036)	$ (1,838)	$ (2,874)

	Six months ended June 30, 2016		
(in thousands)	Unrealized Gain (Loss) on Securities (1)	Unrecognized Net Pension and Postretirement Costs (2)	Accumulated Other Comprehensive Loss
Balance at beginning of period	$ (591)	$ (1,427)	$ (2,018)
Other comprehensive income, before reclassifications	3,357	39	3,396
Amounts reclassified from accumulated other comprehensive income (loss)	(490)	0	(490)
Current period other comprehensive income, before tax	2,867	39	2,906
Income tax expense	(1,090)	(14)	(1,104)
Current period other comprehensive income, net of tax	1,777	25	1,802

Balance at end of period	$ 1,186	$ (1,402)	$ (216)

(1) The pre-tax amounts reclassified from accumulated other comprehensive loss are included in *gain on sale of investment securities* in the consolidated statements of income.

(2) The pre-tax amounts reclassified from accumulated other comprehensive loss are included in the computation of net periodic pension cost.

(9) Employee Benefit Plans

Employee Benefits

Employee benefits charged to operating expenses are summarized in the table below for the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2017	2016	2017	2016
Payroll taxes	$ 288	$ 336	$ 644	$ 632
Medical plans	468	487	894	999
401k match and profit sharing	226	203	476	384
Pension plan	351	306	703	613
Other	9	46	25	62
Total employee benefits	$ 1,342	$ 1,378	$ 2,742	$ 2,690

The Company's profit-sharing plan includes a matching 401k portion, in which the Company matches the first 3% of eligible employee contributions. The Company made annual contributions in an amount up to 6% of income before income taxes and before contributions to the profit-sharing and pension plans for all participants, limited to the maximum amount deductible for federal income tax purposes, for each of the periods shown. In addition, employees were able to make additional tax-deferred contributions.

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Pension

The Company provides a noncontributory defined benefit pension plan for all full-time employees. An employer is required to recognize the funded status of a defined benefit postretirement plan as an asset or liability in its balance sheet and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. Under the Company's funding policy for the defined benefit pension plan, contributions are made to a trust as necessary to provide for current service and for any unfunded accrued actuarial liabilities over a reasonable period. To the extent that these requirements are fully covered by assets in the trust, a contribution might not be made in a particular year. The Company expects to make a pension contribution in the amount of $1.2 million on September 15, 2017. The minimum required contribution for 2017 is $842,000. Effective July 1, 2017, the Company amended the pension plan to effectuate a "soft freeze" such that no individual hired (or rehired in the case of a former employee) by the Company after June 30, 2017, whether or not such individual is or was a vested member in the plan, will be eligible to be an active member and be entitled to accrue any benefits under the plan. Certain individuals hired by the Company before July 1, 2017 are also not eligible to participate in the plan. Beginning in 2019, the Company anticipates that there may be a small reduction in the overall liability and service cost resulting from the closure of the plan to new entrants.

Components of Net Pension Cost and Other Amounts Recognized in Accumulated Other Comprehensive Income

The following items are components of net pension cost for the periods indicated:

(in thousands)	Estimated 2017	Actual 2016
Service cost - benefits earned during the year	$ 1,343	$ 1,179
Interest costs on projected benefit obligations	1,008	956
Expected return on plan assets	(1,123)	(1,057)

Expected administrative expenses	88	70
Amortization of prior service cost	79	79
Amortization of unrecognized net loss	11	0
Net periodic pension expense	$ 1,406	$ 1,227
Pension expense - three months ended June 30, (actual)	$ 351	$ 306
Pension expense - six months ended June 30, (actual)	$ 703	$ 613

(10) Stock Compensation

The Company's stock option plan provides for the grant of options to purchase up to 601,627 shares of the Company's common stock to officers and other key employees of the Company and its subsidiaries. All options have been granted at exercise prices equal to fair value and vest over periods ranging from four to five years.

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The following table summarizes the Company's stock option activity:

	Number of Shares	Weighted average Exercise Price	Weighted Average Contractual Term (in years)	Aggregate Intrinsic Value ($000)
Outstanding, beginning of period	46,244	$ 19.33		
Granted	0	0.00		
Exercised	0	0.00		
Forfeited or expired	(26,141)	22.84		
Outstanding, June 30, 2017	20,103	$ 14.77	1.23	$ 124,252
Exercisable, June 30, 2017	18,784	$ 14.77	1.23	$ 116,100

Options have been adjusted to reflect a 4% stock dividend paid on July 1, 2017.

Total stock-based compensation expense was $1,000 and $2,000 for the three and six months ended June 30, 2017, respectively, compared to $5,000 and $11,000 for the three and six months ended June 30, 2016, respectively. As of June 30, 2017, the total unrecognized compensation expense related to non-vested stock awards was $1,000 and the related weighted average period over which it is expected to be recognized is approximately 0.23 years.

(11) Earnings per Share

Stock Dividend On July 1, 2017, the Company paid a special stock dividend of 4% to common shareholders of record at the close of business on June 15, 2017. For all periods presented, share information, including basic and diluted earnings per share, has been adjusted retroactively to reflect this change.

Basic earnings per share is computed by dividing income available to shareholders by the weighted average number of shares outstanding during the year. Diluted earnings per share gives effect to all dilutive potential shares that were outstanding during the year. The calculations of basic and diluted earnings per share are as follows for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands, except per share data)	2017	2016	2017	2016
Basic earnings per share:				
Net income available to shareholders	$ 1,919	$ 1,412	$ 4,020	$ 3,410
Basic earnings per share	$ 0.33	$ 0.24	$ 0.69	$ 0.58
Diluted earnings per share:				
Net income available to shareholders	$ 1,919	$ 1,412	$ 4,020	$ 3,410
Average shares outstanding	5,838,506	5,871,208	5,839,175	5,874,706
Effect of dilutive stock options	4,929	0	4,948	0
Average shares outstanding including dilutive stock options	5,843,435	5,871,208	5,844,123	5,874,706
Diluted earnings per share	$ 0.33	0.24	0.69	0.58

Under the treasury stock method, outstanding stock options are dilutive when the average market price of the Company's common stock, when combined with the effect of any unamortized compensation expense, exceeds the option price during the period, except when the Company has a loss from continuing operations available to shareholders. In addition, proceeds from the assumed exercise of dilutive options along with the related tax benefit are assumed to be used to repurchase common shares at the average market price of such stock during the period.

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Options to purchase 46,244 shares during the three and six months ended June 30, 2016, respectively, were not included in the respective computations of diluted earnings per share because the exercise price of the option, when combined with the effect of the unamortized compensation expense, was greater than the average market price of the common shares and were considered anti-dilutive. There were no anti-dilutive shares for the three and six months ended June 30, 2017.

Repurchase Program On August 6, 2015, the Board of Directors authorized a share repurchase plan to purchase through open market transactions $2.0 million market value of the Company's common stock. As of June 30, 2017, the Company repurchased a total of 48,608 shares of common stock pursuant to the plan at an average price of $15.34 per share, including 4,715 shares of common stock repurchased pursuant to the plan during the six months ended June 30, 2017 at an average price of $19.01 per share. At June 30, 2017, approximately $1.3 million may be used to purchase shares under the plan.

The table below shows activity in the outstanding shares of the Company's common stock during the past three years. Shares in the table below are presented on a historical basis and have not been restated for the annual 4% stock dividends.

	Number of shares		
	June 30, 2017	December 31, 2016	June 30, 2016
Outstanding, beginning of year	5,616,607	5,441,190	5,441,190
Issuance of stock:			
4% stock dividend	224,550	217,155	217,155
Purchase of treasury stock	(4,715)	(41,738)	(15,301)
Outstanding, end of year	5,836,442	5,616,607	5,643,044

Except as noted in the above table, all share and per share amounts in this note have been restated for the 4% common stock dividend distributed July 1, 2017.

(12) Fair Value Measurements

The Company uses fair value measurements to record fair value adjustments to certain financial and nonfinancial assets and liabilities. The FASB ASC Topic 820, *Fair Value Measurements and Disclosures,* defines fair value, establishes a framework for the measurement of fair value, and enhances disclosures about fair value measurements. The standard applies whenever other standards require (permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. In this standard, FASB clarified the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, the standard establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. As of June 30, 2017 and December 31, 2016, respectively, there were no transfers into or out of Levels 1-3.

The fair value hierarchy is as follows:

Level 1 – Inputs are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets and liabilities in active markets, such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 – Inputs are unobservable inputs for the asset or liability and significant to the fair value. These may be internally developed using the Company’s best information and assumptions that a market participant would consider.

ASC Topic 820 also provides guidance on determining fair value when the volume and level of activity for the asset or liability have significantly decreased and on identifying circumstances when a transaction may not be considered orderly.

The Company is required to disclose assets and liabilities measured at fair value on a recurring basis separate from those measured at fair value on a nonrecurring basis. Nonfinancial assets measured at fair value on a nonrecurring basis would include foreclosed real estate, long-lived assets, and core deposit intangible assets, which are reviewed when circumstances or other events indicate that impairment may have occurred.

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Valuation Methods for Instruments Measured at Fair Value on a Recurring Basis

Following is a description of the Company’s valuation methodologies used for assets and liabilities recorded at fair value on a recurring basis:

Available-for-Sale Securities

The fair value measurements of the Company’s investment securities are determined by a third party pricing service which considers observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond’s terms and conditions, among other things. The fair value measurements are subject to independent verification to another pricing source by management each quarter for reasonableness. Securities classified as available-for-sale are reported at fair value utilizing Level 2 inputs.

Mortgage Servicing Rights

The fair value of mortgage servicing rights is based on the discounted value of estimated future cash flows utilizing contractual cash flows, servicing rate, constant prepayment rate, servicing cost, and discount rate factors. Accordingly, the fair value is estimated based on a valuation model that calculates the present value of estimated future net servicing income. The model incorporates assumptions that market participants use in estimating future net servicing income, including estimates of prepayment speeds, market discount rates, cost to service, float earnings rates, and other ancillary income, including late fees. The valuation models estimate the present value of estimated future net servicing income. The Company classifies its servicing rights as Level 3.

		Fair Value Measurements		
(in thousands)	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2017				
Assets:				
U.S. government and federal agency obligations	$ 12,712	$ 0	12,712	$ 0
Government sponsored enterprises	37,312	0	37,312	0
Obligations of states and political subdivisions	47,994	0	47,994	0
Mortgage-backed securities	118,335	0	118,335	0
Mortgage servicing rights	2,766	0	0	2,766
Total	$ 219,119	$ 0	$ 216,353	$ 2,766
December 31, 2016				
Assets:				
U.S. government and federal agency obligations	$ 13,364	$ 0	13,364	$ 0
Government sponsored enterprises	32,459	0	32,459	0
Obligations of states and political subdivisions	42,032	0	42,032	0
Mortgage-backed securities	126,657	0	126,657	0
Mortgage servicing rights	2,584	0	0	2,584
Total	$ 217,096	$ 0	$ 214,512	$ 2,584

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized as follows:

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(in thousands)	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Mortgage Servicing Rights Three Months Ended June 30,		Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Mortgage Servicing Rights Six Months Ended June 30,	
	2017	2016	2017	2016
Balance at beginning of period	$ 2,877	$ 2,745	$ 2,584	$ 2,847
Total gains or losses (realized/unrealized):				
Included in earnings	(177)	(297)	67	(453)
Included in other comprehensive income	0	0	0	0
Purchases	0	0	0	0
Sales	0	0	0	0
Issues	66	63	115	117
Settlements	0	0	0	0
Balance at end of period	$ 2,766	$ 2,511	$ 2,766	$ 2,511

The change in valuation of mortgage servicing rights arising from inputs and assumptions decreased $56,000 and increased $319,000 for the three and six months ended June 30, 2017, respectively, compared to decreases of $142,000 and $145,000 for the three and six months ended June 30, 2016, respectively.

	Quantitative Information about Level 3 Fair Value Measurements			
	Valuation Technique	Unobservable Inputs	Input Value Six Months Ended June 30,	
			2017	2016
Mortgage servicing rights	Discounted cash flows	Weighted average constant prepayment rate	9.28 %	12.16 %
		Weighted average note rate	3.86 %	3.90 %
		Weighted average discount rate	9.75 %	9.19 %
			6.10	5.10

Weighted average expected life (in years)

Valuation methods for instruments measured at fair value on a nonrecurring basis

Following is a description of the Company’s valuation methodologies used for assets and liabilities recorded at fair value on a nonrecurring basis:

Impaired Loans

The Company does not record loans at fair value on a recurring basis other than loans that are considered impaired. The net carrying value of impaired loans is generally based on fair values of the underlying collateral obtained through independent appraisals or internal evaluations, or by discounting the total expected future cash flows. Once the fair value of the collateral has been determined and any impairment amount calculated, a specific reserve allocation is made. Because many of these inputs are not observable, the measurements are classified as Level 3. As of June 30, 2017, the Company identified $8.0 million in impaired loans that had specific allowances for losses aggregating $1.1 million. Related to these loans, there was $63,000 and $83,000 in charge-offs recorded during the three and six months ended June 30, 2017, respectively. As of June 30, 2016, the Company identified $4.7 million in impaired loans that had specific allowances for losses aggregating $1.6 million. Related to these loans, there was $208,000 and $768,000 in charge-offs recorded during the three and six months ended June 30, 2016, respectively.

