

HAWTHORN BANCSHARES, INC.

Form DEF 14A

April 16, 2009

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934  
(Amendment No. )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to § 240.14a-12

**Hawthorn Bancshares, Inc.**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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Fee paid previously with preliminary materials.

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1) Amount Previously Paid:

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4) Date Filed:

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**Hawthorn Bancshares, Inc.**  
300 Southwest Longview Boulevard  
Lee s Summit, Missouri 64081  
April 17, 2009

Dear Shareholder:

You are invited to attend the annual meeting of shareholders of Hawthorn Bancshares, Inc. to be held at Hawthorn Bank s facility located at 132 East High Street, Jefferson City, Missouri, on Tuesday, June 2, 2009, commencing at 9:00 a.m., local time.

The business to be conducted at the meeting is described in the accompanying notice of annual meeting and proxy statement. At this year s meeting, the agenda includes the election of two Class II directors, a proposal to ratify the selection of our independent registered public accounting firm, and a proposal to approve the compensation of our executives disclosed in this proxy statement. In addition, there will be an opportunity to meet with members of senior management and review the business and operations of our company.

Your vote is important. Whether or not you plan to attend the meeting, please cast your vote as soon as possible. Generally, you may vote by Internet, by telephone, or by completing, signing and returning the enclosed proxy card or voting instruction form. Specific voting instructions appear on the enclosed proxy card or voting instruction form.

We appreciate your continued interest in and support of our company.

Sincerely yours,

James E. Smith  
*Chairman of the Board*  
*and Chief Executive Officer*

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**Hawthorn Bancshares, Inc.  
300 Southwest Longview Boulevard  
Lee s Summit, Missouri 64081  
NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD ON JUNE 2, 2009**

You hereby are notified that the annual meeting of the shareholders of Hawthorn Bancshares, Inc., a Missouri corporation, will be held at Hawthorn Bank s facility located at 132 East High Street, Jefferson City, Missouri, on Tuesday, June 2, 2009, commencing at 9:00 a.m., local time, and thereafter as it may from time to time be adjourned, for the following purposes:

1. To elect two Class II directors to hold office for a term expiring at our 2012 annual meeting of shareholders and until their respective successors are duly elected and qualified or until their respective earlier resignation or removal;
2. To consider and act upon ratification and approval of the selection of KPMG LLP as our independent registered public accounting firm for the year ending December 31, 2009;
3. To consider and act upon advisory approval of the compensation of our executives disclosed in this proxy statement; and
4. To consider and act upon any other matters that properly may come before the meeting.

The proposals referred to above are more fully described in the accompanying proxy statement. An annual report to shareholders for 2008, which contains our audited financial statements, also accompanies this notice of annual meeting and proxy statement.

Our board of directors has fixed the close of business on March 30, 2009 as the record date for the determination of the holders of our common stock entitled to notice of, and to vote at, the annual meeting.

By Order of the Board of Directors

James E. Smith  
*Chairman of the Board  
and Chief Executive Officer*

April 17, 2009

Jefferson City, Missouri

**YOUR VOTE IS IMPORTANT. WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, PLEASE FOLLOW THE SPECIFIC VOTING INSTRUCTIONS APPEARING ON THE ENCLOSED PROXY CARD OR VOTING INSTRUCTION FORM AS PROMPTLY AS POSSIBLE IN ORDER TO ENSURE YOUR REPRESENTATION AT THE MEETING.**

**IMPORTANT NOTICE Regarding the Availability of Proxy Materials  
for the Shareholder Meeting To Be Held on June 2, 2009.**

This notice of annual meeting and accompanying proxy materials, and access to our proxy voting site, are available to you on the Internet. We encourage you to review all of the important information contained in the proxy materials before voting.

**Our company s proxy statement, annual report and other proxy materials are available at:**

**[www.hawthornbancshares.com](http://www.hawthornbancshares.com)**

**Our company s proxy voting site can be found at:**

**[www.illinoisstocktransfer.com](http://www.illinoisstocktransfer.com)**

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**Hawthorn Bancshares, Inc.  
300 Southwest Longview Boulevard  
Lees Summit, Missouri 64081**

**PROXY STATEMENT**

**ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD JUNE 2, 2009**

**QUESTIONS AND ANSWERS ABOUT THE PROXY MATERIALS AND THE ANNUAL MEETING**

Although we encourage you to read this proxy statement in its entirety, we include this question and answer section to provide some background information and brief answers to several questions you might have about the annual meeting.

**Why am I receiving these materials?**

The board of directors of Hawthorn Bancshares, Inc. is providing these materials to you in connection with our annual meeting of shareholders on June 2, 2009. The information included in this proxy statement relates to the proposals to be voted on at the annual meeting, the voting process, and certain other required information. This proxy statement, the notice of annual meeting of shareholders and the accompanying form of proxy or voting instruction form were first sent to our shareholders on or about April 17, 2009. As a shareholder of our company, you are entitled and encouraged to vote on the items of business described in these proxy materials. Your vote is very important. For this reason, our board is requesting that you allow your shares to be represented at the annual meeting by the persons named as proxies on the enclosed proxy card or voting instruction form.

**When and where will the annual meeting be held?**

The annual meeting of shareholders will be held on Tuesday, June 2, 2009, commencing at 9:00 a.m., local time, at Hawthorn Bank's facility located at 132 East High Street, Jefferson City, Missouri. You may obtain directions to the location of the annual meeting by calling us at (573) 761-6100. You do not have to attend the annual meeting to be able to vote.

**What matters will be voted on at the annual meeting?**

Shareholders will consider and vote upon the following business items at the annual meeting:

The election of two Class II directors to hold office for a term expiring at our 2012 annual meeting of shareholders and until their respective successors are duly elected and qualified or until their respective earlier resignation or removal;

The ratification and approval of the selection of KPMG LLP as our independent registered public accounting firm for the current year;

The advisory approval of the compensation of our executives disclosed in this proxy statement; and

Any other matters that may properly come before the annual meeting.

**How does our board of directors recommend that I vote?**

Our board of directors recommends that you vote:

FOR the election of each nominee for director named in this proxy statement;

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FOR the ratification and approval of KPMG LLP as our independent registered public accounting firm;  
and

FOR the advisory approval of the compensation of our executives disclosed in this proxy statement.

