

HAWTHORN BANCSHARES, INC.  
Form 10-Q  
August 14, 2017

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

*(Mark One)*

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the quarterly period ended June 30, 2017

or

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: **0-23636**

**HAWTHORN BANCSHARES, INC.**

*(Exact name of registrant as specified in its charter)*

**Missouri** **43-1626350**  
*(State or other jurisdiction of (I.R.S. Employer*  
*incorporation or organization) Identification No.)*

132 East High Street, Box 688, Jefferson City, Missouri 65102  
*(Address of principal executive offices) (Zip Code)*

**(573) 761-6100**

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed 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  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  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input checked="" type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>
Emerging growth company <input type="checkbox"/>	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of August 4, 2017, the registrant had 5,831,210 shares of common stock, par value \$1.00 per share, outstanding



**HAWTHORN BANCSHARES, INC. AND SUBSIDIARIES****Consolidated Balance Sheets** *(unaudited)**(In thousands, except per share data)*

	June 30, 2017	December 31, 2016
<b>ASSETS</b>		
Cash and due from banks	\$20,776	\$ 25,589
Federal funds sold and other overnight interest-bearing deposits	40,552	1,406
Cash and cash equivalents	61,328	26,995
Investment in available-for-sale securities, at fair value	216,353	214,512
Other investments and securities, at cost	10,798	9,796
Total investment securities	227,151	224,308
Loans	1,035,020	974,029
Allowances for loan losses	(10,545 )	(9,886 )
Net loans	1,024,475	964,143
Premises and equipment - net	35,403	35,522
Mortgage servicing rights	2,766	2,584
Other real estate and repossessed assets - net	13,356	14,162
Accrued interest receivable	4,754	5,183
Cash surrender value - life insurance	2,448	2,409
Other assets	11,869	11,742
Total assets	\$ 1,383,550	\$ 1,287,048
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Deposits</b>		
Non-interest bearing demand	\$279,634	\$ 235,975
Savings, interest checking and money market	517,678	468,731
Time deposits \$250,000 and over	56,534	73,523
Other time deposits	228,841	232,437
Total deposits	1,082,687	1,010,666
Federal funds purchased and securities sold under agreements to repurchase	29,118	31,015
Subordinated notes	49,486	93,392
Federal Home Loan Bank advances	115,363	49,486
Accrued interest payable	429	498
Other liabilities	11,320	10,974
Total liabilities	1,288,403	1,196,031
<b>Stockholders' equity:</b>		
Common stock, \$1 par value, authorized 15,000,000 shares; issued 5,822,357 shares, respectively	5,822	5,822
Surplus	45,665	41,498
Retained earnings	50,796	51,671
Accumulated other comprehensive loss, net of tax	(2,874 )	(3,801 )
Treasury stock; 210,465 and 205,750 shares, at cost	(4,262 )	(4,173 )
Total stockholders' equity	95,147	91,017
Total liabilities and stockholders' equity	\$ 1,383,550	\$ 1,287,048

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,	2016	June 30,	2016
(In thousands, except per share amounts)	2017	2016	2017	2016
<b>INTEREST INCOME</b>				
Interest and fees on loans	\$ 11,671	\$ 10,308	\$ 22,721	\$ 20,295
Interest on investment securities:				
Taxable	737	831	1,491	1,769
Nontaxable	168	119	325	262
Federal funds sold and other overnight interest-bearing deposits	11	17	60	50
Dividends on other securities	94	75	184	151
Total interest income	12,681	11,350	24,781	22,527
<b>INTEREST EXPENSE</b>				
Interest on deposits:				
Savings, interest checking and money market	475	287	864	582
Time deposit accounts \$250,000 and over	99	85	191	153
Other time deposits	410	383	789	764
Interest on federal funds purchased and securities sold under agreements to repurchase	27	15	49	39
Interest on subordinated notes	431	366	840	720
Interest on Federal Home Loan Bank advances	419	243	741	450
Total interest expense	1,861	1,379	3,474	2,708
Net interest income	10,820	9,971	21,307	19,819
Provision for loan losses	330	425	680	675
Net interest income after provision for loan losses	10,490	9,546	20,627	19,144
<b>NON-INTEREST INCOME</b>				
Service charges and other fees	851	828	1,687	1,662
Bank card income and fees	663	648	1,277	1,282
Trust department income	266	265	540	483
Real estate servicing fees, net	34	(86 )	487	(32 )
Gain on sale of mortgage loans, net	218	222	374	387
Gain on sale of investment securities	0	18	0	490
Other	67	54	141	125
Total non-interest income	2,099	1,949	4,506	4,397
<b>NON-INTEREST EXPENSE</b>				
Salaries and employee benefits	5,352	5,305	10,806	10,655
Occupancy expense, net	689	673	1,307	1,306
Furniture and equipment expense	634	439	1,232	850
Processing, network, and bank card expense	927	840	1,972	1,611
Legal, examination, and professional fees	317	328	597	662
FDIC insurance assessment	115	188	216	364
Advertising and promotion	265	242	503	452

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Postage, printing, and supplies	263	291	495	527
Real estate foreclosure expense, net	226	42	253	183
Other	899	1,005	1,656	1,826
Total non-interest expense	9,687	9,353	19,037	18,436
Income before income taxes	2,902	2,142	6,096	5,105
Income tax expense	983	730	2,076	1,695
Net income	1,919	1,412	4,020	3,410
Basic earnings per share	\$ 0.33	\$ 0.24	\$ 0.69	\$ 0.58
Diluted earnings per share	\$ 0.33	\$ 0.24	\$ 0.69	\$ 0.58

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

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

<b>(In thousands)</b>	Three Months Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2017	2016	2017	2016
Net income	\$ 1,919	\$ 1,412	\$ 4,020	\$ 3,410
Other comprehensive income, net of tax				
Investment securities available-for-sale:				
Unrealized gain on investment securities available-for-sale, net of tax	595	837	900	2,082
Adjustment for gain on sale of investment securities, net of tax	0	(11 )	0	(304 )
Defined benefit pension plans:				
Amortization of prior service cost included in net periodic pension cost, net of tax	13	12	27	24
Total other comprehensive income	608	838	927	1,802
Total comprehensive income	\$ 2,527	\$ 2,250	\$ 4,947	\$ 5,212

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



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

(In thousands)	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stock - holders' Equity
Balance, December 31, 2015	\$ 5,605	\$38,549	\$48,700	\$ (2,018 )	\$ (3,550 )	\$87,286
Net income	0	0	3,410	0	0	3,410
Other comprehensive income	0	0	0	1,802	0	1,802
Stock based compensation expense	0	11	0	0	0	11
Purchase of treasury stock	0	0	0	0	(226 )	(226 )
Stock dividend	0	3,149	(3,149 )	0	0	0
Cash dividends declared, common stock	0	0	(542 )	0	0	(542 )
Balance, June 30, 2016	\$ 5,605	\$41,709	\$48,419	\$ (216 )	\$ (3,776 )	\$91,741
Balance, December 31, 2016	\$ 5,822	\$41,498	\$51,671	\$ (3,801 )	\$ (4,173 )	\$91,017
Net income	0	0	4,020	0	0	4,020
Other comprehensive income	0	0	0	927	0	927
Stock based compensation expense	0	2	0	0	0	2
Purchase of treasury stock	0	0	0	0	(89 )	(89 )
Stock dividend	0	4,165	(4,165 )	0	0	0
Cash dividends declared, common stock	0	0	(730 )	0	0	(730 )
Balance, June 30, 2017	\$ 5,822	\$45,665	\$50,796	\$ (2,874 )	\$ (4,262 )	\$95,147

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

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

<b>(In thousands)</b>	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Net income	\$ 4,020	\$ 3,410
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	680	675
Depreciation expense	874	962
Net amortization of investment securities, premiums, and discounts	828	883
Stock based compensation expense		