

HAWTHORN BANCSHARES, INC.
Form DEF 14A
April 20, 2012

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)

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4) Date Filed:

Hawthorn Bancshares, Inc.

300 Southwest Longview Boulevard

Lee s Summit, Missouri 64081

April 20, 2012

Dear Shareholder:

You are invited to attend the annual meeting of shareholders of Hawthorn Bancshares, Inc. to be held at Hawthorn Bank located at 3600 Amazonas, Jefferson City, Missouri, on Tuesday, June 5, 2012, 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,

David T. Turner
Chairman of the Board, President

and Chief Executive Officer

Hawthorn Bancshares, Inc.

300 Southwest Longview Boulevard

Lee s Summit, Missouri 64081

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD ON JUNE 5, 2012

The annual meeting of the shareholders of Hawthorn Bancshares, Inc., a Missouri corporation, will be held at Hawthorn Bank located at 3600 Amazonas, Jefferson City, Missouri, on Tuesday, June 5, 2012, 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 2015 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 current year;
3. To consider and act upon advisory approval of the compensation of our executives disclosed in the accompanying proxy statement pursuant to the compensation disclosure rules of the Securities and Exchange Commission; 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 2011, 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 April 2, 2012 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. We solicit you to give your proxy to vote at the annual meeting by following the specific voting instructions appearing on the enclosed proxy card or voting instruction form, regardless of whether you intend to attend the meeting.

By Order of the Board of Directors

David T. Turner
Chairman of the Board, President

and Chief Executive Officer

April 20, 2012

Lee s Summit, 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

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for the Shareholder Meeting To Be Held on June 5, 2012.

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

Our company s proxy voting site can be found at:

www.ilstk.com

Hawthorn Bancshares, Inc.

300 Southwest Longview Boulevard

Lee s Summit, Missouri 64081

PROXY STATEMENT

ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD JUNE 5, 2012

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 5, 2012. 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 proxy card or voting instruction form were first sent or given to our shareholders on or about April 20, 2012. 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 5, 2012, commencing at 9:00 a.m., local time, at Hawthorn Bank located at 3600 Amazonas, 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 2015 annual meeting of shareholders and until their respective successors are duly elected and qualified or until their respective earlier resignation or removal;

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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 pursuant to the compensation disclosure rules of the Securities and Exchange Commission; 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;

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 securities of our company having voting rights at the annual meeting 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 April 2, 2012 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, 4,652,994 shares of our common stock were 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 other 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 or revoke my proxy?

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;

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 and entitled to vote 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 under rules of the New York Stock Exchange. It is anticipated that the proposal to ratify the appointment of KPMG LLP as our independent registered public accounting firm would be considered to be routine.

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 receiving the affirmative vote of a majority of the shares represented at the annual meeting and entitled to vote in the election of directors. Shareholders can withhold authority to vote for one or more nominees for director. If your shares are voted to withhold authority for a particular nominee, it 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 your shares are voted to abstain with respect to any proposal, this will have the same effect as a vote against the proposal.

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 proposal and has not received instructions from the beneficial owner. If you hold shares in street name through a broker or other nominee and do not vote your shares or provide voting instructions, your broker or other nominee may vote for you on routine proposals but not on non-routine proposals. It is anticipated that the ratification and approval of the selection of KPMG LLP as our independent registered public accounting firm would be considered routine, but the election of directors and the advisory approval of the compensation of our executives would be considered non-routine. Therefore, if you do not vote on any non-routine proposal or provide voting instructions, your broker or other nominee will not be allowed to vote your shares on such proposal. 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 the shares are otherwise properly represented at the meeting. 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 will publish those results in a report on Form 8-K filed with the Securities and Exchange Commission or SEC within four business days after the day on which the annual meeting ends. If the voting results included in such Form 8-K are not final, we will publish the final results in an amended report on Form 8-K within four business days after the final voting results are known.

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

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.

We have adopted a householding procedure which allows us, unless a shareholder withholds consent, to send one proxy statement and annual report to multiple shareholders sharing the same address. Each shareholder at a given address will receive a separate proxy card or voting instruction form. If you are receiving multiple sets of proxy materials and wish to have your accounts househanded, or if you no longer wish to participate in householding and wish to revoke your consent, call 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. We will act in accordance with your wishes within 30 days after receiving such notification.