Other Real Estate and Foreclosed Assets

Other real estate and foreclosed assets consisted of loan collateral that has been repossessed through foreclosure. This collateral is comprised of commercial and residential real estate and other non-real estate property, including autos, manufactured homes, and construction equipment. Other real estate assets are recorded as held for sale initially at the lower of the loan balance or fair value of the collateral less estimated selling costs. The Company relies on external appraisals and assessment of property values by internal staff. In the case of non-real estate collateral, reliance is placed on a variety of sources, including external estimates of value and judgment based on experience and expertise of internal specialists. Subsequent to foreclosure, valuations are updated periodically, and the assets may be written down to reflect a new cost basis. Because many of these inputs are not observable, the measurements are classified as Level 3.

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		Fair Value Measurements Using				
(in thousands)	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Three Months Ended June 30, Total Gains (Losses)*	Six Months Ended June 30, Total Gains (Losses)*
June 30, 2017						
Assets:						
Impaired loans:						
Commercial, financial, & agricultural	$ 807	$ 0	$ 0	$ 807	$ 0	$ (1)
Real estate construction - commercial	41	0	0	41	0	0
Real estate mortgage - residential	4,542	0	0	4,542	(62)	(65)
Real estate mortgage - commercial	1,416	0	0	1,416	0	(4)
Consumer	41	0	0	41	(1)	(13)
Total	$ 6,847	$ 0	$ 0	$ 6,847	$ (63)	$ (83)
Other real estate and foreclosed assets	$ 13,356	$ 0	$ 0	$ 13,356	$ (195)	$ (180)
June 30, 2016						
Assets:						
Impaired loans:						
Commercial, financial, & agricultural	$ 723	$ 0	$ 0	$ 723	$ 0	$ (359)
Real estate construction - commercial	44	0	0	44	0	0
Real estate mortgage - residential	2,047	0	0	2,047	(181)	(216)
Real estate mortgage - commercial	198	0	0	198	(23)	(177)
Consumer	85	0	0	85	(4)	(16)
Total	$ 3,097	$ 0	$ 0	$ 3,097	$ (208)	$ (768)
Other real estate and foreclosed assets	$ 15,254	$ 0	$ 0	$ 15,254	$ 16	$ 49

* Total gains (losses) reported for other real estate and foreclosed assets includes charge-offs, valuation write downs, and net losses taken during the periods reported.

(13) Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

Loans

The fair values of loans are estimated by discounting the expected future cash flows using the current rates at which similar loans could be made to borrowers with similar credit ratings and for the same remaining maturities. The net carrying amount of impaired loans is generally based on the fair values of collateral obtained through independent appraisals or internal evaluations, or by discounting the total expected future cash flows. This method of estimating fair value does not incorporate the exit-price concept of fair value prescribed by ASC Topic 820.

Investment Securities

A detailed description of the fair value measurement of the debt instruments in the available-for-sale sections of the investment security portfolio is provided in the *Fair Value Measurement* section above. A schedule of investment securities by category and maturity is provided in the notes on *Investment Securities*.

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Federal Home Loan Bank (FHLB) Stock

Ownership of equity securities of FHLB is restricted and there is no established market for their resale. The carrying amount is a reasonable estimate of fair value.

Federal Funds Sold, Cash, and Due from Banks

The carrying amounts of short-term federal funds sold and securities purchased under agreements to resell, interest earning deposits with banks, and cash and due from banks approximate fair value. Federal funds sold and securities purchased under agreements to resell classified as short-term generally mature in 90 days or less.

Mortgage Servicing Rights

The fair value of mortgage servicing rights is based on the discounted value of estimated future cash flows utilizing contractual cash flows, servicing rate, constant prepayment rate, servicing cost, and discount rate factors. Accordingly, the fair value is estimated based on a valuation model that calculates the present value of estimated future net servicing income. The model incorporates assumptions that market participants use in estimating future net servicing income, including estimates of prepayment speeds, market discount rates, cost to service, float earnings rates, and other ancillary income, including late fees.

Cash Surrender Value - Life Insurance

The fair value of Bank owned life insurance (BOLI) approximates the carrying amount. Upon liquidation of these investments, the Company would receive the cash surrender value which equals the carrying amount.

Accrued Interest Receivable and Payable

For accrued interest receivable and payable, the carrying amount is a reasonable estimate of fair value because of the short maturity for these financial instruments.

Deposits

The fair value of deposits with no stated maturity, such as noninterest-bearing demand, NOW accounts, savings, and money market, is equal to the amount payable on demand. The fair value of time deposits is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities.

Securities Sold under Agreements to Repurchase and Interest-bearing Demand Notes to U.S. Treasury

For securities sold under agreements to repurchase and interest-bearing demand notes to U.S. Treasury, the carrying amount is a reasonable estimate of fair value, as such instruments reprice in a short time period.

Subordinated Notes and Other Borrowings

The fair value of subordinated notes and other borrowings is based on the discounted value of contractual cashflows. The discount rate is estimated using the rates currently offered for other borrowed money of similar remaining maturities.

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A summary of the carrying amounts and fair values of the Company's financial instruments at June 30, 2017 and December 31, 2016 is as follows:

	June 30, 2017		June 30, 2017 Fair Value Measurements		
(in thousands)	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Net Significant Unobservable Inputs (Level 3)
Assets:					
Cash and due from banks	$20,776	$20,776	$20,776	$ 0	$ 0
Federal funds sold and overnight interest-bearing deposits	40,552	40,552	40,552	0	0
Investment in available-for-sale securities	216,353	216,353	0	216,353	0
Loans, net	1,024,475	1,022,116	0	0	1,022,116
Investment in FHLB stock	6,151	6,151	0	6,151	0
Mortgage servicing rights	2,766	2,766	0	0	2,766
Cash surrender value - life insurance	2,448	2,448	0	2,448	0
Accrued interest receivable	4,754	4,754	4,754	0	0
	$1,318,275	$1,315,916	$66,082	$ 224,952	$ 1,024,882
Liabilities:					
Deposits:					
Non-interest bearing demand	$279,634	$279,634	$279,634	$ 0	$ 0
Savings, interest checking and money market	517,678	517,678	517,678	0	0
Time deposits	285,375	285,155	0	0	285,155
Federal funds purchased and securities sold under agreements to repurchase	29,118	29,118	29,118	0	0
Subordinated notes	49,486	35,712	0	35,712	0

Federal Home Loan Bank advances	115,363	115,888	0	115,888	0
Accrued interest payable	429	429	429	0	0
	$ 1,277,083	$ 1,263,614	$ 826,859	$ 151,600	$ 285,155

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	December 31, 2016		December 31, 2016 Fair Value Measurements		
(in thousands)	Carrying amount	Fair value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Net Significant Unobservable Inputs (Level 3)
Assets:					
Cash and due from banks	$25,589	$25,589	$25,589	$ 0	$ 0
Federal funds sold and overnight interest-bearing deposits	1,406	1,406	1,406	0	0
Investment in available-for-sale securities	214,512	214,512	0	214,512	0
Loans, net	964,143	959,929	0	0	959,929
Investment in FHLB stock	5,149	5,149	0	5,149	0
Mortgage servicing rights	2,584	2,584	0	0	2,584
Cash surrender value - life insurance	2,409	2,409	0	2,409	0
Accrued interest receivable	5,183	5,183	5,183	0	0
	$1,220,975	$1,216,761	$32,178	$ 222,070	$ 962,513
Liabilities:					
Deposits:					
Non-interest bearing demand	$235,975	$235,975	$235,975	$ 0	$ 0
Savings, interest checking and money market	468,731	468,731	468,731	0	0
Time deposits	305,960	304,334	0	0	304,334
Federal funds purchased and securities sold under agreements to repurchase	31,015	31,015	31,015	0	0
Subordinated notes	49,486	33,712	0	33,712	0
Other borrowings	93,392	93,209	0	93,209	0
Accrued interest payable	498	498	498	0	0
	$1,185,057	$1,167,474	$736,219	$ 126,921	$ 304,334

Off-Balance Sheet Financial Instruments

The fair value of commitments to extend credit and standby letters of credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements, the likelihood of the counterparties drawing on such financial instruments, and the present creditworthiness of such counterparties. The Company believes such commitments have been made on terms that are competitive in the markets in which it operates.

Limitations

The fair value estimates provided are made at a point in time based on market information and information about the financial instruments. Because no market exists for a portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the fair value estimates.

(14) Repurchase Reserve Liability

The Company's repurchase reserve liability for estimated losses incurred on sold loans was $160,000 at both June 30, 2017 and December 31, 2016. This liability represents management's estimate of the potential repurchase or make-whole liability for residential mortgage loans originated for sale that may arise from representation and warranty claims that could relate to a variety of issues, including but not limited to, misrepresentation of facts, appraisal issues, or program requirements that may not meet investor guidelines. At June 30, 2017, the Company was servicing 2,810 loans sold to the secondary market with a balance of approximately $289.8 million compared to 2,877 loans sold with a balance of approximately $294.4 million at December 31, 2016.

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Notes to the Consolidated Financial Statements

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2017	2016	2017	2016
Balance at beginning of year	$ 160	$ 160	$ 160	$ 160
Provision for repurchase liability	0	2	0	2
Reimbursement of expenses	0	(2)	0	(2)
Balance at end of year	$ 160	$ 160	$ 160	$ 160

(15) Commitments and Contingencies

The Company issues financial instruments with off-balance-sheet risk in the normal course of business of meeting the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments may involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated balance sheets.

The Company's extent of involvement and maximum potential exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of these instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for financial instruments included on its consolidated balance sheets. At June 30, 2017, no amounts have been accrued for any estimated losses for these financial instruments.

The contractual amount of off-balance-sheet financial instruments were as follows as of the dates indicated:

	June 30,	December 31,
(in thousands)	2017	2016
Commitments to extend credit	$220,119	$ 253,375
Commitments to originate residential first and second mortgage loans	4,572	2,626

Standby letters of credit	57,018	2,745
Total	281,709	258,746

Commitments

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since certain of the commitments and letters of credit are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the customer. Collateral held varies, but may include accounts receivable, inventory, furniture and equipment, and real estate.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. These standby letters of credit are primarily issued to support contractual obligations of the Company's customers. The approximate remaining term of standby letters of credit range from one month to five years at June 30, 2017.

Pending Litigation

The Company and its subsidiaries are defendants in various legal actions incidental to the Company's past and current business activities. Based on the Company's analysis, and considering the inherent uncertainties associated with litigation, management does not believe that it is reasonably possible that these legal actions will materially adversely affect the Company's consolidated financial condition or results of operations in the near term. The Company records a loss accrual for all legal matters for which it deems a loss is probable and can be reasonably estimated. Some legal matters, which are at early stages in the legal process, have not yet progressed to the point where a loss is deemed probable or an amount can be estimated.

Item 2 - ***Management's Discussion and Analysis of Financial Condition***

And Results of Operations

Forward-Looking Statements

This report contains certain forward-looking statements with respect to the financial condition, results of operations, plans, objectives, future performance and business of the Company, Hawthorn Bancshares, Inc., and its subsidiaries, including, without limitation:

- statements that are not historical in nature, and
- statements preceded by, followed by or that include the words *believes*, *expects, may, will, should, could, anticipates, estimates, intends* or similar expressions.

Forward-looking statements are not guarantees of future performance or results. They involve risks, uncertainties and assumptions. Actual results may differ materially from those contemplated by the forward-looking statements due to, among others, the following factors:

- competitive pressures among financial services companies may increase significantly,
- changes in the interest rate environment may reduce interest margins,
- general economic conditions, either nationally or in Missouri, may be less favorable than expected and may adversely affect the quality of our loans and other assets,
- increases in non-performing assets in the Company's loan portfolios and adverse economic conditions may necessitate increases to our provisions for loan losses,
- costs or difficulties related to the integration of the business of the Company and its acquisition targets may be greater than expected,
- legislative or regulatory changes may adversely affect the business in which the Company and its subsidiaries are engaged, and
- changes may occur in the securities markets.

We have described under the caption *Risk Factors* in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, and in other reports filed with the SEC from time to time, additional factors that could cause actual results to be materially different from those described in the forward-looking statements. Other factors that have not been identified in this report could also have this effect. You are cautioned not to put undue reliance on any forward-looking statement, which speak only as of the date they were made.