**What shares can I vote?**

The only outstanding voting securities of our company are the shares of our common stock, \$1.00 par value. Each issued and outstanding share of our common stock as of the close of business on the March 30, 2009 record date for the annual meeting is entitled to one vote on each matter submitted to a vote at the annual meeting. As of the record date, 4,136,495 shares of our common stock were issued and outstanding.

You may vote all shares of our common stock that you held as of the record date. This includes (i) shares held directly in your name as the shareholder of record, (ii) shares held for you as the beneficial owner through a broker, trustee or other nominee, sometimes referred to as shares held in street name, and (iii) shares held for you in our company benefit plans.

**How do I submit my vote?**

Generally, you may vote your shares by Internet, by telephone, by completing, signing and returning the proxy card or voting instruction form provided to you, or by attending the annual meeting and voting in person. If you vote by Internet or by telephone, you do not need to return the proxy card. You will need to have your proxy card in hand if you vote by Internet or by telephone. Specific voting instructions are found on the proxy card or voting instruction form provided to you.

*Shares held by the shareholder of record.* If your shares are registered directly in your name with our transfer agent, you are considered the shareholder of record, and these proxy materials were sent to you directly. As the shareholder of record, you have the right to grant your proxy vote directly or to vote in person at the annual meeting. We have enclosed a proxy card for you to use.

*Shares held in street name.* If you hold shares in a brokerage account or through some other nominee, you are considered the beneficial owner of shares held in street name, and these proxy materials are being forwarded to you by your broker, trustee or nominee, together with a voting instruction form. As the beneficial owner, you have the right to direct your broker, trustee or nominee how to vote your shares by following the instructions on the voting instruction form. Although you may attend the annual meeting, you may not vote these shares in person at the meeting unless you obtain a legal proxy from your broker, trustee or nominee. We may require a recent brokerage statement or other proof of ownership for admission to the meeting. You may vote your shares by any of the options listed on the voting instruction form.

*Shares held in our company benefit plans.* If your shares are held for you in our company benefit plans, you are receiving a voting instruction form from the plan trustee or administrator. To vote these shares, you will need to follow the specific voting instructions appearing on the voting instruction form. We must receive your completed voting instruction form by the deadline specified in such form. You may attend the annual meeting, however, you may not vote these shares in person at the meeting unless you obtain a legal proxy from the plan trustee.

**Can I change my proxy vote?**

If you are a shareholder of record, you may change your vote or revoke your proxy any time before your vote is used at the annual meeting by:

submitting a valid later-dated proxy;

submitting a valid, subsequent vote by telephone or the Internet;



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notifying our corporate secretary in writing that you have revoked your proxy; or

completing a written ballot at the annual meeting.

Attendance at the annual meeting will not in and of itself constitute a revocation of your proxy.

If you hold shares as the beneficial owner in street name, you may change your vote by submitting new voting instructions to your broker, trustee or other nominee or, if you have obtained a legal proxy from your broker, trustee or nominee, by voting in person at the annual meeting.

You may revoke your voting instructions with respect to any shares of common stock you hold in our benefit plans by delivering a valid, later-dated voting instruction form by the deadline specified in the voting instructions furnished by the plan trustee or administrator.

**How many votes are needed to conduct business at the annual meeting?**

A majority of all outstanding shares of our common stock entitled to vote at the annual meeting must be present or represented by proxy in order to satisfy the quorum requirement for the transaction of business at the annual meeting. Both abstentions and broker non-votes (described below under *What is the effect of a broker non-vote?* ) are counted as present for purposes of determining a quorum. If a quorum should not be present, the annual meeting may be adjourned from time to time until a quorum is obtained.

**How are votes counted?**

If you are a shareholder of record and you give your proxy, the shares represented by the proxy will be voted in accordance with your instructions. However, if you are a shareholder of record and you give your proxy without providing voting instructions on one or more proposals, your proxy will be voted for those unmarked proposals in accordance with the recommendation of our board of directors (which recommendation is identified above under *How does our board of directors recommend that I vote?* ).

If your shares are held in street name through a broker or other nominee, they will be voted in accordance with the voting instructions that you provide. If you do not provide voting instructions, your broker or other nominee is only permitted to vote your shares on proposals that are considered routine, including the election of directors and ratification of the appointment of KPMG LLP as our independent registered public accounting firm.

If your shares are held in our company benefit plans, they will be voted in accordance with your voting instructions. If the plan trustee or administrator does not receive voting instructions for shares held in our company benefit plans by the deadline specified in the voting instruction form, the shares credited to your account will not be voted.

**What vote is required to approve the proposals at the annual meeting?**

*Election of Directors.* Directors are elected by a majority of the votes cast, in person or by proxy, by shareholders entitled to vote at the annual meeting for that purpose. Shareholders can withhold authority to vote for one or more nominees for director. Shares represented at the annual meeting that are not voted for a particular nominee, whether by specifically withholding authority to vote on your proxy card or voting instruction form or otherwise, will have the same effect as a vote against the nominee. Shareholders do not have cumulative voting rights in the election of directors.

*Other Matters.* Approval of the proposal to ratify and approve the selection of KPMG LLP as our independent registered public accounting firm, the proposal for advisory approval of the compensation of our executives disclosed in this proxy statement and all other proposals that properly may come before the annual meeting require the affirmative vote of a majority of the shares represented at the meeting and entitled to vote on the particular proposal. Shareholders may abstain from voting on any proposal at the meeting. If you abstain from voting on any proposal, it has the same effect as a vote against the proposal.

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**What is the effect of a broker non-vote?**

A broker non-vote occurs when a broker or other nominee holding shares for a beneficial owner does not vote on a particular proposal because the broker or other nominee does not have discretionary voting power with respect to that item and has not received instructions from the beneficial owner. Broker non-votes are counted as present or represented for purposes of determining the presence or absence of a quorum for the annual meeting, if such shares are otherwise properly represented at the meeting in person or by proxy. Broker non-votes are not counted for purposes of determining the number of shares entitled to vote on any proposal for which the broker or other nominee lacks discretionary authority, and therefore would reduce the number of affirmative votes that are necessary to approve that proposal.