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, 2011 with the SEC on March 30, 2012. Our annual report to shareholders, containing our audited financial statements for 2011, accompanies this proxy statement. This proxy statement, our annual report to shareholders, our Form 10-K, and our other proxy materials are available on our internet website (www.hawthornbancshares.com) and on the SEC's internet website (www.sec.gov). Information on any website that we refer to does not constitute part of this proxy statement.

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 2015 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?

Our board of directors consists of six directors. 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 terms of Charles G. Dudenhoefter, Jr. and Gus S. Wetzel, II, the two directors in Class II, expire at this annual meeting. Directors in Class I (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 2014 and 2013, respectively. 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 these nominees currently serves on our board. 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. Dudenhoefter and Wetzel. The following table sets forth certain information with respect to 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.

				Director
	Name	Age	Position With our Company	Since
NOMINEES				
Class II: New term to expire in 2015				
	Charles G. Dudenhoefter, Jr.	72	Director	1993
	Gus S. Wetzel, II	71	Director	1999

DIRECTORS CONTINUING IN OFFICE**Class I: Term to expire in 2014**

Philip D. Freeman	58	Director	1993
James E. Smith	67	Director	1997

Class III: Term to expire in 2013

Kevin L. Riley	56	Director	1995
David T. Turner	55	Chairman, President, CEO and Director	1997

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 and the basis for the conclusion that each such person should serve on our board?

Described below is the business experience for at least 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, as well as the specific experience, qualifications, attributes and skills of each such person that led to the conclusion that such person should serve on our board.

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. Mr. Dudenhoeffer's experience in the banking industry, his familiarity with Hawthorn Bank and many of its customers resulting from his decades of service, and his accounting training and experience led to the conclusion that he should serve on our board. His long tenure in our executive and board leadership helps to link our board to the mission and values that have served our company so well over the years.

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. The conclusion that Mr. Freeman should serve on our board is founded on his over 35 years of experience in managing a successful business with compassion, which experience has given him an appreciation for the needs of people in our market and earned him the respect of many in the Jefferson City business community. His leadership on various committees of the board has been accompanied by his development of a high level of competency and expertise in areas of focus for our board, including executive compensation, financial reporting and investor relations.

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 Buick GMC Cadillac, Inc. and Riley Toyota Scion, 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. Mr. Riley's years of experience in managing a successful automobile dealership (for which customer financing is an important part) and in regularly coming in contact with people in our market are of value to our company and led to the conclusion that he should serve on our board. Board discussions and decisions benefit from his knowledge of customer relationship management.

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 chairman and chief executive officer of Hawthorn Bank from May 2000 through December 2010 and as chairman and chief executive officer of our company from March 2002 through December 2010. Prior to serving in those capacities, he served as vice chairman of our company from 1998 through March 2002, as president and secretary of Hawthorn Bank from 1975 through May 2000, as president of a

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. Mr. Smith's leadership and experience in the banking industry and tireless determination in promoting the interests of Hawthorn Bank led to the conclusion that he should serve on our board. This conclusion is further supported by his years of service as our chief executive officer, which have provided the board with information gained from hands-on management of our operations including the identification of our near-term and long-term challenges and opportunities.

David T. Turner has served as a director of our company and of Hawthorn Bank (or of its constituent predecessors) since January 1997. He has served as president of our company since March 2002 and as chairman and chief executive officer of our company since January 2011. He also currently serves as chairman, chief executive officer and president of Hawthorn Bank. Mr. Turner has served as vice chairman of our company from June 1998 through March 2002 and as senior vice president of our company from 1993 until June 1998. He 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. The conclusion that Mr. Turner should serve on our board is founded on his experience in the banking industry and familiarity with Hawthorn Bank and many of its customers. He brings valuable insights gained from his career at Hawthorn Bank in developing and promoting lasting customer relationships, sound ethical practices and a dedicated, service-oriented staff.

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. Dr. Wetzel's operation of a successful health care practice has given him an appreciation for the needs of others and earned him the trust of many in the Clinton area. These factors and his familiarity with Hawthorn Bank and many of its customers led to the conclusion that he should serve on our board.