Overview

Crucial to the Company’s community banking strategy is growth in its commercial banking services, retail mortgage lending and retail banking services. Through the branch network of its subsidiary bank, the Company, with $1.4 billion in assets at June 30, 2017, provides a broad range of commercial and personal banking services. The Bank’s specialties include commercial banking for small and mid-sized businesses, including equipment, operating, commercial real estate, Small Business Administration (SBA) loans, and personal banking services including real estate mortgage lending, installment and consumer loans, certificates of deposit, individual retirement and other time deposit accounts, checking accounts, savings accounts, and money market accounts. Other financial services that the Company provides include trust services that include estate planning, investment and asset management services and a comprehensive suite of cash management services. The geographic areas in which the Company provides products and services include the Missouri communities in and surrounding Jefferson City, Columbia, Clinton, Warsaw, Springfield, Branson, and the greater Kansas City metropolitan area.

The Company's primary source of revenue is net interest income derived primarily from lending and deposit taking activities. Much of the Company's business is commercial, commercial real estate development, and residential mortgage lending. The Company's income from mortgage brokerage activities is directly dependent on mortgage rates and the level of home purchases and refinancing activity.

The success of the Company's growth strategy depends primarily on the ability of its banking subsidiary to generate an increasing level of loans and deposits at acceptable risk levels and on acceptable terms without significant increases in non-interest expenses relative to revenues generated. The Company's financial performance also depends, in part, on its ability to manage various portfolios and to successfully introduce additional financial products and services by expanding new and existing customer relationships, utilizing improved technology, and enhancing customer satisfaction. Furthermore, the success of the Company's growth strategy depends on its ability to maintain sufficient regulatory capital levels during periods in which general economic conditions are unfavorable and despite economic conditions being beyond its control.

The Company’s subsidiary bank is a full-service bank conducting a general banking business, offering its customers checking and savings accounts, debit cards, certificates of deposit, safety deposit boxes and a wide range of lending services, including commercial and industrial loans, residential real estate loans, single payment personal loans, installment loans and credit card accounts. In addition, the Bank provides trust services.

The deposit accounts of the Bank are insured by the Federal Deposit Insurance Corporation (FDIC) to the extent provided by law. The operations of the Bank are supervised and regulated by the FDIC and the Missouri Division of Finance. Periodic examinations of the Bank are conducted by representatives of the FDIC and the Missouri Division of Finance. Such regulations, supervision and examinations are principally for the benefit of depositors, rather than for the benefit of shareholders. The Company is subject to supervision and examination by the Board of Governors of the Federal Reserve System.

CRITICAL ACCOUNTING POLICIES

The following accounting policies are considered most critical to the understanding of the Company’s financial condition and results of operations. These critical accounting policies require management’s most difficult, subjective and complex judgments about matters that are inherently uncertain. Because these estimates and judgments are based on current circumstances, they may change over time or prove to be inaccurate based on actual experiences. In the event that different assumptions or conditions were to prevail, and depending upon the severity of such changes, the possibility of a materially different financial condition and/or results of operations could reasonably be expected. The impact and any associated risks related to the critical accounting policies on the business operations are discussed throughout *Management’s Discussion and Analysis of Financial Condition and Results of Operations*, where such policies affect the reported and expected financial results.

Allowance for Loan Losses

Management has identified the accounting policy related to the allowance for loan losses as critical to the understanding of the Company's results of operations, since the application of this policy requires significant management assumptions and estimates that could result in materially different amounts to be reported if conditions or underlying circumstances were to change. Further discussion of the methodology used in establishing the allowance and the impact of any associated risks related to these policies on the Company’s business operations is provided in note 1 to the Company’s unaudited consolidated financial statements and is also discussed in the *Lending and Credit Management* section below. Many of the loans are deemed collateral dependent for purposes of the measurement of the impairment loss, thus the fair value of the underlying collateral and sensitivity of such fair values due to changing market conditions, supply and demand, condition of the collateral and other factors can be volatile over periods of time. Such volatility can have an impact on the financial performance of the Company.

Other Real Estate and Foreclosed Assets

Other real estate and foreclosed assets consist of loan collateral that has been repossessed through foreclosure. This collateral is comprised of commercial and residential real estate and other non-real estate property, including vehicles, manufactured homes, and construction equipment. Other real estate assets are initially recorded as held for sale at the fair value of the collateral less estimated selling costs. Any adjustment is recorded as a charge-off against the allowance for loan losses. The Company relies on external appraisals and assessment of property values by internal staff. In the case of non-real estate collateral, reliance is placed on a variety of sources, including external estimates of value and judgment based on experience and expertise of internal specialists. Subsequent to foreclosure, valuations are updated periodically, and the assets may be written down to reflect a new cost basis. The write-downs are recorded as other real estate expense, net. The Company establishes a valuation allowance related to other real estate owned on an asset-by-asset basis. The valuation allowance is created during the holding period when the fair value less cost to sell is lower than the cost of the property.

SELECTED CONSOLIDATED FINANCIAL DATA

The following table presents selected consolidated financial information for the Company as of and for each of the three and six months ended June 30, 2017 and 2016, respectively. The selected consolidated financial data should be read in conjunction with the unaudited consolidated financial statements of the Company, including the related notes, presented elsewhere herein.

Selected Financial Data

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands, except per share data)	2017	2016	2017	2016
Per Share Data				
Basic earnings per share	$ 0.33	$ 0.24	$ 0.69	$ 0.58
Diluted earnings per share	0.33	0.24	0.69	0.58
Dividends paid on common stock	338	271	674	542
Book value per share			16.29	15.63
Market price per share			20.95	13.26
Selected Ratios				
(Based on average balance sheets)				
Return on total assets	0.58 %	0.46 %	0.61 %	0.56 %
Return on stockholders' equity	8.35 %	6.26 %	8.65 %	7.62 %
Stockholders' equity to total assets	7.01 %	7.31 %	7.06 %	7.29 %
Efficiency ratio (1)	74.98 %	78.46 %	73.75 %	76.13 %
(Based on end-of-period data)				
Stockholders' equity to assets			6.88 %	7.25 %
Total risk-based capital ratio			13.47 %	14.19 %
Tier 1 risk-based capital ratio			11.20 %	11.63 %
Common equity Tier 1 capital			8.43 %	8.73 %
Tier 1 leverage ratio (2)			9.77 %	9.88 %

(1) Efficiency ratio is calculated as non-interest expense as a percentage of revenue. Total revenue includes net interest income and non-interest income.

(2) Tier I leverage ratio is calculated by dividing Tier 1 capital by average total consolidated assets.

RESULTS OF OPERATIONS ANALYSIS

The Company has prepared all of the consolidated financial information in this report in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). In preparing the consolidated financial statements in accordance with U.S. GAAP, the Company makes estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. There can be no assurances that actual results will not differ from those estimates.

	Three Months Ended June 30,				Six Months Ended June 30,			
(In thousands)	2017	2016	$ Change	% Change	2017	2016	$ Change	% Change
Net interest income	$10,820	$9,971	$ 849	8.5 %	$21,307	$19,819	$1,488	7.5 %
Provision for loan losses	330	425	(95)	(22.4)	680	675	5	0.7
Noninterest income	2,099	1,949	150	7.7	4,506	4,397	109	2.5
Noninterest expense	9,687	9,353	334	3.6	19,037	18,436	601	3.3
Income before income taxes	2,902	2,142	760	35.5	6,096	5,105	991	19.4
Income tax expense	983	730	253	34.7	2,076	1,695	381	22.5
Net income	$1,919	$1,412	$ 507	35.9 %	$4,020	$3,410	$610	17.9 %

Consolidated net income of $1.9 million, or $0.33 per diluted share, for the three months ended June 30, 2017 increased $507,000 compared to $1.4 million, or $0.24 per diluted share, for the three months ended June 30, 2016. For the three months ended June 30, 2017, the return on average assets was 0.58%, the return on average stockholders' equity was 8.35%, and the efficiency ratio was 74.98%.

Consolidated net income increased $610,000 to $4.0 million, or $0.69 per diluted share, for the six months ended June 30, 2017 compared to $3.4 million, or $0.58 per diluted share, for the six months ended June 30, 2016. For the six months ended June 30, 2017, the return on average assets was 0.61%, the return on average stockholders' equity was 8.65%, and the efficiency ratio was 73.75%.

Net interest income was $10.8 million and $21.3 million for the three and six months ended June 30, 2017, respectively, compared to $10.0 million and $19.8 million for the three and six months ended June 30, 2016. The net interest margin (expressed on a fully taxable equivalent basis) increased to 3.50% for the three months ended June 30, 2017, compared to 3.49% for the three months ended June 30, 2016, and decreased to 3.49% for the six months ended June 30, 2017 compared to 3.50% for the six months ended June 30, 2016. These changes are discussed in greater detail under the *Average Balance Sheets and Rate and Volume Analysis* section below.

A $330,000 and $680,000 ***provision for loan losses*** was recorded for the three and six months ended June 30, 2017, respectively, compared to a $425,000 and $675,000 provision for the three and six months ended June 30, 2016, respectively.

The Company's net charge-offs were $47,000, or 0.00% of average loans, for the three months ended June 30, 2017 compared to net recoveries of $336,000, or (0.04)% of average loans, for the three months ended June 30, 2016. For the six months ended June 30, 2017, the Company's net charge-offs were $21,000, or 0.00% of average loans compared to net recoveries of $113,000, or (0.01)% of average loans for the six months ended June 30, 2016.

Non-performing loans totaled $10.0 million, or 0.97% of total loans, at June 30, 2017 compared to $9.2 million, or 0.95% of total loans, at December 31, 2016, and $9.5 million, or 1.02% of total loans, at June 30, 2016. These changes are discussed in greater detail under the *Lending and Credit Management* section below.

Non-interest income increased $150,000, or 7.7%, for the three months ended June 30, 2017 compared to the three months ended June 30, 2016, and increased $109,000, or 2.5%, for the six months ended June 30, 2007 compared to the six months ended June 30, 2016. These changes are discussed in greater detail below under Non-interest Income.

Non-interest expense increased $334,000, or 3.6%, for the three months ended June 30, 2017 compared to the three months ended June 30, 2016, and increased $601,000, or 3.3%, for the six months ended June 30, 2017 compared to the six months ended June 30, 2017. These changes are discussed in greater detail below under Non-interest Expense.

Average Balance Sheets

Net interest income is the largest source of revenue resulting from the Company's lending, investing, borrowing, and deposit gathering activities. It is affected by both changes in the level of interest rates and changes in the amounts and mix of interest earning assets and interest bearing liabilities. The following table presents average balance sheets, net interest income, average yields of earning assets, average costs of interest bearing liabilities, net interest spread and net interest margin on a fully taxable equivalent basis for each of the periods ended June 30, 2017 and 2016, respectively.

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(In thousands)	Three Months Ended June 30, 2017			2016		
	Average Balance	Interest Income/ Expense(1)	Rate Earned/ Paid(1)	Average Balance	Interest Income/ Expense(1)	Rate Earned/ Paid(1)
ASSETS						
Loans: (2) (4)						
Commercial	$190,888	$ 2,165	4.55 %	$154,509	$ 1,794	4.67 %
Real estate construction - residential	20,559	236	4.60	18,207	206	4.55
Real estate construction - commercial	71,661	798	4.47	42,980	540	5.05
Real estate mortgage - residential	258,958	2,959	4.58	250,868	2,844	4.56
Real estate mortgage - commercial	451,185	5,268	4.68	404,141	4,686	4.66
Consumer	31,801	309	3.90	25,707	288	4.51
Total loans	$1,025,052	$ 11,735	4.59 %	$896,412	$ 10,358	4.65 %
Investment securities: (3)						
U.S. government and federal agency obligations	$48,888	$ 176	1.44 %	$40,925	$ 117	1.15 %
Obligations of states and political subdivisions	47,721	266	2.24	28,156	191	2.73
Mortgage-backed securities	120,012	544	1.82	171,765	700	1.64
Total investment securities	$216,621	$ 986	1.83 %	$240,846	$ 1,008	1.68 %
Other investments and securities, at cost	10,588	94	3.56	8,544	75	3.53
Federal funds sold and interest bearing deposits in other financial institutions	4,795	11	0.92	16,140	18	0.45
Total interest earning assets	$1,257,056	$ 12,826	4.09 %	$1,161,942	$ 11,459	3.97 %
All other assets	88,361			88,640		
Allowance for loan losses	(10,385)			(8,909)		
Total assets	$1,335,032			$1,241,673		
LIABILITIES AND STOCKHOLDERS' EQUITY						
NOW accounts	$212,226	$ 272	0.51 %	$205,801	$ 157	0.31 %
Savings	100,985	13	0.05	97,027	12	0.05
Commercial	1,523	2	0.53	0	0	0.00
Money market	203,697	188	0.37	181,724	118	0.26
Time deposits of $250,000 and over	57,095	99	0.70	61,636	85	0.55
Other time deposits	229,366	410	0.72	235,801	383	0.65
Total interest bearing deposits	$804,892	$ 984	0.49 %	$781,989	$ 755	0.39 %
Federal funds purchased and securities sold under agreements to repurchase	29,237	27	0.37	36,333	15	0.17
Subordinated notes	49,486	431	3.49	49,486	366	2.97
Federal Home Loan Bank Advances	110,124	419	1.53	61,604	243	1.59
Total borrowings	$188,847	$ 877	1.86 %	$147,423	$ 624	1.70 %
Total interest bearing liabilities	$993,739	$ 1,861	0.75 %	$929,412	$ 1,379	0.60 %
Demand deposits	235,232			212,569		
Other liabilities	11,075			8,902		
Total liabilities	1,240,046			1,150,883		
Stockholders' equity	94,986			90,790		

Total liabilities and stockholders' equity	$1,335,032		$1,241,673	
Net interest income (FTE)	10,965		10,080	
Net interest spread		3.34 %		3.37 %
Net interest margin		3.50 %		3.49 %

(1) Interest income and yields are presented on a fully taxable equivalent basis using the federal statutory income tax rate of 34%, net of nondeductible interest expense. Such adjustments totaled $145,000 and $109,000 for the three months ended June 30, 2017 and 2016, respectively.

