

HAWTHORN BANCSHARES, INC.

Form DEF 14A

April 08, 2008

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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.
 - 1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

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):

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

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Hawthorn Bancshares, Inc.
300 Southwest Longview Boulevard
Lee s Summit, Missouri 64081

April 18, 2008

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 3, 2008, 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 three Class I directors and a proposal to ratify the selection of our independent registered public accounting firm. 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 telephone, by Internet, 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 3, 2008**

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 3, 2008, 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 three Class I directors to hold office for a term expiring at our 2011 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, 2008; and
3. 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. Our board of directors has approved the proposals and recommends that you vote **FOR** the election of each nominee for director named in the accompanying proxy statement and **FOR** the ratification and approval of KPMG LLP as our independent registered public accounting firm. Before voting, you should carefully review all of the information contained in the accompanying proxy statement.

Our board of directors has fixed the close of business on March 31, 2008 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 of shareholders or any adjournment thereof. Our board of directors solicits 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

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

April 18, 2008

Jefferson City, Missouri

YOUR VOTE IS IMPORTANT. WHETHER OR NOT YOU EXPECT 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.

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

PROXY STATEMENT

**ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD JUNE 3, 2008**

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. 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 18, 2008. 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.

What information is contained in these materials?

The information included in this proxy statement relates to the proposals to be voted on at the annual meeting, the voting process, the compensation of directors and our most highly paid executive officers, and certain other required information. Our annual report to shareholders for 2007, which contains our audited financial statements, a proxy card or voting instruction form, and a return envelope accompany this proxy statement.

When and where will the annual meeting be held?

The annual meeting of shareholders will be held on Tuesday, June 3, 2008, commencing at 9:00 a.m., local time, at Hawthorn Bank s facility located at 132 East High Street, Jefferson City, Missouri. 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 three Class I directors to hold office for a term expiring at our 2011 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; and

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

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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; and

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

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 31, 2008 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, 4,169,495 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 (1) shares held directly in your name as the shareholder of record, (2) shares held for you in our company benefit plans, and (3) shares held for you as the beneficial owner through a broker, trustee or other nominee, sometimes referred to as shares held in street name.

How do I submit my vote?

Shares held by the stockholder of record. If your shares are registered directly in your name with our transfer agent, you are considered the shareholder of record. As the shareholder of record, you may vote your shares at the annual meeting in one of two ways. You may attend the annual meeting and vote your shares in person. Alternatively, you may vote your shares by following the specific voting instructions appearing on the enclosed proxy card. Generally, you may vote by telephone, by Internet, or by completing, signing and returning the proxy card in the enclosed postage prepaid envelope. If you vote by telephone or by Internet, you do not need to return the proxy card. The persons designated as proxies were selected by our board of directors.

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 enclosed voting instruction 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.

Shares held in street name. If you hold shares in street name, you are receiving a voting instruction card from your broker, trustee or other nominee. 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 card. 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.

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 before the deadline specified in the proxy card;

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

completing a written ballot at the annual meeting.

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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 prior to the deadline specified in the voting instructions furnished by the plan trustee or administrator.

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.

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

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 in response to the following question) 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 our company benefit plans, they will be voted in accordance with your voting instructions. If you provide no instructions for shares held in our company benefit plans or the plan trustee or administrator does not receive your completed voting instruction card prior to the deadline specified in the voting instruction form, the shares credited to your account will not be voted.

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 permitted to vote your shares on proposals that are considered routine. A broker non-vote occurs when a broker or other nominee returns a proxy card that is unmarked on one or more proposals because the broker lacks authority to vote on those proposals without instructions from the beneficial owner. If your broker or other nominee does not vote your shares on any proposal, such broker non-vote is not counted with respect to such proposal. This means that a broker non-vote would reduce the number of affirmative votes that are necessary to approve the proposal.

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. Votes withheld from a particular nominee will have the same effect as a vote against the nominee. Shareholders do not have cumulative voting rights in the election of directors.

Selection of Accounting Firm and Other Matters. Approval of the proposal to ratify and approve the selection of KPMG LLP as our independent registered public accounting firm 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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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 herein 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. None of our employees are compensated above and beyond their regular salaries for their proxy solicitation services. 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.

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

We will announce preliminary voting tabulations at the annual meeting and publish the final results in our quarterly report on Form 10-Q for the quarter ending June 30, 2008.