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, 2012. 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 2012 financial statements and internal control over financial reporting, 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 may be 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 2011 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, 2011 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."

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 Emergency Economic Stabilization Act of 2008 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 SEC. As a result of our participation in TARP, shareholders are being given the opportunity at the annual meeting to cast an advisory vote on the compensation of our company's executives.

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 proxy statement for the 2012 annual meeting of shareholders pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the compensation discussion and analysis and the tabular and narrative disclosure regarding named executive officer compensation.

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

Board Leadership Structure

Our company is led by David T. Turner, who has served as our president since March 2002 and as our chief executive officer and chairman of the board of directors since January 2011. Our board of directors is comprised of Mr. Turner and five other directors, including four directors who satisfy NASDAQ's independence requirements. Our corporate governance guidelines provide that our independent directors will meet regularly in executive session. Our company does not have a member of our board who is formally identified as the lead independent director. However, Philip D. Freeman may fulfill the function of a lead independent director in some respects through his service as chairman of each of our board's three standing committees—the audit committee, the compensation committee, and the nominating and corporate governance committee. Each of the board committees is comprised solely of our four independent directors. In meetings of the three board committees, as well as separate meetings in executive session, our four independent directors are lead by Mr. Freeman.

Our board leadership structure has been effective for our company. We believe that having a combined chief executive officer and chairman of the board and an independent chair for each of our board committees currently provides the right form of leadership for our company. A combined chairman and chief executive officer role allows for more productive meetings. The chief executive officer is the individual selected by the board of directors to manage our company on a day to day basis, and his direct involvement in our business operations makes him best positioned to lead productive board strategic planning sessions and determine the time allocated to each agenda item in discussions of our company's short- and long-term objectives. In addition to the leadership provided by our chairman and chief executive officer, we have oversight of company operations by experienced independent directors who are lead by a single independent director.

Risk Oversight

Although it is management's job to assess and manage our company's exposure to risk, our board of directors oversees our company's risk management and establishes policies that govern the process. Our board strives to ensure that risk management is incorporated into our company's culture, and to foster risk-aware and risk-adjusted decision-making throughout the organization. Our board also establishes standards for risk management by approving policies and directives that address and mitigate our company's most material risks. These include policies and directives addressing credit risk, interest rate risk, capital risk, and liquidity risk, as well as regulatory compliance. Our risk management processes are designed to bring to our board's attention our most material risks through various reports presented by management, including our chief risk officer, internal and external auditors, and regulatory examiners, and to enable our board to understand the risks and how they are addressed.

In overseeing our company's risk management, our board conducts much of its risk oversight activities through our audit committee, which works closely with our chief risk officer. Our audit committee meets at least six times each year with our chief risk officer and other members of management and receives a comprehensive report on enterprise risk management, including management's assessment of risk exposures (including risks related to liquidity, credit, operations and regulatory compliance, among others), and the processes in place to monitor and control such exposures. Our chief risk officer provides a presentation on enterprise risk management to the full board at least once each year. From time to time our audit committee also receives updates between meetings from our chief risk officer, our chief executive officer, our chief financial officer and other members of management relating to risk oversight matters. Our audit committee reports to the full board of directors after each meeting of the committee.

In addition to our audit committee, our board relies on our compensation committee for risk oversight activities within its area of responsibility. Our compensation committee most closely monitors the risks to which

our compensation policies and practices could subject us. In performing these functions, the committee considers input from our chief risk officer and other members of management. In 2011, the committee reviewed our compensation programs and determined that they do not subject our company to unnecessary or excessive risk or motivate staff members to manipulate our earnings and therefore are not reasonably likely to have a material adverse effect on our company.

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 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, 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. The committee does not assign specific weights to particular factors and no particular factor is necessarily applicable to all prospective nominees. No person will be eligible to stand for election as a director if he or she has been convicted of a felony without right of further appeal. In addition, no person may serve as a director after the end of the term in which his or her 75th birthday occurred, nor may any person be eligible to stand for election as a director after his or her 75th birthday. The committee does not have a formal policy concerning its consideration of diversity in identifying director nominees. Although the committee may consider diversity in identifying director nominees, it did not do so with respect to the selection of the nominees.

for this annual meeting. The committee seeks to identify and recruit the best available candidates, without regard to race, color, religion, sex, ancestry, national origin or disability.