**Are there any other matters that will be considered at the annual meeting?**

The only items of business that may be properly brought before the annual meeting are the matters set forth in this proxy statement or those brought before the meeting by or at the direction of our board of directors. We are not aware of any business to be acted upon at the annual meeting other than the items described in this proxy statement. Your signed proxy, however, will entitle the persons named as proxy holders to vote in their discretion for any other matter that is properly presented at the meeting.

**Who pays the cost of soliciting votes at the annual meeting?**

This proxy solicitation is being made by our board of directors. All costs of this solicitation will be borne by our company. In addition to the use of the mails, proxies may be solicited personally or by telephone by some of the regular employees of our company and of our subsidiary bank, at no additional compensation. Our company may reimburse brokers, banks and other persons holding stock in their names, or in the names of nominees, for their expenses incurred in sending proxy materials to their principals and obtaining their proxies. Our company requests that brokerage houses and other custodians, nominees and fiduciaries forward the soliciting materials to the beneficial owners of the shares of common stock held of record by such persons. If you choose to access proxy materials or vote by Internet, you are responsible for any Internet access charges you may incur.

**Where can I find the voting results of the annual meeting?**

We will announce preliminary voting results at the annual meeting and publish the final results in our quarterly report on Form 10-Q for the quarter ending June 30, 2009.

**What should I do if I receive more than one set of proxy materials?**

Each shareholder at a given address will receive a separate proxy card or voting instruction form. You may receive multiple sets of proxy materials if you hold shares in more than one brokerage account or if you are a shareholder of record and have shares registered in more than one name. Please vote the shares on each proxy card or voting instruction form you receive.

The Securities and Exchange Commission or SEC has adopted rules that permit companies and intermediaries (including brokers) to satisfy the delivery requirements for proxy statements, annual reports and notices of internet availability of proxy materials with respect to two or more shareholders sharing the same address by delivering a single package of these materials addressed to those shareholders. This process, which is commonly referred to as householding, potentially means extra convenience for shareholders and cost savings for companies.

We have adopted a householding procedure that you may wish to follow. If you are receiving multiple sets of proxy materials and wish to have your accounts householded, contact our corporate secretary, Kathleen L. Bruegenhemke, at (573) 761-6179, or send written instructions to our corporate secretary at Hawthorn Bancshares, Inc., 132 East High Street, Jefferson City, MO 65101. If you no longer wish to participate in householding (and instead wish that each shareholder sharing the same address with you receives a complete set of proxy materials), you must contact our corporate secretary at the above telephone number or address to withhold your consent for householding. We will act in accordance with your wishes within 30 days after receiving such notification.

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Many brokerage firms participate in householding as well. If you have a householding request for your brokerage account, please contact your broker.

### **Where may I obtain financial and other information about Hawthorn?**

We filed our annual report on Form 10-K for the year ended December 31, 2008 with the SEC on March 16, 2009. Our annual report to shareholders, containing our audited financial statements for 2008, accompanies this proxy statement. This proxy statement, our annual report to shareholders, our Form 10-K, and our other proxy materials are available at [www.hawthornbancshares.com](http://www.hawthornbancshares.com). Information on any website that we refer to does not constitute part of this proxy statement.

### **How may I obtain another set of proxy materials?**

If you want to receive another paper copy, or an e-mail copy, of the proxy materials for this annual meeting, you may request one. There is no charge to you for requesting a copy. Please make your request by calling us at (800) 761-8362, or writing to our corporate secretary, Kathleen L. Bruegenhemke, at Hawthorn Bancshares, Inc., 132 East High Street, Jefferson City, MO 65101.

In addition, you can access a complete set of proxy materials, which include this proxy statement, the notice of annual meeting of shareholders and annual report to shareholders, on the Internet at [www.hawthornbancshares.com](http://www.hawthornbancshares.com).

To request a complete set of proxy materials for future meetings of our shareholders, please call us at (800) 761-8362, contact us by e-mail at [customerservice@hawthornbank.com](mailto:customerservice@hawthornbank.com), use the Internet at [www.hawthornbancshares.com](http://www.hawthornbancshares.com), or write to our corporate secretary at the address provided above.

## **MATTERS TO BE CONSIDERED AT THE ANNUAL MEETING**

### **ITEM 1: ELECTION OF DIRECTORS**

#### **What am I voting on?**

One of the purposes of this annual meeting is to elect two directors in Class II to serve for a three-year term expiring at the annual meeting of shareholders in 2012 and until their respective successors are duly elected and qualified or until their respective earlier resignation or removal.

#### **What is the structure of our board and how often are directors elected?**

Through March 19, 2009, our board of directors consisted of seven directors. Due to Julius F. Wall's retirement from our board, at a meeting held on February 11, 2009 our board of directors voted unanimously to reduce its size from seven to six directors effective March 19, 2009. Our articles of incorporation divides the board into three classes of directors, with directors serving staggered terms of three years and until their respective successors are duly elected and qualified or until their respective earlier resignation or removal. The present term of Gus S. Wetzel, II, the only director currently in Class II, expires at this annual meeting. Prior to his retirement on March 19, 2009, Julius F. Wall also was a director in Class II. Directors in Class I (Charles G. Dudenhoefter, Jr., Philip D. Freeman and James E. Smith) and Class III (Kevin L. Riley and David T. Turner) have terms expiring at the time of the annual meeting of shareholders in 2011 and 2010, respectively, except that Mr. Dudenhoefter has agreed that he would cease to be a Class I director effective immediately upon his election as a Class II director. Our board of directors has determined that Messrs. Dudenhoefter, Freeman, Riley and Wetzel each satisfies the independence requirements of the NASDAQ Global Select Market or NASDAQ.

#### **Who are this year's nominees?**

The nominating and corporate governance committee of our board of directors has designated Charles G. Dudenhoefter, Jr. and Gus S. Wetzel, II as the two nominees proposed for election at the annual meeting. Each of

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these nominees currently serves on our board. In order for each class of directors to be comprised of two members, Mr. Dudenhoeffer has agreed that if he is elected as a Class II director he would cease to be a Class I director. Unless authority to vote for the nominees or a particular nominee is withheld, it is intended that the shares represented by properly executed proxies in the form enclosed will be voted for the election as directors of Messrs. Dudenhoeffer and Wetzel. The following table sets forth certain information with respect to each person nominated for election as a Class II director at the annual meeting and each director whose term of office will continue after the annual meeting.

Name	Age	Position With our Company	Director Since
<b>NOMINEES</b>			
<b>Class II: Term to expire in 2012</b>			
Charles G. Dudenhoeffer, Jr. *	69	Director	1993
Gus S. Wetzel, II	68	Director	1999
<b>DIRECTORS CONTINUING IN OFFICE</b>			
<b>Class I: Term to expire in 2011</b>			
Philip D. Freeman	55	Director	1993
James E. Smith	64	Chairman, CEO and Director	1997
<b>Class III: Term to expire in 2010</b>			
Kevin L. Riley	53	Director	1995
David T. Turner	52	President and Director	1997

\* Mr. Dudenhoeffer currently serves as a Class I director having a term expiring in 2011. If elected as a Class II director, he would cease to be a Class I director.

There is no arrangement or understanding between any director and any other person pursuant to which such director was selected as a director.

**What is the business experience of the nominees and of our continuing board members?**

The business experience during the last five years of each person nominated for election as a director at the annual meeting and each director whose term of office will continue after the annual meeting is as follows:

*Charles G. Dudenhoeffer, Jr.* has served as a director of Hawthorn Bank (or one of its constituent predecessors) since 1978 and of our company since 1993. Mr. Dudenhoeffer served as vice president and trust officer of a predecessor to Hawthorn Bank from 1974 until June 1992, and as senior vice president and trust officer of that predecessor from June 1992 until June 2000. He served as senior vice president of our company from 1993 through June 2000. Mr. Dudenhoeffer also serves on our nominating and corporate governance, audit and compensation committees.

*Philip D. Freeman* has served as a director of Hawthorn Bank (or one of its constituent predecessors) since 1990 and of our company since 1993. He has been the owner/manager of Freeman Mortuary, Jefferson City, Missouri since 1974. Mr. Freeman also serves on our nominating and corporate governance, audit and compensation committees.

*Kevin L. Riley* has served as a director of Hawthorn Bank (or one of its constituent predecessors) and of our company since 1995. He has been co-owner of Riley Chevrolet, Toyota, Scion, Inc. and Riley Oldsmobile, Cadillac, Inc., each a Jefferson City, Missouri automobile dealership, since 1986 and 1992, respectively. Mr. Riley also serves

on our nominating and corporate governance, audit and compensation committees.

*James E. Smith* has served as a director of Hawthorn Bank (or of its constituent predecessors) since 1975 and of our company since 1997. He served as vice chairman of our company from 1998 through March 2002 when he assumed the responsibilities of chairman and chief executive officer, as president and secretary of Hawthorn Bank from 1975 through May 2000 when he was promoted to chairman and chief executive officer, as president of a

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predecessor to Hawthorn Bank from January 2000 through October 2002, and as vice chairman of another predecessor to Hawthorn Bank from October 2002 through March 2007.

*David T. Turner* has served as a director of Hawthorn Bank (or of its constituent predecessors) and of our company since January 1997. Mr. Turner served as vice chairman of our company from June 1998 through March 2002 when he assumed the position of president. From 1993 until June 1998, he served as senior vice president of our company. Mr. Turner served as president of a predecessor to Hawthorn Bank from January 1997 through March 2002 when he assumed the position of chairman, chief executive officer and president. He served as senior vice president of that same predecessor from June 1992 through December 1996 and as its vice president from 1985 until June 1992.

*Gus S. Wetzel, II* has served as a director of Hawthorn Bank (or one of its constituent predecessors) since 1974, and of our company since 1999. He served as chairman of Hawthorn Bank from 1974 until May 2000. Dr. Wetzel has served as a physician/surgeon with the Wetzel Clinic, Clinton, Missouri since 1972. He also serves on our nominating and corporate governance, audit and compensation committees.

**What if a nominee is unwilling or unable to serve?**

Each of the nominees listed in this proxy statement has indicated his willingness to serve as a director if elected, and the board of directors has no reason to believe that any nominee will be unavailable for election. If, for some unforeseen reason, a nominee becomes unwilling or unable to serve, it is intended that shares represented by the proxies will be voted for the election of such substitute nominee as may be designated by our nominating and corporate governance committee, unless the authority to vote for all nominees or for the particular nominee who has ceased to be a candidate has been withheld.

**How does our board of directors recommend that I vote?**

Our board of directors recommends that you vote **FOR** the election of Charles G. Dudenhoeffer, Jr. and Gus S. Wetzel, II as Class II directors.

**ITEM 2: SELECTION OF INDEPENDENT REGISTERED PUBLIC  
ACCOUNTING FIRM**

**What am I voting on?**

Shareholders are being asked to ratify and approve the selection of KPMG LLP as our independent registered public accounting firm for the year ending December 31, 2009. The selection of KPMG LLP was made by the audit committee of our board of directors. KPMG LLP has served as our independent auditors since 1993. In connection with the audit of our 2009 financial statements, our company entered into an engagement agreement with KPMG LLP which sets forth the terms by which KPMG LLP will perform audit services for our company. That agreement is subject to alternative dispute resolution procedures. The ratification and approval by shareholders of the selection of KPMG LLP effectively would also be a ratification of that agreement.

**What services do the independent registered public accountants provide?**

Audit services provided by KPMG LLP for 2008 included the examination of the consolidated financial statements of our company and services related to our periodic filings with the SEC. Audit services also included an assessment of our company's internal control over financial reporting as of December 31, 2008 for the purpose of expressing an opinion on the effectiveness of our company's internal control over financial reporting. The services provided by KPMG LLP are more fully described in this proxy statement under the captions "Audit Committee Report" and "Independent Auditor Fees and Services."

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**Will a representative of KPMG LLP be present at the meeting?**

One or more representatives of KPMG LLP are expected to be present at the annual meeting. Any such representative will have an opportunity to make a statement if he or she desires to do so and is expected to be available to respond to appropriate questions from shareholders.

**What if this proposal is not approved?**

Shareholder ratification and approval of the audit committee's selection of KPMG LLP as our independent registered public accounting firm is not required by any statute or regulation or by our bylaws. Nevertheless, if the shareholders do not ratify and approve the selection of KPMG LLP at the annual meeting, the audit committee will reconsider the appointment. Submission of our selection of KPMG LLP to the shareholders for ratification and approval will not limit the authority of the audit committee to appoint another independent certified public accounting firm to serve as independent auditors if the present auditors resign or their engagement otherwise is terminated.

**How does our board of directors recommend that I vote?**

Our board of directors recommends that you vote **FOR** approval of the selection of KPMG LLP.

**ITEM 3: NON-BINDING ADVISORY VOTE ON EXECUTIVE  
COMPENSATION**

**What am I voting on?**

The American Recovery and Reinvestment Act of 2009, enacted on February 17, 2009, requires all participants in the Troubled Asset Relief Program or TARP to permit a non-binding shareholder vote to approve the compensation of the participant's executives, as disclosed pursuant to the compensation disclosure rules of the Securities and Exchange Commission. As a result of our participation in TARP, shareholders are being given the opportunity to cast an advisory vote on the compensation of our company's executives at the annual meeting.

This proposal, commonly known as a say-on-pay proposal, gives you as a shareholder the opportunity to endorse or not endorse our executive pay program and policies through the following resolution:

Resolved, that the shareholders approve the compensation paid to our company's executives pursuant to the policies and procedures employed by our company, as described in the Compensation Discussion and Analysis and tabular and accompanying narrative disclosure regarding named executive officer compensation in the proxy statement for the 2009 annual meeting of shareholders.

Because your vote is advisory, it will not be binding upon our board of directors. However, our compensation committee may take into account the outcome of the vote when considering future executive compensation arrangements.

**How does our board of directors recommend that I vote?**

Our board of directors recommends that you vote **FOR** approval of the above resolution concerning the compensation paid to our company's executives.

**CORPORATE GOVERNANCE AND BOARD MATTERS**

**Communication with the Board**

Our board of directors has not established a formal process for shareholders to follow in sending communications to our board or its members, as our policy has been to forward to the directors any shareholder

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correspondence we receive that is addressed to them. Shareholders who wish to communicate with our board or any of our directors may do so. Such communications must be addressed to our board or any such director in care of our corporate secretary at Hawthorn Bancshares, Inc., 132 East High Street, Jefferson City, MO 65101. Alternatively, such communications may be sent by e-mail to kbruegenhemke@hawthornbank.com. All such communications will be compiled by our corporate secretary and submitted to our board or the individual director, as applicable, on a periodic basis.

Neither our board of directors nor a specific director is required to respond to a shareholder communication. To avoid selective disclosure, our board or the individual director may respond to a shareholder's communication only if the communication involves information which is not material or which is already public. In such case, our board of directors, as a whole, or the individual director may respond, if at all:

Directly, following consultation with our corporate secretary or other advisors or without additional consultation, as our board determines appropriate;

Indirectly through our corporate secretary or other designated officer, following consultation with our corporate secretary or other advisors or without additional consultation, as our board determines appropriate; or

Pursuant to such other means as our board determines appropriate from time to time.

If the communication involves material non-public information, our board of directors or the individual director will not provide a response to the shareholder concerning such information. Our company may, however, publicly provide information responsive to such communication if (following consultation with our advisors, as our board determines appropriate) our board determines disclosure is appropriate. In that case, the responsive information will be provided in compliance with SEC Regulation FD and other applicable laws and regulations.

### **Consideration of Director Nominees**

In identifying and evaluating director nominees, the nominating and corporate governance committee of our board of directors may receive recommendations from management, from other directors and from shareholders. The committee reviews and considers information on each candidate and evaluates it in light of the needs and requirements of our company. The committee believes that our board and its committees should be comprised of persons who are of high character and integrity, who have a personal and professional reputation that is consistent with the image and reputation of our company, and who have expertise that may be useful to our company. The committee also considers various factors, including the independence of the candidate, as well as his or her education or special skills, areas of expertise, experience, age, business associations, reputation and other characteristics and qualities that the committee believes are likely to enhance the effectiveness of our board and its committees. In determining whether a director should be retained and stand for re-election, the committee also considers the director's past attendance at meetings and participation in and contributions to the activities of our board and each committee on which such director serves.

Shareholders who wish the nominating and corporate governance committee to consider their recommendations for nominees for the position of director should submit their recommendations in writing to the nominating and corporate governance committee in care of our corporate secretary at Hawthorn Bancshares, Inc., 132 East High Street, Jefferson City, MO 65101. All nominees, including those submitted by shareholders in accordance with these procedures, will be evaluated using generally the same methods and criteria described above, although those methods and criteria are not standardized and may vary from time to time. Shareholders also may submit director nominations to our company in accordance with the procedures described below under Advance Notice of Shareholder Proposals.



**Table of Contents****Committees of the Board**

Our board of directors has established an audit committee, a compensation committee and a nominating and corporate governance committee. There currently are no other committees of our board of directors. Members of the committees serve at the pleasure of our board of directors.

*Audit Committee.* The audit committee of our board of directors currently is comprised of Mr. Freeman, its chairman, and Messrs. Dudenhoefter, Riley and Wetzel. Our board of directors has determined that each member of the audit committee is independent as defined by NASDAQ's independence standards. In addition, our board of directors has determined that Charles G. Dudenhoefter, Jr. meets the SEC's definition of an audit committee financial expert. The audit committee assists our board in fulfilling its responsibilities with respect to accounting and financial reporting practices and the scope and expense of audit and related services provided by external auditors, among others. The audit committee is responsible for apprising our board of management's compliance with board mandated policies, internal procedures and applicable laws and regulations. The committee works with the internal audit department and external auditors and supervises the internal audit function directly, reviews and approves the hiring of audit personnel and evaluates the performance of the internal audit function and the external auditors. The committee also has the duty to make, or cause to be made, a suitable examination and audit of the financial affairs of our company and its subsidiaries at least annually, and to report its findings to our board of directors. A more complete description of the audit committee's functions is provided in its charter, a copy of which is available on our internet website ([www.hawthornbancshares.com](http://www.hawthornbancshares.com)) under Governance Documents. The audit committee met 9 times during 2008.

*Compensation Committee.* The compensation committee of our board of directors currently is comprised of Mr. Freeman, its chairman, and Messrs. Dudenhoefter, Riley and Wetzel. Our board of directors has determined that each member of the compensation committee is independent as defined by NASDAQ's independence standards. The committee is responsible for reviewing and making recommendations to our board of directors regarding the compensation and benefits of our executive officers and directors and for establishing and administering our executive compensation program. The responsibilities of the compensation committee also include the construction, interpretation and administration of our incentive stock option plan and our 2007 omnibus incentive plan, and the exercise of exclusive authority over the grant of options and other awards under those plans. Our chief executive officer assists the committee from time to time on a variety of compensation matters, including making recommendations for the appropriate salaries and bonuses of our executive officers (other than our chief executive officer). The committee has the authority to consult with management and to engage the services of outside advisors, experts and others to assist it in its efforts. A more complete description of the committee's functions is provided in its charter, a copy of which is available on our internet website ([www.hawthornbancshares.com](http://www.hawthornbancshares.com)) under Governance Documents. The compensation committee met 5 times during 2008.

*Nominating and Corporate Governance Committee.* The members of our nominating and corporate governance committee currently are Mr. Freeman, its chairman, and Messrs. Dudenhoefter, Riley and Wetzel, each of whom is independent, as defined by NASDAQ's independence standards. This committee is responsible for the director nomination process, including evaluating and recommending director nominees and committee appointments. It also is responsible for various other governance related matters, including an annual board assessment. A more complete description of the committee's functions is provided in its charter, a copy of which is available on our internet website ([www.hawthornbancshares.com](http://www.hawthornbancshares.com)) under Governance Documents. The nominating and corporate governance committee met 2 times during 2008.

**Meetings of the Board**

During 2008 our board of directors held 10 meetings. Each director attended at least 75% of the total meetings of our board of directors and of the committees of our board on which he served during that year. Our directors discharge their responsibilities throughout the year, not only at such board of directors and committee meetings, but through personal meetings and other communications with members of management and others regarding matters of interest and concern to our company.

Directors are encouraged by our company to attend our annual meeting of shareholders if their schedules permit, but our company does not otherwise have a policy regarding such attendance. All directors were present at



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the annual meeting of the shareholders held in June 2008. The board of directors typically meets immediately following the annual meeting of shareholders, which facilitates the directors' attendance at the annual meeting of shareholders.

**Code of Ethics**

Our board of directors has adopted a code of business conduct and ethics applicable to all employees, officers and directors. A copy of the code of business conduct and ethics is available to any shareholder who requests it by writing to our corporate secretary at Hawthorn Bancshares, Inc., 132 East High Street, Jefferson City, MO 65101. It also is available on our internet website ([www.hawthornbancshares.com](http://www.hawthornbancshares.com)) under Governance Documents. Any substantive amendment to, or waiver from, a provision of this code that applies to our principal executive officer or principal financial officer will be disclosed on our internet website.

**Director Compensation**

Only outside (non-employee) members of our board of directors receive compensation for their service to our company as a director. Each of these outside (non-employee) directors receive a monthly retainer of \$1,500 and \$500 for each board and committee meeting attended, respectively.

All directors of our company are also directors of Hawthorn Bank, and in that capacity may receive compensation from Hawthorn Bank. For their service to Hawthorn Bank as a director, each of Hawthorn Bank's outside (non-employee) directors is paid \$500 for each meeting of the board attended and \$100 for each committee meeting attended.

Compensation earned in 2008 by our directors (other than those who are named executive officers in the summary compensation table under Executive Compensation and Related Matters ) for service on the board and its committees is presented in the table below.

Name	Fees Earned or Paid in Cash (\$)(1)	All Other Compensation (\$)	Total (\$)
Charles G. Dudenhoeffer, Jr.	38,700	0	38,700
Philip D. Freeman	37,000	0	37,000
Kevin L. Riley	37,500	0	37,500
Gus S. Wetzel, II	36,500	0	36,500
Julius F. Wall (2)	37,100	0	37,100

(1) Includes fees received for service as directors and committee members of our company, and of our subsidiary bank, Hawthorn Bank, as follows:

Name	Hawthorn Bancshares Retainer (\$)	Hawthorn Bancshares Meeting Fees (\$)	Hawthorn Bank Meeting Fees (\$)	Total Fees Earned or Paid in Cash (\$)
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Mr. Dudenhoeffer	18,000	13,000	7,700	38,700
Mr. Freeman	18,000	13,000	6,000	37,000
Mr. Riley	18,000	13,000	6,500	37,500
Dr. Wetzel	18,000	13,000	5,500	36,500
Mr. Wall	18,000	13,000	6,100	37,100

(2) Mr. Wall retired from our board of directors effective March 19, 2009.

**Table of Contents****Compensation Committee Interlocks and Insider Participation**

Members of our compensation committee are Mr. Freeman, its chairman, Mr. Dudenhoeffer, Jr., Mr. Riley and Dr. Wetzel, II. As discussed below under Executive Compensation and Related Matters Compensation Discussion and Analysis, in 2008 Mr. Smith, our chief executive officer, administered the executive compensation program with respect to non-equity compensation insofar as it pertained to executive officers other than the chief executive officer and president. All decisions relating to the compensation of executive officers are reviewed by, and subject to the approval of, our compensation committee. Among the members of our bank's board of directors, Mr. Smith and Mr. Turner are officers and employees of our company and its subsidiary bank.

None of the members of our compensation committee was an officer or employee of our company or any of its subsidiaries during 2008. Messrs. Dudenhoeffer, Riley and Wetzel, and certain corporations and firms in which such persons have interests, have obtained loans from our affiliate bank. Each of such loans are believed to have been made to such persons, corporations or firms (i) in the ordinary course of business, (ii) on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with persons not related to our company or any of its subsidiaries, and (iii) without involving more than the normal risk of collectibility or presenting other unfavorable features.

**EXECUTIVE COMPENSATION AND RELATED MATTERS****Compensation Discussion and Analysis**

This compensation discussion and analysis describes the material elements of compensation of our chief executive officer, our principal financial officer and our two other executive officers for 2008, collectively referred to as our named executive officers. It also provides information on our compensation philosophy and our compensation policies and programs designed to achieve our compensation objectives. This discussion and analysis should be read in conjunction with the Summary Compensation Table, its accompanying footnotes and the additional tabular and narrative disclosure that follows the Summary Compensation Table.