(2) Non-accruing loans are included in the average amounts outstanding.

(3) Average balances based on amortized cost.

(4) Fees and costs on loans are included in interest income.

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(In thousands)	Six Months Ended June 30, 2017			2016		
	Average Balance	Interest Income/ Expense(1)	Rate Earned/ Paid(1)	Average Balance	Interest Income/ Expense(1)	Rate Earned/ Paid(1)
ASSETS						
Loans: (2) (4)						
Commercial	$186,741	$ 4,164	4.50 %	$150,746	$ 3,509	4.68 %
Real estate construction - residential	19,936	451	4.56	18,167	414	4.58
Real estate construction - commercial	68,952	1,518	4.44	39,157	949	4.87
Real estate mortgage - residential	259,750	5,882	4.57	252,190	5,754	4.59
Real estate mortgage - commercial	442,219	10,223	4.66	396,282	9,208	4.67
Consumer	31,022	609	3.96	24,794	562	4.56
Total loans	$1,008,620	$ 22,847	4.57 %	$881,336	$ 20,396	4.65 %
Investment securities: (3)						
U.S. government and federal agency obligations	$47,159	$ 332	1.42 %	$52,692	$ 305	1.16 %
Obligations of states and political subdivisions	45,738	516	2.28	29,901	419	2.82
Mortgage-backed securities	122,154	1,126	1.86	161,195	1,437	1.79
Total investment securities	$215,051	$ 1,974	1.85 %	$243,788	$ 2,161	1.78 %
Other investments and securities, at cost	10,189	184	3.64	8,291	151	3.66
Federal funds sold and interest bearing deposits in other financial institutions	13,179	60	0.92	19,226	50	0.52
Total interest earning assets	$1,247,039	$ 25,065	4.05 %	$1,152,641	$ 22,758	3.97 %
All other assets	89,308			89,571		
Allowance for loan losses	(10,195)			(8,748)		
Total assets	$1,326,152			$1,233,464		
LIABILITIES AND STOCKHOLDERS' EQUITY						
NOW accounts	$214,140	$ 504	0.47 %	$207,720	$ 324	0.31 %
Savings	100,409	25	0.05	94,627	24	0.05
Commercial	1,589	4	0.51	0	0	0.00
Money market	201,709	331	0.33	180,131	234	0.26
Time deposits of $250,000 and over	60,623	191	0.64	58,779	153	0.52
Other time deposits	230,759	789	0.69	236,692	764	0.65
Total interest bearing deposits	$809,229	$ 1,844	0.46 %	$777,949	$ 1,499	0.39 %
Federal funds purchased and securities sold under agreements to repurchase	29,158	49	0.34	42,814	39	0.18
Subordinated notes	49,486	840	3.42	49,486	720	2.93
Federal Home Loan Bank Advances	101,399	741	1.47	55,802	450	1.62
Total borrowings	$180,043	$ 1,630	1.83 %	$148,102	$ 1,209	1.64 %
Total interest bearing liabilities	$989,272	$ 3,474	0.71 %	$926,051	$ 2,708	0.59 %
Demand deposits	232,016			207,833		
Other liabilities	11,198			9,613		
Total liabilities	1,232,486			1,143,497		
Stockholders' equity	93,666			89,967		

Total liabilities and stockholders' equity	$1,326,152		$1,233,464	
Net interest income (FTE)	21,591		20,050	
Net interest spread		3.34 %		3.38 %
Net interest margin		3.49 %		3.50 %

(1) Interest income and yields are presented on a fully taxable equivalent basis using the federal statutory income tax rate of 34%, net of nondeductible interest expense. Such adjustments totaled $284,000 and $231,000 for the six months ended June 30, 2017 and 2016, respectively.

(2) Non-accruing loans are included in the average amounts outstanding.

(3) Average balances based on amortized cost.

(4) Fees and costs on loans are included in interest income.

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Rate and Volume Analysis

The following table summarizes the changes in net interest income on a fully taxable equivalent basis, by major category of interest earning assets and interest bearing liabilities, identifying changes related to volumes and rates for the three and six months ended June 30, 2017 compared to the three and six months ended June 30, 2016. The change in interest due to the combined rate/volume variance has been allocated to rate and volume changes in proportion to the absolute dollar amounts of change in each.

	Three Months Ended June 30, 2017 vs. 2016			Six Months Ended June 30, 2017 vs. 2016		
		Change due to			Change due to	
(In thousands)	Total Change	Average Volume	Average Rate	Total Change	Average Volume	Average Rate
Interest income on a fully taxable equivalent basis: (1)						
Loans: (2) (4)						
Commercial	$ 371	$ 413	$ (42)	$ 655	$ 808	$ (153)
Real estate construction - residential	30	27	3	37	40	(3)
Real estate construction - commercial	258	325	(67)	569	663	(94)
Real estate mortgage - residential	115	93	22	128	171	(43)
Real estate mortgage - commercial	582	549	33	1,015	1,062	(47)
Consumer	21	62	(41)	47	129	(82)
Investment securities: (3)						
U.S. government and federal agency obligations	59	26	33	27	(34)	61
Obligations of states and political subdivisions	75	114	(39)	97	190	(93)
Mortgage-backed securities	(156)	(228)	72	(311)	(358)	47
Other investments and securities, at cost	19	18	1	33	35	(2)
Federal funds sold and interest bearing deposits in other financial institutions	(7)	(18)	11	10	(19)	29
Total interest income	1,367	1,381	(14)	2,307	2,687	(380)
Interest expense:						
NOW accounts	115	5	110	180	10	170
Savings	1	0	1	1	1	0
Commercial	2	0	2	4	0	4
Money market	70	15	55	97	30	67
Time deposits of $250,000 and over	15	(6)	21	40	5	35
Other time deposits	26	(10)	36	23	(19)	42
Federal funds purchased and securities sold under agreements to repurchase	12	(3)	15	10	(15)	25
Subordinated notes	65	0	65	120	0	120
Federal Home Loan Bank advances	176	185	(9)	291	337	(46)
Total interest expense	482	186	296	766	349	417
Net interest income on a fully taxable equivalent basis	$ 885	$ 1,195	$ (310)	$ 1,541	$ 2,338	$ (797)

(1) Interest income and yields are presented on a fully taxable equivalent basis using the Federal statutory income tax rate of 34%, net of nondeductible interest expense. Such adjustments totaled $145,000 and $284,000 for the three and six months June 30, 2017, respectively, compared to $109,000 and $231,000 for the three and six months June 30, 2016, respectively.

(2) Non-accruing loans are included in the average amounts outstanding.

(3) Average balances based on amortized cost.

(4) Fees and costs on loans are included in interest income.

Financial results for the three months ended June 30, 2017 compared to the three months ended June 30, 2016, reflected an increase in net interest income, on a tax equivalent basis, of $885,000, or 8.78%, and the financial results for the six months ended June 30, 2017 compared to the six months ended June 30, 2016 reflected an increase of $1.5 million, or 7.69%.

Measured as a percentage of average earning assets, the net interest margin (expressed on a fully taxable equivalent basis) increased to 3.50% for the three months ended June 30, 2017 compared to 3.49% for the three months ended June 30, 2016, and decreased to 3.49% for the six months ended June 30, 2017 compared to 3.50% for the six months ended June 30, 2016. The increase in net interest income was primarily due to an increase in average loans and the net interest margin has remained relatively unchanged during the periods reported. Due to loan growth and maintaining net interest margin, net interest income has continued to increase.

Average interest-earning assets increased $95.1 million, or 8.19%, to $1.26 billion for the three months ended June 30, 2017 compared to $1.16 billion for the three months ended June 30, 2016, and average interest bearing liabilities increased $64.3 million, or 6.92%, to $993.7 million for the three months ended June 30, 2017 compared to $929.4 million for the three months ended June 30, 2016.

Average interest-earning assets increased $94.4 million, or 8.19%, to $1.25 billion for the six months ended June 30, 2017 compared to $1.15 billion for the six months ended June 30, 2016, and average interest bearing liabilities increased $63.2 million, or 6.83%, to $989.3 million for the six months ended June 30, 2017 compared to $926.1 million for the six months ended June 30, 2016.

Total interest income (expressed on a fully taxable equivalent basis) was $12.8 million and $25.1 million for the three and six months ended June 30, 2017, respectively, compared to $11.5 million and $22.8 million for the three and six months ended June 30, 2016, respectively. The Company's rates earned on interest earning assets were 4.09% and 4.05% for the three and six months ended June 30, 2017, respectively, compared to 3.97% for both the three and six months ended June 30, 2016.

Interest income on loans increased to $11.7 million and $22.8 million for the three and six months ended June 30, 2017, respectively, compared to $10.4 million and $20.4 million for the three and six months ended June 30, 2016, respectively.

Average loans outstanding increased $128.6 million, or 14.4%, to $1.0 billion for the three months ended June 30, 2017 compared to $896.4 million for the three months ended June 30, 2016. The average yield on loans receivable decreased to 4.59% for the three months ended June 30, 2017 compared to 4.65% for the three months ended June 30, 2016.

For the six months ended June 30, 2017, average loans outstanding increased $127.3 million, or 14.4%, to $1.0 billion compared to $881.3 million for the six months ended June 30, 2016. The average yield on loans receivable decreased to 4.57% for the six months ended June 30, 2017 compared to 4.65% for the six months ended June 30, 2016. See the *Lending and Credit Management* section for further discussion of changes in the composition of the lending portfolio.

Total interest expense was to $1.9 million and $3.5 million for the three and six months ended June 30, 2017, respectively, compared to $1.4 million and $2.7 million for the three and six months ended June 30, 2016, respectivley. The Company's rates paid on interest bearing liabilities was 0.75% and 0.71% for the three and six months ended June 30, 2017, respectively, compared to 0.60% and 0.59% for the three and six months ended June 30, 2016, respectively. See the *Liquidity Management* section for further discussion.

Interest expense on deposits increased to $984,000 and $1.8 million for the three and six months ended June 30, 2017, respectively, compared to $755,000 and $1.5 million for the three and six months ended June 30, 2016, respectively.

Average interest bearing deposits increased $22.9 million, or 2.93%, to $804.9 million for the three months ended June 30, 2017 compared to $782.0 million for the three months ended June 30, 2016. The average cost of deposits increased to 0.49% for the three months ended June 30, 2017 compared to 0.39% for the three months ended June 30, 2016.

For the six months ended June 30, 2017, average interest bearing deposits increased $31.3 million, or 4.02%, to $809.2 million compared to $778.0 million for the six months ended June 30, 2016. The average cost of deposits increased to 0.46% for the six months ended June 30, 2017 compared to 0.39% for the six months ended June 30, 2016 primarily as a result of higher market interest rates.

Interest expense on borrowings increased to $877,000 and $1.6 million for the three and six months ended June 30, 2017, respectively, compared to $624,000 and $1.2 million for the three and six months ended June 30, 2016, respectively.

Average borrowings increased $41.4 million, or 28.10%, to $188.8 million for the three months ended June 30, 2017 compared to $147.4 million for the three months ended June 30, 2016. The average cost of borrowings increased to 1.86% for the three months ended June 30, 2017 compared to 1.70% for the three months ended June 30, 2016.

For the six months ended June 30, 2017, average borrowings increased $31.9 million, or 21.57%, to $180.0 million for the six months ended June 30, 2017 compared to $148.1 million for the six months ended June 30, 2016. The average cost of borrowings increased to 1.83% for the six months ended June 30, 2017 compared to 1.64% for the six months ended June 30, 2016. See the *Liquidity Management* section for further discussion.