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 Shareholder Proposals.

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. Dudenhoeffer, 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. Dudenhoeffer, 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) under Governance Documents. The audit committee met six times during 2011.

Compensation Committee. The compensation committee of our board of directors currently is comprised of Mr. Freeman, its chairman, and Messrs. Dudenhoeffer, 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) under Governance Documents. The compensation committee met two times during 2011.

Nominating and Corporate Governance Committee. The members of our nominating and corporate governance committee currently are Mr. Freeman, its chairman, and Messrs. Dudenhoeffer, 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) under Governance Documents. The

nominating and corporate governance committee did not meet during 2011, but took various actions by written consent of all committee members.

Meetings of the Board

During 2011 our board of directors held five 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. All of our directors are also board members of our of our subsidiary bank, which meets on a monthly basis.

The independent non-management members of our board of directors regularly hold executive sessions without management present. At least one executive session per year is attended by only independent non-management directors.

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. With the exception of Mr. Riley, each director was present at the annual meeting of the shareholders held in June 2011. 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, including our principal executive officer and our principal financial officer. A copy of the code of business conduct and ethics is available without charge 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) 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 and, if required by rules of the SEC or NASDAQ, in reports we file with the SEC.

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.

Mr. Smith retired as chairman and chief executive officer of our company and of our subsidiary bank effective December 31, 2010. Since that time, however, Mr. Smith has continued to be involved with our company on a consulting basis and for special projects, and currently is employed by our company on an at will basis with an annualized salary of \$200,000.

Compensation earned in 2011 by each person serving as a director during such year (other than any director who is a named executive officer in the summary compensation table under Executive Compensation and Related Matters below) for service on our board and its committees is presented in the table below.

Name	Fees Earned or Paid in Cash	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation	Total
	(\$ (1))	(\$ (2))	(\$ (3))	(\$)
Charles G. Dudenhoefter, Jr.	32,600	0	0	32,600
Philip D. Freeman	31,500	0	0	31,500
Kevin L. Riley	30,500	0	0	30,500
James E. Smith	0	113,000	211,766	324,766
Gus S. Wetzel, II	30,000	0	0	30,000

- (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
	(\$)	(\$)	(\$)	(\$)
Mr. Dudenhoefter	18,000	6,500	8,100	32,600
Mr. Freeman	18,000	6,500	7,000	31,500
Mr. Riley	18,000	6,000	6,500	30,500
Mr. Smith	0	0	0	0
Dr. Wetzel	18,000	5,500	6,500	30,000

- (2) The amounts in this column only reflect the actuarial increase in the present value of Mr. Smith's benefits under all qualified and non-qualified pension plans established by our company, determined using interest rate and mortality rate assumptions consistent with those used in our consolidated financial statements and include amounts which the director may not currently be entitled to receive because such amounts are not vested.
- (3) The amounts in this column reflect for Mr. Smith:
\$200,000 of compensation for consulting and special project services provided by Mr. Smith for our company and Hawthorn Bank;
contributions to the Hawthorn Bancshares, Inc. Profit-Sharing 401(k) Plan (and its predecessor plans) paid by our company;
life insurance premiums paid by our company;
our incremental cost attributable to personal use of a company-provided automobile (calculated in accordance with Internal Revenue Service guidelines); and
country club membership dues paid by our company.

Compensation Committee Interlocks and Insider Participation

Members of our compensation committee are Mr. Freeman, its chairman, Mr. Dudenhoefter, Jr., Mr. Riley and Dr. Wetzel. As discussed below under Executive Compensation and Related Matters--Compensation Discussion and Analysis, in 2011 Mr. Turner, 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. Turner is an officer and employee of our company and its subsidiary bank and Mr. Smith is a former officer and employee 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 2011. Messrs. Dudenhoefter, Freeman, 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 collectability 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 former principal financial officer and our only other executive officer for 2011, 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. In each case, this compensation discussion and analysis describes the compensation program that would apply to our senior executives absent the restrictions described below under the caption TARP Executive Benefit Plan Limitations. 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. 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 may retain 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 2011.

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.

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. David Turner, our chief executive officer, and 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.

Historically, the principal components of compensation for our executive officers have been:

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). Not all components of the compensation program are currently available due to limitations described below under the caption "TARP Executive Benefit Plan Limitations." 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:

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, 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 2011 as follows: Mr. Turner 0%; Mr. Rose 11%; and Ms. Bruegenhemke 2%. The base

salaries 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 has been an important part of our compensation program in that it was designed to provide 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 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 2011 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. 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.

Tier	Threshold	Target	Maximum
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 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.

As described below under the caption "TARP Executive Benefit Plan Limitations," we currently are prohibited from paying or accruing any bonus or incentive compensation to our five most highly compensated employees.

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.

No stock options were awarded during 2011. As described below under the caption "TARP Executive Benefit Plan Limitations," we currently are prohibited from paying or accruing any equity incentive compensation with the exception of payments made in the form of restricted stock to our five most highly compensated employees.

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 Mr. Turner with the use of an automobile because his responsibilities for our company and affiliate bank requires that he travel to our various branch offices on a regular basis. He may use the automobile for his personal use as well. Our company pays local country club membership dues on behalf of Messrs. Turner and Rose to assist them in developing and enhancing business relationships in our markets. Considered both individually and in the aggregate, we believe that the perquisites we offer to our named executive officers are reasonable and appropriate. No named executive officers received perquisites in excess of \$25,000 in 2011.

Employment and Change in Control Agreements

Our company generally does not enter into employment agreements with its executives. None of our named executive officers currently has an employment agreement.

Our company 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 2011. The benefits provided under these agreements do not impact the committee's decisions regarding other elements of the executives' compensation. Since these agreements provide contingent compensation, not regular compensation, they are evaluated separately in view of their intended purpose.

The terms and conditions of our outstanding stock options provide for immediate vesting in the event of a change in control. This single trigger provision is the same for all optionees. The acceleration of equity vesting in a change in control is a common market practice, designed to ensure that ongoing employees receive the benefit of the transaction by having the opportunity to realize value from their equity awards at the time of the deal.

As described below under TARP Executive Benefit Plan Limitations, we currently are prohibited from making any golden parachute payment, including any payment under the agreements described below under the caption Change of Control Agreements.

Tax Considerations

Section 162(m) of the Internal Revenue Code generally disallows an income tax deduction to public companies for compensation over \$1 million paid to certain executive officers. Under TARP, however, this limit was reduced to \$500,000. Our policy is to take reasonable and practical steps to avoid or minimize compensation that exceeds the cap so that all or most compensation is tax deductible. All compensation paid to our named executive officers in 2011 was deductible for federal income tax purposes.

TARP Executive Benefit Plan Limitations.

In December 2008, we elected to participate in the United States Treasury's Capital Purchase Program under TARP by issuing and selling to the Treasury shares of our Fixed Rate Cumulative Perpetual Preferred Stock and a warrant to purchase shares of our common stock. As a condition to this participation, our company agreed to certain executive compensation restrictions and corporate governance standards required by Section 111(b) of the Emergency Economic Stabilization Act of 2008 or EESA (as amended by the American Recovery and Reinvestment Act of 2009). Until the Treasury no longer owns any of our debt or equity securities, our company will be required to comply with these restrictions and standards, including the following requirements:

Our compensation structure must exclude incentives for senior executive officers or CEOs to take unnecessary and excessive risks that threaten the value of our company;

We are prohibited from paying or accruing any bonus, retention award or incentive compensation to our five most highly compensated employees (with exceptions for payments made in the form of restricted stock);

We must recover any bonus, retention award or incentive compensation paid to our CEOs or to our next twenty most highly compensated employees if it is based on materially inaccurate statements of earnings, revenues, gains or other criteria;

We must adopt an excessive or luxury expenditures policy;

We are prohibited from making any golden parachute payment to our SEOs or next five most highly compensated employees;

We are prohibited from having employee compensation plans that encourage manipulation of our reported earnings to enhance an employee's compensation;

We are prohibited from making tax gross-up payments to our SEOs or next twenty most highly compensated employees; and

We must submit a non-binding resolution on SEO compensation to our shareholders for their consideration and approval.

In 2009, each of our SEOs and our next five most highly compensated employees, entered into a letter agreement with us to ensure that their compensation arrangements and benefits comply with the relevant elements of EESA and the Treasury's interim final rule promulgated under EESA. We did not obtain a letter agreement from any additional employees in 2011, as each of our SEOs and next five most highly compensated employees are already a party to such an agreement. The letter agreements remain in effect as long as the Treasury holds securities of our company acquired pursuant to the Capital Purchase Program. Specifically, the letter agreements:

prohibit any golden parachute payment (generally defined as any payment for the departure of an employee from our employment for any reason), including any payment under the agreements described below under Change of Control Agreements;

prohibit bonus and incentive compensation payments to any of our five most highly compensated employees;

provide that any bonus and incentive compensation is subject to recovery by us if all or any portion of such bonus or incentive compensation is later determined to have been paid on the basis of materially inaccurate statements of earnings, gains, or other criteria; and

prohibit us from paying any tax gross-up or other reimbursements for the payment of taxes.

In furtherance of the letter agreements, our board of directors has established a policy prohibiting any of our twenty most highly compensated employees from receiving any tax gross-up or other reimbursements for the payment of taxes. This policy also provides that any payments of bonus or incentive compensation to any of those employees would be conditioned upon our receipt of a written agreement from such employee that such payment would be subject to recovery by us if all or any portion of it is later determined to have been paid on the basis of materially inaccurate statements of earnings, gains, or other criteria.

Our board of directors also has adopted a luxury expenditures policy. This policy prohibits our officers, directors, employees and agents from making any excessive expenditures on entertainment and events, office or facility renovations or aviation or other transportation services. In addition, this policy provides that our expenditures for conferences, staff development, performance incentives and similar activities are to be reasonable.

Risk Management.

EESA requires our compensation committee to meet with senior risk officers at least every six months to discuss, evaluate and review our SEO and employee compensation plans and the risks such plans pose to us. On April 14, 2011 and September 14, 2011, our compensation committee met with our senior risk officer to review our SEO and employee compensation programs in view of the compensation and corporate governance standards set by the United States Treasury that are applicable to TARP recipients. In the compensation committee discussions with members of our management team and our senior risk officer, the committee identified three types of risk our SEO and employee compensation plans may pose to our company:

operational risk, including compliance risk and possible defection of management;

credit risk, including default risk and risk posed by poorly monitored underwriting standards; and

market risk, including risks that accompany prolonged macroeconomic downturns and lack of liquidity.

Our compensation committee reviewed all of our CEO and employee compensation plans (each of which is described in this proxy statement under "Executive Compensation and Related Information") and concluded that these arrangements serve the purpose of long-term value creation, reaching an appropriate balance of risk and reward without encouraging or otherwise providing incentives for any CEO or other employee to focus on business activities and practices that favor short-term results over long-term financial growth and stability. While our management seeks to identify and reward employee achievement and production, it is careful to ensure that all incentives within an employee's compensation package are aligned with the long-term financial stability of our company. Accordingly, our incentive plans (1) are based upon long-term productivity and profitability of our company, (2) do not provide incentives to engage in disproportionately risky banking activities and (3) are based on a global assessment of an employee's performance; not short-term or one-time achievements. We have a zero tolerance policy for employee dishonesty in all forms. Any manipulation or misrepresentation of earnings would merit immediate termination of employment.

Compensation Committee Report

The compensation committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of the SEC's Regulation S-K. Based on such review and discussions, the compensation committee recommended to our board of directors that the Compensation Discussion and Analysis be included in this proxy statement and, through incorporation by reference from this proxy statement, our company's annual report on Form 10-K for the year ended December 31, 2011.

EESA requires, at least once per fiscal year, TARP recipients to disclose how our CEO and employee compensation plans do not encourage (i) unnecessary and excessive risk-taking or behavior focused on short-term results rather than long-term value creation, and (ii) the manipulation of reported earnings to enhance compensation. The required disclosure appears under the caption "Executive Compensation and Related Matters - Compensation Discussion and Analysis - Risk Management."