*Overview of Compensation Program.*

The compensation committee of our board of directors has overall responsibility for the establishment, direction and administration of all aspects of the compensation policies and programs for the executive officers of our company and its subsidiary bank. By agreement between our company and its subsidiary bank, individuals who are employees of both our company and the bank are compensated as such by the bank. The committee seeks to ensure that the total compensation paid to the executive officers, taking into account any compensation received from our subsidiary bank, is fair, reasonable and competitive. Our compensation program is reviewed annually to ensure that compensation levels and incentive opportunities are competitive and reflect the performance of our company and its subsidiary bank as well as performance of the individual executive officer. In this regard, from time to time our company retains the services of human resources and executive compensation consulting firms to review and make recommendations concerning our executive compensation program, although this was not done for 2008.

*Compensation Program Objectives.*

The three basic goals or objectives of our executive compensation program are:

to attract and retain qualified individuals who provide the skills and leadership necessary to enable our company and its subsidiary bank to achieve earnings growth, capital compliance and return on investment objectives, while maintaining a commitment to equal employment opportunity and affirmative action guidelines and practices;

to create incentives to achieve company and individual performance objectives through the use of performance-based compensation programs; and

to create a mutuality of interest between executive officers and shareholders through compensation structures that create a direct link between executive compensation and shareholder return.

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In determining the structure and levels of each of the components of executive compensation needed to achieve these objectives, all elements of the compensation package are considered in total, rather than any one component in isolation. As more fully described below, the determination of such levels of executive compensation is a subjective process in which many factors are considered, including our company's and/or affiliate bank's performance and the individual executive's specific responsibilities, historical and anticipated personal contribution to our business, and length of service with our company or affiliate bank.

*Role of Executive Officers in Compensation Decisions.*

Our executive compensation program, insofar as it pertains to our chief executive officer and president, is administered solely by the compensation committee of our board of directors. Our executive compensation program, insofar as it pertains to executive officers other than our chief executive officer and president, is administered by our chief executive officer and president with respect to non-equity compensation and by the compensation committee with respect to equity compensation. In approving equity compensation awards to our executive officers other than our chief executive officer, the compensation committee gives some deference to the recommendations of our chief executive officer. Mr. James Smith, our chief executive officer, and certain other executive officers of our company and affiliate bank, may attend meetings of the committee, but are not present during discussions or deliberations regarding their own compensation.

*Compensation Components.*

For 2008, the principal components of compensation for our executive officers were:

Base salary:	Designed to compensate employees competitively relative to the market;
Performance-based incentive compensation:	Designed to reward short-term performance, particularly the achievement of annual performance objectives;
Long-term equity incentive compensation:	Designed to encourage creation of long-term shareholder value and reward long-term performance; and
Retirement and other benefits:	Designed to provide competitive benefits.

It is our view that these compensation components collectively promote the achievement of our compensation program objectives identified above by advancing both the short- and long-term interests of our shareholders. Among other things, the long-term interests of our shareholders are advanced by designating a portion of executive compensation to be at risk: namely, incentive compensation (which permits individual performance to be recognized on an annual and long-term basis based, in part, on an evaluation of the executive's contribution to our company's and/or affiliate bank's performance) and the grant of stock options and other long-term equity incentive compensation (which directly ties a portion of the executive's long-term remuneration to stock price appreciation realized by shareholders). Each of the components of the compensation program is addressed separately below.

*Base Salary.* Our company provides our named executive officers and other employees with base salary to compensate them for services rendered during the year. We view base salary as a key element of our employee attraction and retention objective. Base salary ranges for executive officers are determined for each executive based on his or her position and responsibility and on management's recommendations and subjective assessments of each executive's growth and effectiveness in the performance of his or her duties. In this regard, there is a subjective analysis of the role played by each individual executive in generating our company's and/or bank's performance, including a consideration of the executive's specific responsibilities, contributions to our company's and/or bank's business, and length of service. The factors impacting base salary levels are not independently assigned specific weights. We believe that base salary levels must bear a reasonable relationship to those that we perceive to exist in our market for executive talent in order to protect our ability to retain our executives and attract new executives when necessary. Base salary levels typically are considered annually as part of our company's performance review process as well as upon a promotion or other change in job responsibility. During its review of base salaries for executives, the committee primarily considers:



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internal review of the executive's compensation, both individually and relative to other officers;

a subjective assessment of the individual performance of the executive; and

market data, to the extent available, provided by outside consultants or other sources that places the executive's compensation in context to that provided to similarly situated executives of other employers; however, we do not set base salary levels at a targeted percentile relative to compensation data for a particular peer, competitor or industry group. Our most recent external analysis was performed in 2005 by the Hay Group in which the Hay Group's general market and executive banking data bases were selected for peer comparison purposes.

From its review of base salaries for executives, the committee increased the base salaries of our named executive officers in 2008 as follows: Mr. Smith 0.0%; Mr. Turner 3.0%; Mr. Rose 3.5%; and Ms. Bruegenhemke 4.8%. The increases were determined subjectively by the committee after considering cost of living adjustments and each employee's perceived merit performance.

*Incentive Compensation.* In 1997 the committee recommended, and the full board of directors approved, the adoption of an incentive bonus program. This program continues to be an important part of our compensation program in that it provides incentives to achieve company and individual performance objectives. Under this program, our company's and affiliate bank's officers are eligible to receive annual incentive bonus awards. The officers participating in the program are identified by our chief executive officer, our president and our compensation committee. Performance objectives are established for each of these officers.

The performance objectives for participants may include corporate performance objectives, functional or operating unit performance objectives and personal targeted objectives for performance. In the case of our chief executive officer and other senior officers, the performance objectives for 2008 were focused primarily on the achievement of budgetary, credit quality and operational objectives, while those for the junior officers of our affiliate bank primarily concern their functional or operating unit performance and the achievement of personal performance objectives. The performance objectives are not independently assigned specific weightings, but instead are subjectively considered based upon their perceived relative importance to each individual officer's job category and responsibilities.