Non-interest Income and Expense

Non-interest income for the periods indicated was as follows:

	Three Months Ended June 30,				Six Months Ended June 30,			
(In thousands)	2017	2016	$ Change	% Change	2017	2016	$ Change	% Change
Non-interest Income								
Service charges and other fees	$851	$828	$ 23	2.8 %	$1,687	$1,662	$ 25	1.5 %
Bank card income and fees	663	648	15	2.3	1,277	1,282	(5)	(0.4)
Trust department income	266	265	1	0.4	540	483	57	11.8
Real estate servicing fees, net	34	(86)	120	139.5	487	(32)	519	1,621.9
Gain on sales of mortgage loans, net	218	222	(4)	(1.8)	374	387	(13)	(3.4)
Gain on sale of investment securities	0	18	(18)	(100.0)	0	490	(490)	(100.0)
Other	67	54	13	24.1	141	125	16	12.8
Total non-interest income	$2,099	$1,949	$ 150	7.7 %	$4,506	$4,397	$ 109	2.5 %
Non-interest income as a % of total revenue *	16.2 %	16.4 %			17.5 %	18.2 %		
Total revenue per full time equivalent employee	$38.8	$35.6			$77.7	$71.8		

* Total revenue is calculated as net interest income plus non-interest income.

Total non-interest income increased $150,000, or 7.7%, to $2.1 million for the quarter ended June 30, 2017 compared to $1.9 million for the quarter ended June 30, 2016, and increased $109,000, or 2.5%, to $4.5 million for the six months ended June 30, 2017 compared to $4.4 million for the six months ended June 30, 2016.

Real estate servicing fees, net of the change in valuation of mortgage serving rights increased $120,000 to $34,000 for the quarter ended June 30, 2017 compared to $(86,000) for the quarter ended June 30, 2016, and increased $519,000 to $487,000 for the six months ended June 30, 2017 compared to $(32,000) for the six months ended June 30, 2016. The increases in both periods were primarily due to slower prepayment speeds resulting from a higher rate environment. Mortgage loan servicing fees earned on loans sold were $211,000 for both the quarters ended June 30, 2017 and 2016, and $420,000 for the six months ended June 30, 2017 compared to $421,000 for the six months ended June 30, 2016.

The Company was servicing $289.8 million of mortgage loans at June 30, 2017 compared to $294.4 million and $304.7 million at December 31, 2016 and June 30, 2016, respectively.

Gain on sales of mortgage loans decreased $4,000 to $218,000 for the quarter ended June 30, 2017 compared to $222,000 for the quarter ended June 30, 2016, and decreased $13,000 to $374,000 for the six months ended June 30, 2017 compared to $387,000 for the six months ended June 30, 2016. The Company sold loans of $9.4 million for the quarter ended June 30, 2017 compared to $10.1 million for the quarter ended June 30, 2016, and $16.2 million for the six months ended June 30, 2017 compared to $17.5 million for the six months ended June 30, 2016.

No ***gain on sale of investment securities*** was recognized during the three and six months ended June 30, 2017. During the six months ended June 30, 2016 the Company received $44.3 million from proceeds on sales of available-for-sale debt securities and recognized gains of $490,000. This transaction was the result of bond sales and purchases to replace several smaller holdings with fewer, larger investments without materially changing the duration or yield of the investment portfolio.

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Non-interest expense for the periods indicated was as follows:

	Three Months Ended June 30,				Six Months Ended June 30,			
(In thousands)	2017	2016	$ Change	% Change	2017	2016	$ Change	% Change
Non-interest Expense								
Salaries	$4,010	$3,927	$ 83	2.1 %	$8,064	$7,965	$ 99	1.2 %
Employee benefits	1,342	1,378	(36)	(2.6)	2,742	2,690	52	1.9
Occupancy expense, net	689	673	16	2.4	1,307	1,306	1	0.1
Furniture and equipment expense	634	439	195	44.4	1,232	850	382	44.9
Processing expense, network and bank card expense	927	840	87	10.4	1,972	1,611	361	22.4
Legal, examination, and professional fees	317	328	(11)	(3.4)	597	662	(65)	(9.8)
FDIC insurance assessment	115	188	(73)	(38.8)	216	364	(148)	(40.7)
Advertising and promotion	265	242	23	9.5	503	452	51	11.3
Postage, printing, and supplies	263	291	(28)	(9.6)	495	527	(32)	(6.1)
Real estate foreclosure expense, net	226	42	184	438.1	253	183	70	38.3
Other	899	1,005	(106)	(10.5)	1,656	1,826	(170)	(9.3)
Total non-interest expense	$9,687	$9,353	$ 334	3.6 %	$19,037	$18,436	$ 601	3.3 %
Efficiency ratio *	75.0 %	78.5 %			73.8 %	76.1 %		
Salaries and benefits as a % of total non-interest expense	55.2 %	56.7 %			56.8 %	57.8 %		
Number of full-time equivalent employees	333	335			332	337		

* Efficiency ratio is calculated as non-interest expense as a percent of revenue.

Total non-interest expense increased $334,000, or 3.6%, to $9.7 million for the quarter ended June 30, 2017 compared to $9.4 million for the quarter ended June 30, 2016, and increased $601,000, or 3.3%, to $19.0 million for the six months ended June 30, 2017 compared to $18.4 million for the six months ended June 30, 2016.

Furniture and equipment expense increased $195,000, or 44.4%, to $634,000 for the quarter ended June 30, 2017 compared to $439,000 for the quarter ended June 30, 2016, and increased $382,000, or 44.9%, to $1.2 million for the six months ended June 30, 2017 compared to $850,000 for the six months ended June 30, 2016. Beginning December 2016, the Company began upgrading its data processing infrastructure to a hosted cloud based network solution. The process included changes in maintenance agreements and service providers.

Processing, network, and bank card expense increased $87,000, or 10.4%, to $927,000 for the quarter ended June 30, 2017 compared to $840,000 for the quarter ended June 30, 2016, and increased $361,000, or 22.4%, to $2.0 million for the six months ended June 30, 2017 compared to $1.6 million for the six months ended June 30, 2016. The increase for both periods was primarily due to a corporate wide network upgrade and changes in processing service providers.

FDIC insurance assessment decreased $73,000, or 38.8%, to $115,000 for the quarter ended June 30, 2017 compared to $188,000 for the quarter ended June 30, 2016, and decreased $148,000, or 40.7%, to $216,000 for the six months ended June 30, 2017 compared to $364,000 for the six months ended June 30, 2016. In February 2011, the FDIC adopted a rule that requires large institutions to bear the burden of raising the reserve ratio form 1.15% to 1.35% in accordance with the Dodd-Frank Act. The quarter after the reserve ratio reached 1.15%, lower assessment rates, surcharges, and new pricing for small institutions under $10 billion became effective July 1, 2016 and appeared on the December 31, 2016 invoicing. Once the reserve ratio reaches 1.38%, small institutions, such as Hawthorn, will receive credits to offset their contribution to raising the reserve ratio to 1.35%.

Real estate foreclosure expense, net increased $184,000, or 438.1%, to $226,000 for the quarter ended June 30, 2017 compared to $42,000 for the quarter ended June 30, 2016, and increased $70,000, or 38.3%, to $253,000 for the six months ended June 30, 2017 compared to $183,000 for the six months ended June 30, 2016. Net losses (gains) recognized on other real estate owned were $190,000 for the quarter ended June 30, 2017 compared to $(26,000) for the quarter ended June 30, 2016, and $171,000 for the six months ended June 30, 2017 compared to $(47,000) for the six months ended June 30, 2016. Expenses to maintain foreclosed properties were $36,000 for the quarter ended June 30, 2017 compared to $68,000 for the quarter ended June 30, 2016, and $82,000 for the six months ended June 30, 2017 compared to $230,000 for the six months ended June 30, 2016. The decrease in expenses period over period was primarily due to sales of foreclosed assets.

Other non-interest expense decreased $106,000, or 10.5%, to $899,000 for the quarter ended June 30, 2017 compared to $1.0 million for the quarter ended June 30, 2016, and decreased $170,000, or 9.3%, to $1.7 million for the six months ended June 30, 2017 compared to $1.8 million for the six months ended June 30, 2016. The decrease in both periods was primarily due to a decrease in debit card charge offs due to fraudulent transactions in 2016, a decrease in directors fees, donations, employee training, education, and travel expenses, partially offset by a net loss on the sale of two branch buildings that were in other assets held for sale.

Income taxes

Income taxes as a percentage of earnings before income taxes as reported in the consolidated financial statements were 33.9% for the quarter ended June 30, 2017 compared to 34.1% for the quarter ended June 30, 2016. Income taxes as a percentage of earnings before income taxes as reported in the consolidated financial statements were 34.1% for the six months ended June 30, 2017 compared to 33.2% for the six months ended June 30, 2016. The increase in the tax rate for the six months ended June 30, 2017 in comparison to the six months ended June 30, 2016 is primarily due to an immaterial return to provision adjustment made in the first quarter of 2016.

Lending and Credit Management

Interest earned on the loan portfolio is a primary source of interest income for the Company. Net loans represented 74.1% of total assets as of June 30, 2017 compared to 74.9% as of December 31, 2016.

Lending activities are conducted pursuant to an established loan policy approved by the Bank’s Board of Directors. The Bank’s credit review process is overseen by regional loan committees with established loan approval limits. In addition, a senior loan committee reviews all credit relationships in aggregate over an established dollar amount. The senior loan committee meets weekly and is comprised of senior managers of the Bank.

A summary of loans, by major class within the Company’s loan portfolio as of the dates indicated is as follows:

(In thousands)	June 30, 2017	December 31, 2016
Commercial, financial, and agricultural	$187,251	$ 182,881
Real estate construction - residential	20,037	18,907
Real estate construction - commercial	78,257	55,653
Real estate mortgage - residential	255,426	259,900
Real estate mortgage - commercial	461,062	426,470
Installment loans to individuals	32,987	30,218
Total loans	$1,035,020	$ 974,029
Percent of categories to total loans:		
Commercial, financial, and agricultural	18.1 %	18.8 %
Real estate construction - residential	1.9	1.9
Real estate construction - commercial	7.6	5.7
Real estate mortgage - residential	24.7	26.7

Real estate mortgage - commercial	44.5		43.8	
Installment loans to individuals	3.2		3.1	
Total	100.0	%	100.0	%

The Company extends credit to its local community market through traditional real estate mortgage products. The Company does not participate in extending credit to sub-prime residential real estate markets. The Company does not lend funds for the type of transactions defined as “highly leveraged” by bank regulatory authorities or for foreign loans. Additionally, the Company does not have any concentrations of loans exceeding 10% of total loans that are not otherwise disclosed in the loan portfolio composition table. The Company does not have any interest-earning assets that would have been included in nonaccrual, past due, or restructured loans if such assets were loans.

The Company generally does not retain long-term fixed rate residential mortgage loans in its portfolio. Fixed rate loans conforming to standards required by the secondary market are offered to qualified borrowers, but are not funded until the Company has a non-recourse purchase commitment from the secondary market at a predetermined price. During the three and six months ended June 30, 2017, the Company sold approximately $9.4 million and $16.2 million of loans to investors, respectively, compared to $10.1 million and $17.5 million for the three and six months ended June 30, 2016, respectively. At June 30, 2017, the Company was servicing approximately $289.8 million of loans sold to the secondary market compared to $294.4 million at December 31, 2016, and $304.7 million at June 30, 2016.

Risk Elements of the Loan Portfolio

Management, the senior loan committee, and internal loan review, formally review all loans in excess of certain dollar amounts (periodically established) at least annually. Currently, loans in excess of $2.0 million in aggregate and all adversely classified credits identified by management are reviewed. In addition, all other loans are reviewed on a sample basis. The senior loan committee reviews and reports to the board of directors, on a monthly basis, past due, classified, and watch list loans in order to classify or reclassify loans as loans requiring attention, substandard, doubtful, or loss. During this review, management also

determines which loans should be considered impaired. Management follows the guidance provided in the FASB’s ASC Topic 310-10-35 in identifying and measuring loan impairment. If management determines that it is probable that all amounts due on a loan will not be collected under the original terms of the loan agreement, the loan is considered to be impaired. These loans are evaluated individually for impairment, and in conjunction with current economic conditions and loss experience, specific reserves are estimated as further discussed below. Loans not individually evaluated are aggregated and reserves are recorded using a consistent methodology that considers historical loan loss experience by loan type, delinquencies, current economic conditions, loan risk ratings and industry concentration. Management believes, but there can be no assurance, that these procedures keep management informed of potential problem loans. Based upon these procedures, both the allowance and provision for loan losses are adjusted to maintain the allowance at a level considered necessary by management to provide for probable losses inherent in the loan portfolio.

Nonperforming Assets

The following table summarizes nonperforming assets at the dates indicated:

(In thousands)	June 30, 2017		December 31, 2016	
Nonaccrual loans:				
Commercial, financial, and agricultural	$1,123		$ 982	
Real estate construction - commercial	48		50	
Real estate mortgage - residential	2,252		1,888	
Real estate mortgage - commercial	959		420	
Installment and other consumer	52		89	
Total	$4,434		$ 3,429	
Loans contractually past - due 90 days or more and still accruing:				
Real estate mortgage - residential	$252		$ 54	
Installment and other consumer	37		11	
Total	$289		$ 65	
Performing troubled debt restructurings	5,286		5,715	
Total nonperforming loans	10,009		9,209	
Other real estate owned and repossessed assets	13,356		14,162	
Total nonperforming assets	$23,365		$ 23,371	
Loans	$1,035,020		$ 974,029	
Allowance for loan losses to loans	1.02	%	1.01	%
Nonperforming loans to loans	0.97	%	0.95	%
Allowance for loan losses to nonperforming loans	105.36	%	107.35	%
Allowance for loan losses to nonperforming loans, excluding performing TDR's	223.27	%	282.94	%
Nonperforming assets to loans, other real estate owned and repossessed assets	2.23	%	2.37	%

Total nonperforming assets totaled $23.4 million at June 30, 2017 compared to $23.4 million at December 31, 2016. Nonperforming loans, defined as loans on nonaccrual status, loans 90 days or more past due and still accruing, and TDRs totaled $10.0 million, or 0.97%, of total loans at June 30, 2017 compared to $9.2 million, or 0.95%, of total loans at December 31, 2016. Non-accrual loans included $992,000 and $619,000 of loans classified as TDRs at June 30, 2017 and December 31, 2016, respectively.

As of June 30, 2017 and December 31, 2016, approximately $5.4 million and $4.0 million, respectively, of loans classified as substandard, not included in the nonperforming asset table, were identified as potential problem loans having more than normal risk which raised doubts as to the ability of the borrower to comply with present loan repayment terms. Management believes the general allowance was sufficient to cover the risks and probable losses related to such loans at June 30, 2017 and December 31, 2016, respectively.

Total non-accrual loans at June 30, 2017 increased $1.0 million to $4.4 million compared to $3.4 million at December 31, 2016. This increase primarily consisted of a $903,000 increase in real estate mortgage - commercial loans and real estate mortgage - residential loans, and a $141,000 increase in commercial, financial, and agricultural loans, partially offset by a $37,000 decrease in installment loans.

Loans past due 90 days and still accruing interest at June 30, 2017, were $289,000 compared to $65,000 at December 31, 2016. Other real estate and repossessed assets at June 30, 2017 were $13.4 million compared to $14.2 million at December 31, 2016. During the six months ended June 30, 2017, $155,000 of nonaccrual loans, net of charge-offs taken, moved to other real estate owned and repossessed assets compared to $1.6 million during the six months ended June 30, 2016.

The following table summarizes the Company's TDRs at the dates indicated:

(In thousands)	June 30, 2017			December 31, 2016		
	Number of Contracts	Recorded Investment	Specific Reserves	Number of Contracts	Recorded Investment	Specific Reserves
Performing TDRs						
Commercial, financial and agricultural	8	$ 664	$ 29	8	$ 635	$ 11
Real estate mortgage - residential	9	3,535	124	8	3,582	99
Real estate mortgage - commercial	2	1,087	119	3	1,498	123
Total performing TDRs	19	$ 5,286	$ 272	19	$ 5,715	$ 233
Nonperforming TDRs						
Commercial, financial and agricultural	1	$ 65	$ -	-	$ -	$ -
Real estate mortgage - residential	5	327	56	6	430	58
Real estate mortgage - commercial	4	600	122	2	189	119
Total nonperforming TDRs	10	$ 992	$ 178	8	$ 619	$ 177
Total TDRs	29	$ 6,278	$ 450	27	$ 6,334	$ 410

At June 30, 2017, loans classified as TDRs totaled $6.3 million, with $450,000 of specific reserves, of which $992,000 were classified as nonperforming TDRs and $5.3 million were classified as performing TDRs. This compared to $6.3 million of loans classified as TDRs, with $410,000 of specific reserves, of which $619,000 were classified as nonperforming TDRs and $5.7 million were classified as performing TDRs at December 31, 2016. Both performing and nonperforming TDRs are considered impaired loans. When an individual loan is determined to be a TDR, the amount of impairment is based upon the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the underlying collateral less applicable selling costs. The net decrease in total TDRs from December 31, 2016 to June 30, 2017 was primarily due to $232,000 of payments received partially offset by two new TDR's totaling $187,000.

Allowance for Loan Losses and Provision

Allowance for Loan Losses

The following table is a summary of the allocation of the allowance for loan losses:

(In thousands)	June 30, 2017	December 31, 2016

Allocation of allowance for loan losses at end of period:		
Commercial, financial, and agricultural	$2,578	$ 2,753
Real estate construction - residential	70	108
Real estate construction - commercial	615	413
Real estate mortgage - residential	1,854	2,385
Real estate mortgage - commercial	4,882	3,793
Installment and other consumer	376	274
Unallocated	170	160
Total	$10,545	$ 9,886

The allowance for loan losses (ALL) was $10.5 million, or 1.02%, of loans outstanding at June 30, 2017 compared to $9.9 million, or 1.01%, of loans outstanding at December 31, 2016, and $9.4 million, or 1.02%, of loans outstanding at June 30, 2016. The ratio of the allowance for loan losses to nonperforming loans, excluding performing TDR's, was 223.27% at June 30, 2017, compared to 282.94% at December 31, 2016.

The following table is a summary of the general and specific allocations of the allowance for loan losses:

(In thousands)	June 30, 2017	December 31, 2016
Allocation of allowance for loan losses:		
Individually evaluated for impairment - specific reserves	$1,125	$ 1,080
Collectively evaluated for impairment - general reserves	9,420	8,806
Total	$10,545	$ 9,886

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The *specific reserve component* applies to loans evaluated individually for impairment. The net carrying value of impaired loans is generally based on the fair values of collateral obtained through independent appraisals and/or internal evaluations, or by discounting the total expected future cash flows. Once the impairment amount is calculated, a specific reserve allocation is recorded. At June 30, 2017, $1.1 million of the Company's ALL was allocated to impaired loans totaling approximately $9.7 million compared to $1.1 million of the Company's ALL allocated to impaired loans totaling approximately $9.1 million at December 31, 2016. Management determined that $1.7 million, or 18%, of total impaired loans required no reserve allocation at June 30, 2017 compared to $2.1 million, or 23%, at December 31, 2016 primarily due to adequate collateral values, acceptable payment history and adequate cash flow ability.

The *incurred loss component* of the general reserve, or loans collectively evaluated for impairment, is determined by applying loss rates to pools of loans by asset type. Loans not individually evaluated are aggregated by risk characteristics and reserves are recorded using a consistent methodology that considers historical loan loss experience by loan type. Beginning in the first quarter of 2016, the Company began to lengthen its look-back period with the intent to increase such period from three to five years over the next two years. The Company believes that the five-year look-back period, which is consistent with the Company's practices prior to the start of the economic recession in 2008, provides a representative historical loss period in the current economic environment. These historical loss rates for each risk group are used as the starting point to determine loss rates for measurement purposes. The historical loan loss rates are multiplied by loss emergence periods (LEP) which represent the estimated time period between a borrower first experiencing financial difficulty and the recognition of a loss.

The Company's methodology includes qualitative risk factors that allow management to adjust its estimates of losses based on the most recent information available and to address other limitations in the quantitative component that is based on historical loss rates. Such risk factors are generally reviewed and updated quarterly, as appropriate, and are adjusted to reflect changes in national and local economic conditions and developments, the nature, volume and terms of loans in the portfolio, including changes in volume and severity of past due loans, the volume of nonaccrual loans, and the volume and severity of adversely classified or graded loans, loan concentrations, assessment of trends in collateral values, assessment of changes in the quality of the Company's internal loan review department, and changes in lending policies and procedures, including underwriting standards and collections, charge-off and recovery practices.

The specific and general reserve allocations represent management's best estimate of probable losses inherent in the loan portfolio at the evaluation date. Although the allowance for loan losses is comprised of specific and general allocations, the entire allowance is available to absorb any credit losses.

Provision

A $330,000 and $680,000 provision was required for the three and six months ended June 30, 2017, respectively, compared to a $425,000 and $675,000 provision for the three and six months ended June 30, 2016, respectively. The Company is using an eighteen quarter look-back period compared to fourteen quarters, as discussed above.

The following table summarizes loan loss experience for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2017	2016	2017	2016
Analysis of allowance for loan losses:				
Balance beginning of period	$ 10,262	$ 8,631	$ 9,886	$ 8,604
Charge-offs:				
Commercial, financial, and agricultural	32	36	60	138
Real estate construction - commercial	-	-	-	1
Real estate mortgage - residential	62	175	81	381
Real estate mortgage - commercial	2	28	16	111
Installment and other consumer	60	67	111	123
Total charge-offs	156	306	268	754
Recoveries:				
Commercial, financial, and agricultural	$ 24	$ 80	$ 42	$ 177
Real estate construction - residential	25	-	75	-
Real estate construction - commercial	-	491	-	502
Real estate mortgage - residential	21	9	57	17
Real estate mortgage - commercial	14	31	21	92
Installment and other consumer	25	31	52	79
Total recoveries	109	642	247	867
Net charge-offs (recoveries)	47	(336)	21	(113)
Provision for loan losses	330	425	680	675
Balance end of period	$ 10,545	$ 9,392	$ 10,545	$ 9,392

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Net Loan Charge-offs (Recoveries)

The Company’s net loan charge-offs were $47,000, or 0.00%, of average loans for the three months ended June 30, 2017, compared to net loan recoveries of $336,000, or (0.04)%, of average loans for the three months ended June 30, 2016. The decrease in charge-offs quarter over quarter primarily related to a decrease in real estate mortgage residential and commercial loans. The decrease in recoveries quarter over quarter was primarily due to a significant recovery in one real estate construction loan relationship during the quarter ended June 30, 2016.

The Company’s net loan charge-offs were $21,000, or 0.00%, of average loans for the six months ended June 30, 2017, compared to net loan recoveries of $113,000, or (0.01)%, of average loans for the six months ended June 30, 2016. The decrease in charge-offs year over year primarily related to a decrease in commercial, financial, and agricultural loans, and a decrease in real estate mortgage residential and commercial loans. The decrease in recoveries year over year was primarily due to a significant recovery in one commercial loan relationship and a recovery in one real estate construction loan relationship during the six months ended June 30, 2016.

Liquidity and Capital Resources

Liquidity Management

The role of liquidity management is to ensure funds are available to meet depositors' withdrawal and borrowers' credit demands while at the same time maximizing profitability. This is accomplished by balancing changes in demand for funds with changes in the supply of those funds. Liquidity to meet the demands is provided by maturing assets, short-term liquid assets that can be converted to cash and the ability to attract funds from external sources, principally depositors. Due to the nature of services offered by the Company, management prefers to focus on transaction accounts and full service relationships with customers.

The Company’s Asset/Liability Committee (ALCO), primarily made up of senior management, has direct oversight responsibility for the Company's liquidity position and profile. A combination of daily, weekly, and monthly reports provided to management detail the following: internal liquidity metrics, composition and level of the liquid asset portfolio, timing differences in short-term cash flow obligations, available pricing and market access to the financial markets for capital, and exposure to contingent draws on the Company's liquidity.

The Company has a number of sources of funds to meet liquidity needs on a daily basis. The Company's most liquid assets are comprised of available for sale investment securities, federal funds sold, and excess reserves held at the Federal Reserve.

(In thousands)	June 30, 2017	December 31, 2016
Federal funds sold and other overnight interest-bearing deposits	$40,552	$ 1,406
Available-for-sale investment securities	216,353	214,512
Total	$256,905	$ 215,918

Federal funds sold and resale agreements normally have overnight maturities and are used for general daily liquidity purposes. The fair value of the available-for-sale investment portfolio was $216.4 million at June 30, 2017 and included an unrealized net loss of $1.7 million. The portfolio includes projected maturities and mortgage backed securities pay-downs of approximately $37.5 million over the next twelve months, which offer resources to meet either new loan demand or reductions in the Company's deposit base.

The Company pledges portions of its investment securities portfolio to secure public fund deposits, federal funds purchase lines, securities sold under agreements to repurchase, borrowing capacity at the Federal Reserve Bank, and for other purposes required by law. At June 30, 2017 and December 31, 2016, the Company's unpledged securities in the available for sale portfolio totaled approximately $61.3 million and $46.9 million, respectively.

Total investment securities pledged for these purposes were as follows:

(In thousands)	June 30, 2017	December 31, 2016
Investment securities pledged for the purpose of securing:		
Federal Reserve Bank borrowings	$10,329	$ 9,211
Federal funds purchased and securities sold under agreements to repurchase	42,971	43,054
Other deposits	101,774	115,330
Total pledged, at fair value	$155,074	$ 167,595

Liquidity is available from the Company's base of core customer deposits, defined as demand, interest checking, savings, money market deposit accounts, and time deposits less than $250,000, less all brokered deposits under $250,000. At June 30, 2017, such deposits totaled $979.0 million and represented 90.4% of the Company's total deposits. These core deposits are normally less volatile and are often tied to other products of the Company through long lasting relationships. Time deposits and certificates of deposit of $250,000 and over totaled $103.6 million at June 30, 2017. These accounts are normally considered more volatile and higher costing representing 9.6% of total deposits at June 30, 2017.

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Core deposits at June 30, 2017 and December 31, 2016 were as follows:

(In thousands)	June 30, 2017	December 31, 2016
Core deposit base:		
Non-interest bearing demand	$279,634	$ 235,975
Interest checking	207,521	177,414
Savings and money market	290,110	276,295
Other time deposits	201,777	206,088
Total	$979,042	$ 895,772

Other components of liquidity are the level of borrowings from third party sources and the availability of future credit. The Company's outside borrowings are comprised of securities sold under agreements to repurchase, Federal Home Loan Bank advances, and subordinated notes. Federal funds purchased are overnight borrowings obtained mainly from upstream correspondent banks with which the Company maintains approved credit lines. As of June 30, 2017, under agreements with these unaffiliated banks, the Bank may borrow up to $40.0 million in federal funds on an unsecured basis and $18.4 million on a secured basis. There were no federal funds purchased outstanding at June 30, 2017. Securities sold under agreements to repurchase are generally borrowed overnight and are secured by a portion of the Company's investment portfolio. At June 30, 2017, there was $29.1 million in repurchase agreements. The Company may periodically borrow additional short-term funds from the Federal Reserve Bank through the discount window; although no such borrowings were outstanding at June 30, 2017.

The Bank is a member of the Federal Home Loan Bank of Des Moines (FHLB). As a member of the FHLB, the Bank has access to credit products of the FHLB. As of June 30, 2017, the Bank had $115.4 million in outstanding borrowings with the FHLB. In addition, the Company has $49.5 million in outstanding subordinated notes issued to wholly-owned grantor trusts, funded by preferred securities issued by the trusts.

Borrowings outstanding at June 30, 2017 and December 31, 2016 were as follows:

(In thousands)	June 30, 2017	December 31, 2016
Borrowings:		
Federal funds purchased and securities sold under agreements to repurchase	$29,118	$ 31,015
Federal Home Loan Bank advances	115,363	92,900
Subordinated notes	49,486	49,486
Other borrowings	-	492
Total	$193,967	$ 173,893

The Company pledges certain assets, including loans and investment securities to the Federal Reserve Bank, FHLB, and other correspondent banks as security to establish lines of credit and borrow from these entities. Based on the type and value of collateral pledged, the FHLB establishes a collateral value from which the Company may draw advances against this collateral. This collateral is also used to enable the FHLB to issue letters of credit in favor of public fund depositors of the Company. The Federal Reserve Bank also establishes a collateral value of assets pledged to support borrowings from the discount window. The following table reflects collateral value of assets pledged, borrowings, and letters of credit outstanding, in addition to the estimated future funding capacity available to the Company as follows:

	June 30, 2017				December 31, 2016			
(In thousands)	FHLB	Federal Reserve Bank	Federal Funds Purchased Lines	Total	FHLB	Federal Reserve Bank	Federal Funds Purchased Lines	Total
Advance equivalent	$317,288	$10,105	$ 48,305	$375,698	$314,602	$ 9,015	$ 49,020	$372,637
Letters of credit	(53,000)	0	0	(53,000)	0	0	0	0
Advances outstanding	(115,363)	0	0	(115,363)	(92,900)	0	(992)	(93,892)
Total available	$148,925	$10,105	$ 48,305	$207,335	$221,702	$ 9,015	$ 48,028	$278,745

At June 30, 2017, loans of $496.0 million were pledged at the Federal Home Loan Bank as collateral for borrowings and letters of credit. At June 30, 2017, investments totaling $21.1 million were pledged to secure federal funds purchased lines and borrowing capacity at the Federal Reserve Bank.

Sources and Uses of Funds

Cash and cash equivalents were $61.3 million at June 30, 2017 compared to $27.0 million at December 31, 2016. The $34.3 million increase resulted from changes in the various cash flows produced by operating, investing, and financing activities of the Company, as shown in the accompanying consolidated statement of cash flows for the six months ended June 30, 2017. Cash flow provided from operating activities consists mainly of net income adjusted for certain non-cash items. Operating activities provided cash flow of $5.9 million for the six months ended June 30, 2017.

Investing activities consisting mainly of purchases, sales and maturities of available-for-sale securities, and changes in the level of the loan portfolio used total cash of $62.9 million. The cash outflow primarily consisted of a $60.6 million increase in loans and $21.9 million purchases of investment securities, partially offset by $20.7 million from maturities and calls of investment securities.

Financing activities provided cash of $91.3 million, resulting primarily from a $43.7 million increase in demand deposits, a $48.9 million increase in interest bearing transaction accounts, and a $22.5 million net increase in FHLB advances, partially offset by a $20.6 million decrease in time deposits. Future short-term liquidity needs arising from daily operations are not expected to vary significantly during 2017.

In the normal course of business, the Company enters into certain forms of off-balance sheet transactions, including unfunded loan commitments and letters of credit. These transactions are managed through the Company's various risk management processes. Management considers both on-balance sheet and off-balance sheet transactions in its evaluation of the Company's liquidity. The Company had $281.7 million in unused loan commitments and standby letters of credit as of June 30, 2017. Although the Company's current liquidity resources are adequate to fund this commitment level the nature of these commitments is such that the likelihood of such a funding demand is very low.

The Company is a legal entity, separate and distinct from the Bank, which must provide its own liquidity to meet its operating needs. The Company’s ongoing liquidity needs primarily include funding its operating expenses and paying cash dividends to its shareholders. The Company paid cash dividends to its shareholders totaling approximately $674,000 and $542,000 for the six months ended June 30, 2017 and 2016, respectively. A large portion of the Company’s liquidity is obtained from the Bank in the form of dividends. The Bank did not declare or pay dividends to the Company during the six months ended June 30, 2017 and 2016. At June 30, 2017 and December 31, 2016, the Company had cash and cash equivalents totaling $2.3 million and $3.9 million, respectively.

Capital Management

The Company and the Bank are subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification of the Company and the Bank are subject to qualitative judgments by the regulators about components, risk-weightings, and other factors.

In July 2013, the federal banking agencies issued final rules to implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act. The phase-in period for the Company began on January 1, 2015. The Federal Reserve System's (FRB) capital adequacy guidelines require that bank holding companies maintain a Common Equity Tier 1 risk-based capital ratio equal to at least 4.5% of its risk-weighted assets, a Tier 1 risk-based capital ratio equal to at least 6% of its risk-weighted assets and a total risk-based capital ratio equal to at least 8% of its risk-weighted assets. In addition, bank holding companies generally are required to maintain a Tier 1 leverage ratio of at least 4%.

In addition, the final rules establish a common equity tier 1 capital conservation buffer of 2.5% of risk-weighted assets applicable to all banking organizations. Institutions that do not maintain the required capital buffer will become subject to progressively more stringent limitations on the percentage of earnings that can be paid out in dividends or used for stock repurchases and on the payment of discretionary bonuses to senior executive management. The capital conservation buffer requirement will be phased in over four years beginning in 2016. On January 1, 2016, the first phase of the requirement went into effect at 0.625% of risk-weighted assets, and the requirement will increase each subsequent year by an additional 0.625 percentage points, to reach its final level of 2.5% of risk weighted assets on January 1, 2019. Once fully phase in , the capital conservation buffer requirement effectively raises the minimum required risk-based capital ratios to 7% Common Equity Tier 1 Capital, 8.5% Tier 1 Capital and 10.5% Total Capital on a fully phased-in basis.

Under the Basel III requirements, at June 30, 2017 and December 31, 2016, the Company met all capital adequacy requirements and had regulatory capital ratios in excess of the levels established for well-capitalized institutions, as shown in the following table as of periods indicated:

(in thousands)	Actual Amount	Ratio	Required for Capital Adequacy Purposes Amount	Ratio	Well-Capitalized Under Prompt Corrective Action Provision Amount	Ratio
June 30, 2017						
Total Capital (to risk-weighted assets):						
Company	$156,726	13.47 %	$ 93,068	8.00 %	$ N.A.	N.A. %
Bank	154,226	13.31	92,728	8.00	115,906	10.00
Tier I Capital (to risk-weighted assets):						
Company	$130,349	11.20 %	$ 69,801	6.00 %	$ N.A.	N.A. %
Bank	143,521	12.38	69,544	6.00	92,725	8.00
Common Equity Tier I Capital (to risk-weighted assets)						
Company	$98,021	8.43 %	$ 52,351	4.50 %	$ N.A.	N.A. %
Bank	143,521	12.38	52,158	4.50	75,339	6.50
Tier I Capital (to adjusted average assets):						
Company	$130,349	9.77 %	$ 53,356	4.00 %	$ N.A.	N.A. %
Bank	143,521	10.79	53,198	4.00	66,498	5.00

(in thousands)						
December 31, 2016						
Total Capital (to risk-weighted assets):						
Company	$152,864	13.88 %	$ 88,125	8.00 %	N.A.	N.A. %
Bank	148,304	13.51	87,810	8.00	$ 109,763	10.00
Tier I Capital (to risk-weighted assets):						
Company	$125,779	11.42 %	$ 66,093	6.00 %	N.A.	N.A. %
Bank	138,258	12.60	65,858	6.00	$ 87,810	8.00
Common Equity Tier I Capital (to risk-weighted assets)						
Company	$94,818	8.61 %	$ 49,570	4.50 %	$ N.A.	N.A. %
Bank	138,258	12.60	49,393	4.50	71,346	6.50
Tier I capital (to adjusted average assets):						
Company	$125,779	9.87 %	$ 50,998	4.00 %	$ N.A.	N.A. %
Bank	138,258	10.88	50,810	4.00	63,513	5.00

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Sensitivity

Market risk arises from exposure to changes in interest rates and other relevant market rate or price risk. The Company faces market risk in the form of interest rate risk through transactions other than trading activities. The

Company uses financial modeling techniques to measure interest rate risk. These techniques measure the sensitivity of future earnings due to changing interest rate environments. Guidelines established by the Company's Asset/Liability Committee and approved by the board of directors are used to monitor exposure of earnings at risk. General interest rate movements are used to develop sensitivity as the Company feels it has no primary exposure to specific points on the yield curve. For the three months ended June 30, 2017, our Company utilized a 400 basis point immediate and gradual move in interest rates (both upward and downward) applied to both a parallel and proportional yield curve. However, there are no assurances that the change will not be more or less than this estimate.

The following table represents estimated interest rate sensitivity and periodic and cumulative gap positions calculated as of June 30, 2017. Significant assumptions used for this table included: loans will repay at historic repayment rates; certain interest-bearing demand accounts are interest sensitive due to immediate repricing, and fixed maturity deposits will not be withdrawn prior to maturity. A significant variance in actual results from one or more of these assumptions could materially affect the results reflected in the table.

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(In thousands)	Year 1	Year 2	Year 3	Year 4	Year 5	Over 5 Years or No stated Maturity	Total
ASSETS							
Investment securities	$37,465	$41,240	$44,969	$30,347	$18,767	$43,565	$216,353
Federal funds sold and other over-night interest-bearing deposits	40,552	-	-	-	-	-	40,552
Other investments and securities, at cost	7,798	-	3,000	-	-	-	10,798
Loans	368,407	166,142	156,756	125,208	116,554	101,953	1,035,020
Total	$454,222	$207,382	$204,725	$155,555	$135,321	$145,518	$1,302,723
LIABILITIES							
Savings, interest checking, and money market deposits	$296,949	$-	$220,729	$-	$-	$-	$517,678
Time deposits	186,638	49,041	23,036	6,868	19,792	-	285,375
Federal funds purchased and securities sold under agreements to repurchase	29,118	-	-	-	-	-	29,118
Subordinated notes	49,486	-	-	-	-	-	49,486
Federal Home Loan Bank advances	41,124	32,000	30,461	7,000	4,778	-	115,363
Total	$603,315	$81,041	$274,226	$13,868	$24,570	$-	$997,020
Interest-sensitivity GAP							
Periodic GAP	$(149,093)	$126,341	$(69,501)	$141,687	$110,751	$145,518	$305,703
Cumulative GAP	$(149,093)	$(22,752)	$(92,253)	$49,434	$160,185	$305,703	$305,703
Ratio of interest-earning assets to interest-bearing liabilities							
Periodic GAP	0.75	2.56	0.75	11.22	5.51	NM	1.31
Cumulative GAP	0.75	0.97	0.90	1.05	1.16	1.31	1.31

Effects of Inflation

The effects of inflation on financial institutions are different from the effects on other commercial enterprises since financial institutions make few significant capital or inventory expenditures, which are directly affected by changing prices. Because bank assets and liabilities are virtually all monetary in nature, inflation does not affect a financial institution as much as do changes in interest rates. The general level of inflation does underlie the general level of most interest rates, but interest rates do not increase at the rate of inflation as do prices of goods and services. Rather, interest rates react more to changes in the expected rate of inflation and to changes in monetary and fiscal policy.

