





**Part I - Financial Information****Item 1. Financial Statements****HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES****Consolidated Balance Sheets (unaudited)***(In thousands, except per share data)*

|  | June 30,<br>2014 | December 31,<br>2013 |
|--|------------------|----------------------|
| <b>ASSETS</b>  |                  |                      |
| Cash and due from banks  | \$27,065         | \$ 27,079            |
| Federal funds sold and other overnight interest-bearing deposits           | 7,175            | 1,360                |
| Cash and cash equivalents  | 34,240           | 28,439               |
| Investment in available-for-sale securities, at fair value                 | 215,653          | 205,985              |
| Other investments and securities, at cost                                  | 3,962            | 4,001                |
| Total investment securities  | 219,615          | 209,986              |
| Loans  | 857,461          | 839,547              |
| Allowances for loan losses   | (12,150 )        | (13,719 )            |
| Net loans  | 845,311          | 825,828              |
| Premises and equipment - net   | 37,946           | 38,079               |
| Mortgage servicing rights  | 2,911            | 3,036                |
| Other real estate and foreclosed assets - net                              | 12,026           | 14,867               |
| Accrued interest receivable  | 4,751            | 4,999                |
| Cash surrender value - life insurance                                      | 2,251            | 2,213                |
| Other assets   | 11,493           | 12,675               |
| Total assets   | \$1,170,544      | \$ 1,140,122         |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                |                  |                      |
| <b>Deposits</b>  |                  |                      |
| Non-interest bearing demand  | \$196,171        | \$ 187,382           |
| Savings, interest checking and money market                                | 448,836          | 419,085              |
| Time deposits \$100,000 and over   | 113,063          | 111,667              |
| Other time deposits  | 230,380          | 238,337              |
| Total deposits   | 988,450          | 956,471              |
| Federal funds purchased and securities sold under agreements to repurchase | 22,849           | 31,084               |
| Subordinated notes   | 49,486           | 49,486               |
| Federal Home Loan Bank advances  | 24,000           | 24,000               |
| Accrued interest payable   | 393              | 426                  |
| Other liabilities  | 5,841            | 4,275                |
| Total liabilities  | 1,091,019        | 1,065,742            |
| Stockholders' equity:  |                  |                      |
|  | 5,195            | 5,195                |

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Common stock, \$1 par value, authorized 15,000,000 shares; issued 5,194,537 shares,  
 respectively

|   |             |              |
|---|-------------|--------------|
| Surplus   | 36,092      | 33,385       |
| Retained earnings   | 40,970      | 40,086       |
| Accumulated other comprehensive income (loss), net of tax | 785         | (769 )       |
| Treasury stock; 161,858 shares, at cost                   | (3,517 )    | (3,517 )     |
| Total stockholders' equity                                | 79,525      | 74,380       |
| Total liabilities and stockholders' equity                | \$1,170,544 | \$ 1,140,122 |

See accompanying notes to the consolidated financial statements (*unaudited*).

**HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES****Consolidated Statements of Income** *(unaudited)*

|  | Three Months Ended |           | Six Months Ended |           |
|--|--------------------|-----------|------------------|-----------|
|  | June 30,           |           | June 30,         |           |
|  | 2014               | 2013      | 2014             | 2013      |
| <i>(In thousands, except per share amounts)</i>  |                    |           |                  |           |
| <b>INTEREST INCOME</b>   |                    |           |                  |           |
| Interest and fees on loans   | \$ 10,048          | \$ 10,435 | \$ 19,913        | \$ 20,823 |
| Interest on investment securities:   |                    |           |                  |           |
| Taxable  | 874                | 910       | 1,755            | 1,814     |
| Nontaxable   | 174                | 213       | 363              | 430       |
| Federal funds sold and other overnight interest-bearing deposits                       | 9                  | 15        | 18               | 29        |
| Dividends on other securities  | 20                 | 19        | 40               | 41        |
| Total interest income  | 11,125             | 11,592    | 22,089           | 23,137    |
| <b>INTEREST EXPENSE</b>  |                    |           |                  |           |
| Interest on deposits:  |                    |           |                  |           |
| Savings, interest checking and money market  | 255                | 253       | 521              | 514       |
| Time deposit accounts \$100,000 and over   | 187                | 233       | 378              | 481       |
| Other time deposits  | 413                | 857       | 845              | 1,739     |
| Interest on federal funds purchased and securities sold under agreements to repurchase | 4                  | 5         | 9                | 10        |
| Interest on subordinated notes   | 315                | 320       | 627              | 641       |
| Interest on Federal Home Loan Bank advances  | 104                | 109       | 208              | 208       |
| Total interest expense   | 1,278              | 1,777     | 2,588            | 3,593     |
| Net interest income  | 9,847              | 9,815     | 19,501           | 19,544    |
| Provision for loan losses  | 0                  | 1,000     | 0                | 2,000     |
| Net interest income after provision for loan losses                                    | 9,847              | 8,815     | 19,501           | 17,544    |
| <b>NON-INTEREST INCOME</b>   |                    |           |                  |           |
| Service charges on deposit accounts  | 1,343              | 1,391     | 2,573            | 2,749     |
| Trust department income  | 228                | 209       | 431              | 418       |
| Real estate servicing fees, net  | 22                 | 263       | 199              | 422       |
| Gain on sale of mortgage loans, net  | 257                | 620       | 448              | 1,340     |
| Gain on sale of investment securities  | 0                  | 260       | 0                | 554       |
| Other  | 333                | 345       | 618              | 613       |
| Total non-interest income  | 2,183              | 3,088     | 4,269            | 6,096     |
| <b>NON-INTEREST EXPENSE</b>  |                    |           |                  |           |
| Salaries and employee benefits   | 4,960              | 4,822     | 9,991            | 9,733     |
| Occupancy expense, net   | 672                | 642       | 1,292            | 1,277     |
| Furniture and equipment expense  | 453                | 530       | 896              | 965       |
| FDIC insurance assessment  | 242                | 257       | 480              | 499       |
| Legal, examination, and professional fees  | 282                | 294       | 508              | 520       |
| Advertising and promotion  | 256                | 316       | 546              | 597       |
| Postage, printing, and supplies  | 280                | 291       | 545              | 547       |
| Processing expense   | 761                | 734       | 1,520            | 2,009     |
| Other real estate expense, net   | 172                | 351       | 296              | 3,173     |

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|   |          |          |          |          |
|---|----------|----------|----------|----------|
| Other   | 733      | 1,044    | 1,444    | 1,896    |
| Total non-interest expense                          | 8,811    | 9,281    | 17,518   | 21,216   |
| Income before income taxes                          | 3,219    | 2,622    | 6,252    | 2,424    |
| Income tax expense                                  | 1,121    | 810      | 2,167    | 748      |
| Net income  | 2,098    | 1,812    | 4,085    | 1,676    |
| Preferred stock dividends and accretion of discount | 0        | 320      | 0        | 615      |
| Net income available to common shareholders         | \$ 2,098 | \$ 1,492 | \$ 4,085 | \$ 1,061 |
| Basic earnings per share                            | \$ 0.40  | \$ 0.29  | \$ 0.78  | \$ 0.20  |
| Diluted earnings per share                          | \$ 0.40  | \$ 0.29  | \$ 0.78  | \$ 0.20  |

See accompanying notes to the consolidated financial statements (*unaudited*).

**HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Comprehensive Income (Loss) (unaudited)**

| <i>(In thousands)</i>  | Three Months Ended |             | Six Months Ended |             |
|--|--------------------|-------------|------------------|-------------|
|  | June 30,<br>2014   | 2013        | June 30,<br>2014 | 2013        |
| Net income   | \$ 2,098           | \$ 1,812    | \$ 4,085         | \$ 1,676    |
| Other comprehensive income (loss), net of tax  |                    |             |                  |             |
| Investment securities available-for-sale:  |                    |             |                  |             |
| Unrealized gain (loss) on investment securities available-for-sale, net of tax       | 981                | (2,722 )    | 1,530            | (3,262 )    |
| Adjustment for gain on sale of investment securities, net of tax                     | 0                  | (161 )      | 0                | (343 )      |
| Defined benefit pension plans:   |                    |             |                  |             |
| Amortization of prior service cost included in net periodic pension cost, net of tax | 12                 | 17          | 24               | 33          |
| Total other comprehensive income (loss)  | 993                | (2,866 )    | 1,554            | (3,572 )    |
| Total comprehensive income (loss)  | \$ 3,091           | \$ (1,054 ) | \$ 5,639         | \$ (1,896 ) |

See accompanying notes to the consolidated financial statements *(unaudited)*.

**HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Stockholders' Equity** *(unaudited)*

| <i>(In thousands)</i>                          | Preferred<br>Stock | Common<br>Stock | Surplus  | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Treasury<br>Stock | Total<br>Stock -<br>holders'<br>Equity |
|--|--------------------|-----------------|----------|----------------------|---|-------------------|--|
| Balance, December 31, 2012                     | \$17,977           | \$ 5,001        | \$31,816 | \$39,118             | \$ 1,825  | \$(3,517 )        | \$92,220                               |
| Net income                                     | 0                  | 0               | 0        | 1,676                | 0   | 0                 | 1,676                                  |
| Other comprehensive loss                       | 0                  | 0               | 0        | 0                    | (3,572 )  | 0                 | (3,572 )                               |
| Stock based compensation expense               | 0                  | 0               | 7        | 0                    | 0   | 0                 | 7                                      |
| Accretion of preferred stock discount          | 278                | 0               | 0        | (278 )               | 0   | 0                 | 0                                      |
| Redemption of 18,255 shares of preferred stock | (18,255)           | 0               |          |                      |   |                   | (18,255)                               |
| Redemption of common stock warrant             | 0                  | 0               | (540 )   | 0                    | 0   | 0                 | (540 )                                 |
| Stock dividend                                 | 0                  | 0               | 2,284    | (2,284 )             |   |                   | 0                                      |
| Cash dividends declared, preferred stock       | 0                  | 0               | 0        | (456 )               | 0   | 0                 | (456 )                                 |
| Cash dividends declared, common stock          | 0                  | 0               | 0        | (484 )               | 0   | 0                 | (484 )                                 |
| Balance, June 30, 2013                         | \$0                | \$ 5,001        | \$33,567 | \$37,292             | \$ (1,747 )   | \$(3,517 )        | \$70,596                               |
| Balance, December 31, 2013                     | \$0                | \$ 5,195        | \$33,385 | \$40,086             | \$ (769 )   | \$(3,517 )        | \$74,380                               |
| Net income                                     | 0                  | 0               | 0        | 4,085                | 0   | 0                 | 4,085                                  |
| Other comprehensive income                     | 0                  | 0               | 0        | 0                    | 1,554   | 0                 | 1,554                                  |
| Stock based compensation expense               | 0                  | 0               | 10       | 0                    | 0   | 0                 | 10                                     |
| Stock dividend                                 | 0                  | 0               | 2,697    | (2,697 )             | 0   | 0                 | 0                                      |
| Cash dividends declared, common stock          | 0                  | 0               | 0        | (504 )               | 0   | 0                 | (504 )                                 |
| Balance, June 30, 2014                         | \$0                | \$ 5,195        | \$36,092 | \$40,970             | \$ 785  | \$(3,517 )        | \$79,525                               |

See accompanying notes to the consolidated financial statements *(unaudited)*.