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 and annual reports with respect to two or more shareholders sharing the same address by delivering a single proxy statement 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, you must provide written notification to our corporate secretary to withhold your consent for householding.

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

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 three directors in Class I to serve for a three-year term expiring at the annual meeting of shareholders in 2011 and until their respective successors are duly elected and qualified or until their respective earlier resignation or removal.

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Our board of directors currently consists of seven persons. 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. Dudenhoeffer, Jr., Philip D. Freeman and James E. Smith, the three directors in Class I, expire at this annual meeting. Directors in Class II (Julius F. Wall and Gus S. Wetzel, II) and Class III (Kevin L. Riley and David T. Turner) have terms expiring at the time of the annual meeting of shareholders in 2009 and 2010, respectively. Our board of directors has determined that Messrs. Dudenhoeffer, Freeman, Riley, Wall and Wetzel each satisfies the independence requirements of the NASDAQ Global Market or NASDAQ.

Who are this year's nominees?

The nominating and corporate governance committee of our board of directors has designated Charles G. Dudenhoeffer, Jr., Philip D. Freeman and James E. Smith as the three 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 these three nominees. The following table sets forth certain information with respect to each person nominated for election as a Class I 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
NOMINEES			
Class I: Term to expire in 2011			
Charles G. Dudenhoeffer, Jr.	68	Director	1993
Philip D. Freeman	54	Director	1993
James E. Smith	63	Chairman, CEO and Director	1997
DIRECTORS CONTINUING IN OFFICE			
Class II: Term to expire in 2009			
Julius F. Wall	74	Director	2006
Gus S. Wetzel, II	67	Director	1999
Class III: Term to expire in 2010			
Kevin L. Riley	52	Director	1995
David T. Turner	51	President 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?

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,

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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 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.

Julius F. Wall has served as a director of Hawthorn Bank (or one of its constituent predecessors) since 2000 and of our company since October 2006. He has been an attorney with the Clinton, Missouri law firm of Poague, Wall, Cox & Adams LLC since 1960.

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. Dudenhoefter, Jr., Philip D. Freeman and James E. Smith as Class I directors.

ITEM 2: RATIFICATION OF 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, 2008. 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 2008 financial statements, our company entered into an engagement agreement with

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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 2007 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, 2007 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.

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 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. 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;

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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.

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 Wetzell. 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 thereon to the board of directors. A more complete description of the audit committee's functions is provided in its charter, a copy of which is

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available on our internet website (www.hawthornbancshares.com) under Governance Documents. The audit committee met eight times during 2007.

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 four times during 2007.

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 met once during 2007.

Meetings of the Board

During 2007 our board of directors held 11 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. With the exception of Mr. Riley, all directors were present at the annual meeting of the shareholders held in June 2007. 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) under Governance Documents.

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.

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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.

Until The Exchange National Bank of Jefferson City consolidated into Hawthorn Bank in October 2007, all directors of our company (other than Mr. Wall and Mr. Wetzel) were directors of Exchange National Bank, and in that capacity received compensation from Exchange National Bank. For their service to Exchange National Bank as a director in 2007, each of Exchange National Bank's outside (non-employee) directors was paid \$500 for each meeting of the board attended.

Four of our directors—Mr. Smith, Mr. Turner, Mr. Wall and Mr. Wetzel—were directors of Citizens Union State Bank & Trust of Clinton (now known as Hawthorn Bank) prior to its consolidation with Exchange National Bank. Mr. Smith and Mr. Turner were not eligible to receive compensation for their service to Citizens Union State Bank as a director. For their service to Citizens Union State Bank as a director, Mr. Wall and Mr. Wetzel each was paid a quarterly \$300 retainer plus \$300 for each meeting of the board that he attended in person. Mr. Wall and Mr. Wetzel each also received \$100 for each meeting of Citizens Union State Bank's Trust Committee held, and \$100 for each meeting of Citizens Union State Bank's Loan (Discount) Committee that he attended.

Compensation earned in 2007 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 (\$ (2))	Total (\$)
Charles G. Dudenhoeffer, Jr.	37,700	4,551	42,251
Philip D. Freeman	37,500	6,371	43,871
Kevin L. Riley	35,500	6,371	41,871
Julius F. Wall	35,000	0	35,000
Gus S. Wetzel, II	38,500	0	38,500

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

**Hawthorn
Bank and
its Predecessors**

Name	Hawthorn Bancshares Retainer	Hawthorn Bancshares Meeting Fees	Meeting & