

HAWTHORN BANCSHARES, INC.  
Form 11-K  
June 26, 2009

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 11-K

(Mark One):

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934.

For the fiscal year ended December 31, 2008.

OR

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934.

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-23636

A. Full title of the plan and the address of the plan, if different from that of the  
issuer named below:

**Hawthorn Bancshares, Inc. Profit Sharing 401(k) Plan**

B. Name of issuer of the securities held pursuant to the plan and the address  
of its principal executive office:

**Hawthorn Bancshares, Inc.**

**300 SW Longview Blvd**

**Lee s Summit, MO 64081-2101**

**(816) 347-8100**

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**REQUIRED INFORMATION**

**See attachments to this report, which are incorporated herein by reference.**

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**SIGNATURES**

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

Hawthorn Bancshares, Inc. Profit Sharing 401(k) Plan  
(Name of Plan)

Date: June 26, 2009

/s/ Richard G. Rose  
Richard G. Rose  
Chief Financial Officer

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**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the Registration Statement on Form S-8 (File No. 333-136477) of Hawthorn Bancshares, Inc. (formerly known as Exchange National Bancshares, Inc.) of our report dated June 22, 2009, with respect to the financial statements of the Hawthorn Bancshares Profit Sharing 401(k) Plan (formerly known as The Exchange National Bancshares Profit Sharing 401(k) Plan) included in this Annual Report (Form 11-K) for the year ended December 31, 2008.

**/s/ BKD, LLP**

St. Louis, Missouri  
June 22, 2009

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**Hawthorn Bancshares, Inc.**

**Profit Sharing 401(k) Plan**

EIN 43-1626350 PN 002

Accountants Report and Financial Statements

December 31, 2008 and 2007

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**Hawthorn Bancshares, Inc.  
Profit Sharing 401(k) Plan  
December 31, 2008 and 2007**

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**Report of Independent Registered Public Accounting Firm**

Retirement and Investment Committee

Hawthorn Bancshares, Inc.

Profit Sharing 401(k) Plan

Lee Summit, Missouri

We have audited the accompanying statements of net assets available for benefits of Hawthorn Bancshares, Inc. Profit Sharing 401(k) Plan as of December 31, 2008 and 2007, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Plan is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing auditing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. Our audits also included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of Hawthorn Bancshares, Inc. Profit Sharing 401(k) Plan as of December 31, 2008 and 2007, and the changes in its net assets available for benefits for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 4, in 2008 the Plan changed its method of accounting for fair value measurements in accordance with Statements of Financial Accounting Standards No. 157.

The accompanying supplemental schedule of investment assets (held at end of year) is presented for the purpose of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

/s/ **BKD, llp**

St. Louis, Missouri

June 22, 2009

Federal Employer Identification Number: 44-0160260

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**Hawthorn Bancshares, Inc.  
 Profit Sharing 401(k) Plan  
 Statements of Net Assets Available for Benefits  
 December 31, 2008 and 2007**

	<b>2008</b>	<b>2007</b>
<b>Investments, At Fair Value</b>	\$ 14,209,688	\$ 19,034,753
 <b>Receivables</b>		
Employer's contribution	202,374	758,778
Participants' contributions		31,895
	202,374	790,673
 <b>Net Assets Available for Benefits</b>	 \$ 14,412,062	 \$ 19,825,426

*See Notes to Financial Statements*

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**Hawthorn Bancshares, Inc.**  
**Profit Sharing 401(k) Plan**  
**Statements of Changes in Net Assets Available for Benefits**  
**Years Ended December 31, 2008 and 2007**

	<b>2008</b>	<b>2007</b>
<b>Investment Income</b>		
Net depreciation in fair value of investments	\$ (6,092,129)	\$ (853,737)
Interest and dividends	719,012	1,166,893
Net investment income (loss)	(5,373,117)	313,156
<b>Contributions</b>		
Employer	496,386	716,350
Participants	635,403	587,237
Other	3,977	83,863
	1,135,766	1,387,450
Total additions	(4,237,351)	1,700,606
<b>Deductions</b>		
Benefits paid directly to participants	1,176,013	573,864
<b>Net Increase (Decrease)</b>	(5,413,364)	1,126,742
<b>Net Assets Available for Benefits, Beginning of Year</b>	19,825,426	18,698,684
<b>Net Assets Available for Benefits, End of Year</b>	\$ 14,412,062	\$ 19,825,426

*See Notes to Financial Statements*

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**Hawthorn Bancshares, Inc.**  
**Profit Sharing 401(k) Plan**  
**Notes to Financial Statements**  
**December 31, 2008 and 2007**

**Note 1: Description of the Plan**

The following description of Hawthorn Bancshares, Inc. Profit Sharing 401(k) Plan ( Plan ) provides only general information. Participants should refer to the Plan Document and *Summary Plan Description* for a more complete description of the Plan s provisions, which are available from the Plan Administrator. During 2007, the Plan changed its name from The Exchange National Bancshares, Inc. Profit Sharing 401(k) Plan to Hawthorn Bancshares, Inc. Profit Sharing 401(k) Plan.