The compensation committee certifies that:

It has reviewed with senior risk officers our executive compensation program, including the compensation arrangements for our CEOs, and has made all reasonable efforts to ensure that such arrangements do not encourage our CEOs to take unnecessary and excessive risks that threaten the value of our company;

It has reviewed with senior risk officers our employee compensation plans and has made all reasonable efforts to limit any unnecessary risks these plans pose to our company; and

It has reviewed our employee compensation plans to eliminate any features of these plans that would encourage the manipulation of our reported earnings to enhance the compensation of any employee.

Compensation Committee

Philip D. Freeman

Charles G. Dudenhoefter, Jr.

Kevin L. Riley

Gus S. Wetzel, II

Summary Compensation Table

The following summary compensation table summarizes the compensation paid or accrued by our company and/or subsidiary bank (or its constituent predecessors) in the years indicated with respect to our chief executive officer, our former principal financial officer and our only other executive officer for 2011. In this proxy statement, these individuals are referred to as our named executive officers.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Option Award (\$)(1)	Non- Equity Incentive Plan Compensation (\$)(2)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)(3)	All other Compensation (\$)(4)	Total (\$)
David T. Turner Chairman, President & CEO	2011	303,100	--	--	--	162,000	21,031	486,131
	2010	303,100	--	--	--	78,000	17,420	398,520
	2009	278,100	--	--	--	50,000	23,306	351,406
Richard G. Rose Former Chief Financial Officer	2011	158,683	--	--	--	67,000	11,898	237,580
	2010	143,000	--	--	--	39,000	9,570	191,570
	2009	130,000	--	--	--	34,000	12,808	176,808
Kathleen L. Bruegenhemke Chief Risk Officer & Secretary	2011	113,702	--	--	--	33,000	3,724	150,426
	2010	111,725	--	--	--	14,000	3,357	129,082
	2009	109,000	--	--	--	10,000	6,011	125,011

- (1) The amounts in this column reflect the aggregate grant date fair value of the option awards computed in accordance with FASB ASC 718. Assumptions used in the calculation of these amounts are included in footnote 11 to our consolidated financial statements included in our 2011 annual report to shareholders, which was filed with the SEC as an exhibit to our Annual Report on Form 10-K for that year.
- (2) The amounts in this column reflect compensation under our incentive bonus program for each named executive officer, which is discussed above under the caption Compensation Discussion and Analysis -- Compensation Components -- Incentive Compensation.
- (3) The amounts in this column only reflect the actuarial increase in the present value of the named executive officer's benefits under all qualified and non-qualified pension plans established by our company, determined using interest rate and mortality rate assumptions consistent with those used in our consolidated financial statements and include amounts which the named executive officer may not currently be entitled to receive because such amounts are not vested.
- (4) The amounts in this column for 2011 reflect:
 - contributions to the Hawthorn Bancshares, Inc. Profit-Sharing 401(k) Plan (and its predecessor plans) paid by our company for each named executive officer;
 - life insurance premiums paid by our company for each named executive officer;
 - our incremental cost attributable to personal use by Mr. Turner of a company-provided automobile (calculated in accordance with Internal Revenue Service guidelines); and
 - country club membership dues paid by our company for each of Messrs. Turner and Rose.

Grants of Plan Based Awards

None of the named executive officers received grants of plan based awards during the year ended December 31, 2011.

Option Exercises and Stock Vesting

None of the named executive officers exercised any stock options, or acquired shares on vesting, during the year ended December 31, 2011.

Outstanding Equity Awards at Fiscal Year End

The following table sets forth information with respect to each named executive officer concerning options held as of December 31, 2011. None of the named executive officers held any stock awards or other equity incentive plan awards as of December 31, 2011.

Name		Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Option Awards	Option Exercise Price (\$)	Option Expiration Date
				Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)		
David T. Turner	2008 Grant(1)	0	7,228	0	18.68	9/22/2018
	2007 Grant(2)	0	8,057	0	29.78	4/27/2017
	2006 Grant(3)	2,167	5,422	0	26.63	3/3/2016
	2005 Grant	7,757	0	0	25.29	4/21/2015
	2004 Grant	6,139	0	0	31.34	2/19/2014
	2003 Grant	7,423	0	0	23.62	3/3/2013
	2002 Grant	8,725	0	0	16.60	