Each officer who is eligible to receive bonus awards is assigned to one of four bonus tiers, which assignment is made primarily according to job category. Tier one consists of our chief executive officer, Mr. Smith and our president, Mr. Turner. Tier two generally consists of our affiliate bank's regional presidents. Tier three consists of senior officers of our company and of our affiliate bank, including Mr. Rose and Ms. Bruegenhemke. Tier four consists of junior officers of our affiliate bank. Threshold, target and maximum award levels are established for each tier and are expressed as a percentage of base salary for the officers in the applicable tier. Target awards are established at levels that, when combined with base salary, will achieve the perceived market level of annual compensation for performance that exceeds expectations. Threshold awards are established at 50% of the targeted award opportunity and, when combined with base salary, are intended to provide the perceived market level of annual compensation for performance that is at expectations. No awards are paid if the threshold level is not achieved. The maximum awards are established at 150% of the targeted award opportunity to reward exceptional performance. The following table presents the threshold, target and maximum award levels (expressed as a percentage of base salary) for each tier of our incentive bonus program.

<b>Tier</b>	<b>Threshold</b>	<b>Target</b>	<b>Maximum</b>
Tier 1	15%	30%	45%
Tier 2	10%	20%	30%
Tier 3	6%	12%	18%
Tier 4	5%	10%	15%

Bonus awards are allocated among the participants after considering the individual participant's performance, responsibilities and contributions to our company and/or affiliate bank, and subjectively analyzing the basis of their



aggregate impact on the success of our company and/or affiliate bank for the preceding year. The

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incentive bonus awards earned by each of our named executive officers for each of the last three years appear in the Summary Compensation Table below in the Non-Equity Incentive Plan Compensation column.

*Equity Incentive Compensation.* In order to enhance long-term shareholder value, our company seeks to provide incentives that motivate our executives to look beyond our company's short-term results. In February 2000, our board of directors adopted, and our shareholders subsequently approved, a stock option plan. An important objective of stock option grants is to advance the longer term interests of our company and its shareholders and complement incentives tied to annual performance by rewarding executives upon the creation of incremental shareholder value.

In February 2007, our board of directors adopted, and our shareholders subsequently approved, our 2007 omnibus incentive plan. This plan is available to provide additional long-term incentives to executive officers and other employees, as well as non-employee directors, through grants of stock options, restricted stock awards, restricted stock units, performance share awards, as well as awards such as stock appreciation rights, performance units, performance shares, bonus share and dividend share awards payable in the form of common stock or cash. Like our stock option plan grants, awards under our 2007 omnibus incentive plan would serve to advance the longer term interests of our company and its shareholders by rewarding executives upon the creation of incremental shareholder value.

To date, the only awards made under our stock option plan and our 2007 omnibus incentive plan have been stock options. Our company has awarded stock options at NASDAQ's closing price of our common stock on the date of the grant. In certain limited circumstances, we may grant options to an executive at an exercise price in excess of the closing price of our common stock on the grant date. We have never granted options with an exercise price that is less than the closing price of our common stock on the grant date, nor have we granted options which are priced on a date other than the grant date. Our stock options only produce value to executives if the price of our company's common stock appreciates, thereby directly linking the interests of executives with those of shareholders. Therefore, in order to provide long-term incentives to executive officers and other employees related to long-term growth in the value of our common stock, it is intended that stock options be granted to such persons under our company's stock option plan or our 2007 omnibus incentive plan. The selection of the persons eligible to receive stock options and the designation of the number of stock options to be granted to such persons are made by our compensation committee after taking into account management's assessment of each person's relative level of authority and responsibility with our affiliate bank, years of service and base salary, among other factors.

In 2008, the stock options awarded to our named executive officers are identified in the Grants of Plan Based Awards table below. The number of stock options awarded to each named executive officer was determined subjectively by the committee after considering each employee's perceived merit performance. The committee felt that the awards of stock options provided a sufficient equity incentive to encourage creation of long-term shareholder value and reward long-term performance, and therefore did not feel it was necessary to make any other awards under the 2007 omnibus incentive plan.

*Retirement Benefits.* As described below under Executive Compensation and Related Matters Pension Plan, all full-time employees of our company and affiliate bank who have completed five continuous years of employment earn the right to receive certain benefits upon retirement under our defined benefit pension plan. The normal retirement benefits provided under the plan for an employee with at least 25 years of continuous service are based upon 45% of his or her average compensation over a ten-year period, less 50% of his or her social security benefit. For employees with less than 25 years of continuous service, retirement benefits are reduced proportionally.

*Perquisites and Other Personal Benefits.* Our company provides our named executive officers with perquisites and other personal benefits that the compensation committee believe are reasonable and consistent with its overall compensation program to better enable our company to attract and retain superior employees for key positions. The compensation committee periodically reviews the levels of perquisites and other personal benefits provided to named executive officers.

Our company provides Messrs. Smith and Turner each with the use of an automobile because their responsibilities for our company and affiliate bank require that they travel to our various branch offices on a regular basis. They may use the automobile for their personal use as well. Our company pays local country club



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membership dues on behalf of Messrs. Smith, Turner and Rose to assist them in developing and enhancing business relationships in our markets.

*Employment and Change in Control Agreements*

Our company entered into an employment agreement with James E. Smith, which agreement is described below under the caption Employment Agreements.

Our company also has entered into change of control agreements with each of the named executive officers, which agreements are described below under the caption Change of Control Agreements. These agreements provide for the payment of certain benefits if we terminate the executive's employment or if the executive quits for good reason within two years after a change in control of our company. This double trigger arrangement, which requires both a change in control of our company and a termination of employment must occur before benefits are triggered, is intended to provide continuity for the business by encouraging the continued employment of the executive following the change in control.

The committee believes the change of control agreements protect shareholder interests by reducing the distraction and uncertainty of key executives during a rumored or actual change in control of our company. The agreements reinforce and encourage the executives' continued attention and dedication to their duties and provide incentives for them to remain with our company during the transition. Continuation of the management team is often a crucial factor for the acquiring company. Severance benefits that encourage the executives to continue in their positions, therefore, may result in shareholders receiving a higher value from the deal.

The committee considers the potential amounts payable under the change of control agreements as part of its annual compensation review, but it did not review the agreements in 2008. The benefits provided under these agreements do not impact the committee's decisions