***General***

The Plan is a defined contribution plan sponsored by Hawthorn Bancshares, Inc. (formerly known as The Exchange National Bancshares, Inc.) and its subsidiaries (collectively the Company ) for the benefit of the employees of the Company and who have at least 90 days of service and are age 21 or older. An eligible employee becomes a participant in the Plan on the first day of the plan year or the first day of the seventh month of the plan year. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). Capital Bank and Trust Company is the trustee of the Plan.

***Contributions***

The Company makes discretionary annual contributions to the Plan. All employer contributions are allocated to a participant s account based on that participant s compensation compared to the total compensation of all eligible participants. In addition, the Company matches the participant s salary deferral into the plan dollar for dollar up to 3% of the participant s annual salary. All contributions are made conditioned upon their deductibility for federal income tax purposes.

Participants have the option to make voluntary contributions to the Plan up to the annual limit set by the Internal Revenue Service (IRS).

***Participant Investment Account Options***

Investment account options available include various mutual funds and common stock of the Company. Each participant has the option of directing his/her contributions into any of the separate investment accounts and may change the allocation daily.

***Participant Accounts***

Each participant s account is credited with the participant s contribution, the Company s contribution and plan earnings. Allocations are based on participant earnings. The benefits to which a participant is entitled is the benefit that can be provided from the participant s vested account.

**Hawthorn Bancshares, Inc.  
Profit Sharing 401(k) Plan  
Notes to Financial Statements  
December 31, 2008 and 2007**

***Vesting***

Participant contributions and earnings thereon are 100% vested at all times. Employer contributions and earnings thereon vest 20% per year of service and become fully vested at the completion of five years of service at the Company. At the time a participant terminates his/her employment, the nonvested portion of the employer contribution account is forfeited and allocated to eligible participants on a pro rata allocation method.

***Payment of Benefits***

Under the terms of the Plan, participants are entitled to receive the amount credited to their accounts upon normal retirement at the age of 65 or disability retirement. Participants terminating employment prior to retirement are entitled to receive that portion of their account that is vested. In the event of death, the participant's account becomes fully vested and the balance is paid to the designated beneficiary. Distributions under the Plan are payable in a lump sum or through installments.

***Plan Termination***

Although the Company has not expressed any intention to do so, it may discontinue its contributions and terminate the Plan at any time. In such an event, the participants' accounts become fully vested and are not subject to forfeiture.

**Note 2: Summary of Significant Accounting Policies**

***Basis of Presentation***

The accompanying financial statements have been prepared on an accrual basis of accounting except for benefits, which are recorded upon distribution, and present the net assets available for plan benefits and changes in those net assets.

***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 net assets and changes in net assets and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

**Hawthorn Bancshares, Inc.**  
**Profit Sharing 401(k) Plan**  
**Notes to Financial Statements**  
**December 31, 2008 and 2007**

***Valuation of Investments***

Investments in securities traded on a national securities exchange are valued at the latest reported sales price on the last business day of the period. If no sale has taken place, the securities are valued at the latest bid price. The investment in employer securities is valued at the latest bid price reported.

Investment transactions are accounted for on the trade-date basis. The realized gains or losses on investments are determined using the average cost of the individual security issue. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

***Plan Tax Status***

The IRS issued its latest determination letter on March 3, 2006, which stated that the Plan and its underlying trust qualify under the applicable provisions of the Internal Revenue Code and, therefore, are exempt from federal income taxes. The Plan has been amended since receiving the determination letter. However, the Plan Administrator believes that the Plan is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, we believe the Plan was qualified and the related trust was tax-exempt as of the financial statement date.

***Administrative Expenses***

The administrative expenses of the Plan are paid by the Company.

**Hawthorn Bancshares, Inc.**  
**Profit Sharing 401(k) Plan**  
**Notes to Financial Statements**  
**December 31, 2008 and 2007**

**Note 3: Investments**

The following table presents the Plan's investments. Investments that represent 5% or more of total plan assets in either year are separately identified:

	<b>2008</b>	<b>2007</b>
Mutual Funds		
American Funds Cash Management Trust	\$ 2,632,227	\$ 2,464,775
American Funds Bond Fund	1,408,536	1,562,341
American Funds Washington Mutual Investors Fund	1,522,172	2,222,759
American Funds Growth Fund	1,030,674	1,594,677
American Funds Euro-Pacific Growth Fund	818,241	1,309,013
Federated Kaufmann Fund	663,086	1,196,623
American Funds Small-Cap World Fund	610,769	1,184,947
PIMCO Total Return Fund	1,069,884	809,617
Other	1,643,425	2,837,994
Employer Securities    Hawthorn Bancshares, Inc. common stock	2,810,674	3,852,007
Total investments	\$ 14,209,688	\$ 19,034,753