Inflation does have an impact on the growth of total assets in the banking industry, often resulting in a need to increase capital at higher than normal rates to maintain an appropriate capital to asset ratio. In the opinion of management, inflation did not have a significant effect on the Company's operations for the three months ended June 30, 2017.

Item 4. Controls and Procedures

Our Company's management has evaluated, with the participation of our principal executive and principal financial officers, the effectiveness of our disclosure controls and procedures as defined in Rules 13a – 15(e) or 15d – 15(e) of the Securities Exchange Act of 1934 as of June 30, 2017. Based upon and as of the date of that evaluation, our principal executive and principal financial officers concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports we file and submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported as and when required. It should be noted that any system of disclosure controls and procedures, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met. In addition, the design of any system of disclosure controls and procedures is based in part upon assumptions about the likelihood of future events. Because of these and other inherent limitations of any such system, there can be no assurance that any design will always succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

There has been no change in our Company's internal control over financial reporting that occurred during the three months ended June 30, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Impact of New Accounting Standards

Revenue from Contracts with Customers The FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, in May 2014. The ASU supersedes revenue recognition requirements in Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance in the FASB Accounting Standards Codification. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance identifies specific steps that entities should apply in order to achieve this principle. The amendments are effective for interim and annual periods beginning January 1, 2018 and must be applied retrospectively.

In March 2016, the FASB began to issue targeted guidance to clarify specific implementation issues of ASU 2014-09. The FASB issued ASU 2016-08, *Principal versus Agent Considerations (Reporting Revenue Gross versus Ne*t), which provides guidance on determining an entity's role in providing goods and services as a principal versus an agent, and whether it controls each specified good or service before it is transferred to the customer. In April 2016, ASU 2016-10, *Identifying Performance Obligations and Licensing*, was issued which clarifies the guidance related to whether goods or services are distinct within the contract and therefore are a performance obligation, and clarifies the timing and pattern of revenue recognition for licenses of intellectual property. The effective date and transition requirements of these ASUs are the same as those of ASU 2014-09.

In May 2016, the FASB issued ASU 2016-12, *Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients*. The amendments in this update address narrow-scope improvements to the accounting guidance on collectability, noncash consideration, and completed contracts at transition. Additionally, the amendments in this Update provide a practical expedient for contract modifications at transition and an accounting policy election related to the presentation of sales taxes and other similar taxes collected from customers. The amendments also included a rescission issued in May 2016, ASU 2016-11, *Revenue Recognition and Derivatives and Hedging: Rescission of SEC Guidance Because of ASU 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 Emerging Task Force meeting,* and relates to revenue and expense recognition for freight services in process, accounting for shipping and handling fees and costs, and accounting for consideration given by a vendor to a customer.

The FASB continues to issue additional ASU’s clarifying the revenue recognition guidance for certain implementation issues. Under the ASU 2014-09 and related amendments, the guidance is effective for periods beginning January 1, 2018 and must be applied retroactively, whether through a full restatement of prior periods or a cumulative adjustment upon adoption of the ASU. The Company is currently evaluating certain non-interest income financial statement line items that contain revenue streams that are in the scope of this update such as service charges and fees, trust department revenue, bank card revenue, and real-estate sales, and expects to adopt the ASU in the first quarter of 2018. Based on preliminary analysis, the Company does not expect the adoption of this ASU to have a significant impact on the Company’s consolidated financial statements; however, the review is ongoing. The Company will

continue to evaluate the impact of this accounting guidance, including any additional guidance issued, during the completion of this internal assessment.

Debt Instruments The FASB issued ASU 2016-06, *Contingent Put and Call Options in Debt Instruments*, in March 2016. The ASU clarifies the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. Under the new guidance, the embedded options should be assessed solely in accordance with a four-step decision sequence, with no additional assessment of whether the triggering event is indexed to interest rates or credit risk. The amendments are effective January 1, 2017 and are not expected to have a significant effect on the Company's consolidated financial statements.

Financial Instruments The FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, in January 2016. The amendments require all equity investments to be measured at fair value with changes in the fair value recognized through net income, other than those accounted for under the equity method of accounting or those that result in the consolidation of the investee. Additionally, these amendments require presentation in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk for those liabilities measured at fair value. The amendments also require use of the exit price notion when measuring the fair value of financial instruments for disclosure purposes. These amendments are effective for interim and annual periods beginning January 1, 2018. The Company is in the process of evaluating the impact of the ASU's adoption on the Company's consolidated financial statements, including potential changes to the Company's note disclosure of the fair value of its loan portfolio.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* The revised accounting guidance will remove all recognition thresholds and will require a company to recognize an allowance for credit losses for the difference between the amortized cost basis of a financial instrument and the amount of amortized cost that the company expects to collect over the instrument's contractual life. It also amends the credit loss measurement guidance for available-for-sale debt securities and beneficial interests in securitized financial assets. This new accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2019. While the Company generally expects to recognize a one-time cumulative effect adjustment to the allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective, the Company has not determined the magnitude of any such one-time adjustment or the overall impact of the new guidance on the Company’s consolidated financial statements. The Company is continuing to evaluate the impact of the ASU's adoption on the Company's consolidated financial statements.

Leases In February 2016, the FASB issued ASU 2016-02, *Leases*, in order to increase transparency and comparability by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The ASU primarily affects lessee accounting, which requires the lessee to recognize a right-of-use asset and a liability to make lease payments for those leases classified as operating leases under previous GAAP. For leases with a term of 12 months or less, an election by class of underlying asset not to recognize lease assets and lease liabilities is permitted. The ASU also provides additional guidance as to the definition of a lease, identification of lease components, and sale and leaseback transactions. The amendments in the ASU are effective for interim and annual periods beginning January 1, 2019. The Company continues to evaluate the provision of the new lease standard, but due to the small number of lease agreements, the impact of the adoption is not expected to have a significant effect on the Company's consolidated financial statements.

Liabilities The FASB issued ASU 2016-04, *Recognition of Breakage for Certain Prepaid Store-Value Products*, in March 2016, in order to address current and potential future diversity in practice related to the derecognition of a prepaid store-value product liability. Such products include prepaid gift cards issued on a specific payment network and redeemable at network-accepting merchant locations, prepaid telecommunication cards, and traveler's checks. The amendments require that the portion of the dollar value of prepaid stored-value products that is ultimately unredeemed (that is, the breakage) be accounted for consistent with the breakage guidance for stored-value product transactions provided in ASC Topic 606 - Revenue from Contracts with Customers. These amendments are effective for interim and annual periods beginning January 1, 2018. The Company is in the process of evaluating the impact of the ASU's adoption on the Company's consolidated financial statements.

Statement of Cash Flows The FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230)*: Classification of Certain Cash Receipts and Cash Payments, in August 2016, in order to address concerns regarding diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. In particular, this ASU addresses eight specific cash flow issues in an effort to reduce this diversity in practice: (1) debt prepayment or debt extinguishment costs; (2) settlement of zero-coupon bonds; (3) contingent consideration payments made after a business combination; (4) proceeds from the settlement of insurance claims; (5) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; (6) distributions received from equity method investees; (7) beneficial interests in securitization transactions; and (8) separately identifiable cash flows and application of the predominance principle. The amendments are effective for annual periods beginning after December 15, 2017, and for interim periods within those annual periods. The Company is in the process of evaluating the impact of the ASU's adoption on the Company's consolidated financial statements.

The FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, in November 2016. The ASU addresses the current diversity in the classification and presentation of changes in restricted cash on the statement of cash flows. The ASU requires that amounts described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning and end of period amounts shown on the statement of cash flows. Disclosures are to be provided on the nature of restrictions on cash and cash equivalents. When presented in more than one line item within the statement of financial position, the entity shall disclose the amounts, disaggregated by line item, of cash, cash equivalents, restricted cash, and restricted cash equivalents reported within the statement of financial position. The amendments are effective January 1, 2018 and are not expected to have

a significant effect on the Company's consolidated financial statements.

Pension The FASB issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* in March 2017. Under the new guidance, employers will present the service cost component of the net periodic benefit cost in the same income statement line item (e.g., Salaries and Benefits) as other employee compensation costs arising from services rendered during the period. In addition, only the service cost component will be eligible for capitalization in assets. Employers will present the other components separately (e.g., Other Noninterest Expense) from the line item that includes the service cost. The ASU is effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted, however, the Company has decided not to early adopt. Employers will apply the guidance on the presentation of the components of net periodic benefit cost in the income statement retrospectively. The guidance limiting the capitalization of net periodic benefit cost in assets to the service cost component will be applied prospectively. The Company expects to utilize the ASU’s practical expedient allowing entities to estimate amounts for comparative periods using the information previously disclosed in their pension and other postretirement benefit plan footnote. The ASU is not expected to have a significant effect on the Company’s Consolidated Financial Statements.

Callable Debt Securities The FASB issued ASU 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities* in March 2017. This ASU shortens the amortization period for the premium on certain purchased callable debt securities to the earliest call date. Today, entities generally amortize the premium over the contractual life of the security. The new guidance does not change the accounting for purchased callable debt securities held at a discount; the discount continues to be amortized to maturity. The ASU is effective for interim and annual reporting periods beginning after December 15, 2018 and early adoption is permitted. The guidance calls for a modified retrospective transition approach under which a cumulative-effect adjustment will be made to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Company is currently evaluating the provisions of ASU 2017-08 to determine the potential impact the new standard will have on the Company’s Consolidated Financial Statements.

Stock Compensation The FASB issued ASU 2017-09, *Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting* in May 2017. Under the new guidance an entity may change the terms or conditions of a share-based payment award for many different reasons, and the nature and effect of the change can vary significantly. Modification is currently defined as "a change in any of the terms or conditions of a share-based payment award." The amendments in this ASU provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in accordance with Topic 718. The amendments will be effective for interim and annual reporting periods beginning after December 15, 2017. The ASU is not expected to have a significant effect on the Company’s Consolidated Financial Statements.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The information required by this Item is set forth in *Commitments and Contingencies, Pending Litigation,* in our Company's Notes to Consolidated Financial Statements (*unaudited*).

Item 1A. Risk Factors None

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

The following table summarizes the purchases made by or on behalf of the Company or certain affiliated purchasers of shares of the Company's common stock during the three months ended June 30, 2017:

Period	**(a) Total Number of Shares (or Units) Purchased**	**(b) Average Price Paid per Share (or Unit)**	**(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs**	**(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs ***
April 1-30, 2017	1,461	$ 18.13	1,461	$ 1,292,466
May 1-31, 2017	-	$ -	-	$ 1,292,466
June 1-30, 2017	1,854	$ 20.56	1,854	$ 1,254,354
Total	3,315	$ 18.13	3,315	$ 1,254,354

* On August 6, 2015, the Company announced that its Board of Directors authorized the purchase, through open market transactions, of up to $2,000,000 market value of the Company's common stock. Management was given discretion to determine the number and pricing of the shares to be purchased, as well as, the timing of any such purchases.

Item 3. Defaults Upon Senior Securities None

Item 4. Mine Safety Disclosures None

Item 5. Other Information None

Item 6. Exhibits

Exhibit No.	Description
3.1	Restated Articles of Incorporation of our Company (filed as Exhibit 3.1 to our Company's current report on Form 8-K on August 9, 2007 and incorporated herein by reference). https://www.sec.gov/Archives/edgar/data/893847/000129993307004833/exhibit1.htm
3.2	Amended and Restated Bylaws of our Company (filed as Exhibit 3.1 to our Company's current report on Form 8-K on June 8, 2009 and incorporated herein by reference). https://www.sec.gov/Archives/edgar/data/893847/000129993309002491/exhibit1.htm
4.1	Specimen certificate representing shares of our Company’s $1.00 par value common stock (filed as Exhibit 4.1 to our Company’s current report on Form 8-K/A on June 23, 2017 and incorporated herein by reference). https://www.sec.gov/Archives/edgar/data/893847/000141588917001027/ex4-06232017_100639.htm

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31.1	Certificate of the Chief Executive Officer of our Company pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certificate of the Chief Financial Officer of our Company pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certificate of the Chief Executive Officer of our Company pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certificate of the Chief Financial Officer of our Company pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Changes in Equity, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to Consolidated Financial Statements, tagged as blocks of text and in detail (XBRL).

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.

	HAWTHORN BANCSHARES, INC.
Date	
	/s/ David T. Turner
August 14, 2017	David T. Turner, Chairman of the Board and Chief Executive Officer (Principal Executive Officer)
	/s/ W. Bruce Phelps
August 14, 2017	W. Bruce Phelps, Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

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HAWTHORN BANCSHARES, INC.

INDEX TO EXHIBITS

June 30, 2017 Form 10-Q

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* This information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933, as amended, and Section 18 of the Securities Exchange Act of 1934, as amended.