During the years ended 2008 and 2007, the Plan's investments (including gains and losses on investments bought, sold and held during the year) appreciated (depreciated) in value by \$(6,092,129) and \$(853,737), respectively, as follows:

	<b>2008</b>	<b>2007</b>
Mutual Funds	\$ (4,821,628)	\$ 167,754
Employer Securities    Exchange National Bancshares, Inc. common stock	(1,270,501)	(1,021,491)
Net depreciation in fair value	\$ (6,092,129)	\$ (853,737)

Interest and dividends realized on the Plan's investments for the years ended 2008 and 2007 were \$719,012 and \$1,166,893, respectively.

**Hawthorn Bancshares, Inc.**  
**Profit Sharing 401(k) Plan**  
**Notes to Financial Statements**  
**December 31, 2008 and 2007**

**Note 4: Fair Value of Plan Assets**

Effective January 1, 2008, the Plan adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 has been applied prospectively as of the beginning of the year. FAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FAS 157 also establishes a fair value hierarchy which requires a plan to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of net assets available for benefits, as well as the general classification of such assets pursuant to the valuation hierarchy.

***Investments***

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. All of the Plan's investments are considered Level 1 securities and include common stock of the sponsor and mutual funds.

**Hawthorn Bancshares, Inc.**  
**Profit Sharing 401(k) Plan**  
**Notes to Financial Statements**  
**December 31, 2008 and 2007**

The following table presents the fair value measurements of assets recognized in the accompanying statements of net assets available for benefits measured at fair value on a recurring basis and the level within the FAS 157 fair value hierarchy in which the fair value measurements fall at December 31, 2008:

		<b>Fair Value Measurements Using</b>		
	<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Common stock	\$ 2,810,674	\$ 2,810,674	\$	\$
Mutual funds	\$ 11,399,014	\$ 11,399,014	\$	\$

**Note 5: Party-in-Interest Transactions**

The Plan held an investment of 163,032 and 154,080 shares of common stock of the Company with a fair value of \$2,810,674 and \$3,852,007 at December 31, 2008 and 2007, respectively, and received dividends of \$132,139 and \$125,653 on such shares during 2008 and 2007, respectively.

These investments are considered allowable party-in-interest transactions under ERISA guidelines.

**Note 6: Plan Amendment**

Effective January 1, 2008, the Plan was amended to modify eligibility requirements. The eligibility requirements for salary deferrals and profit sharing contributions are now 90 days of service. The Plan entry date is now the first day of the Plan year quarter next following the date the employee meets the eligibility requirements. The Company will now match the participant's salary deferral into the plan dollar for dollar up to 3% of the participant's annual salary.

**Note 7: Risks and Uncertainties**

The Plan invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonable possible that change in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statements, of net assets available for benefits.

**Hawthorn Bancshares, Inc.**  
**Profit Sharing 401(k) Plan**  
**Notes to Financial Statements**  
**December 31, 2008 and 2007**

The current economic environment presents employee benefit plans with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments. The financial statements have been prepared using values and information currently available to the Plan.

Given the volatility of current economic conditions, the values of assets recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values that could negatively impact the Plan.

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**Supplemental Schedule**

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**Hawthorn Bancshares, Inc.**  
**Profit Sharing 401(k) Plan**  
**EIN 43-1626350 PN 002**

**Schedule H, Line 4i Schedule of Investment Assets (Held at End of Year)**  
**December 31, 2008**

(a) (b) Investment Type and Issuer	(c) Description of Investment	(e) Current Value
<b>Mutual Funds</b>		
American Funds Euro-Pacific Growth Fund	29,689	Shares \$ 818,241
American Funds Growth Fund	50,722	Shares 1,030,674
American Funds New Perspective Fund	27,672	Shares 518,015
American Funds Small-Cap World Fund	29,707	Shares 610,769
Federated Kaufmann Fund	184,191	Shares 663,086
Templeton Growth Fund	41,203	Shares 537,695
American Funds Washington Mutual Investors Fund	71,330	Shares 1,522,172
American Funds Bond Fund	130,905	Shares 1,408,536
PIMCO Total Return Fund	105,511	Shares 1,069,884
American Funds Cash Management Trust	2,632,227	Shares 2,632,227
AIM Structured Core Fund Investors	100,636	Shares 587,715
		11,399,014
*Hawthorn Bancshares, Inc. common stock	163,032	Shares 2,810,674
		\$ 14,209,688

\* Represents  
party-in-interest  
to the Plan.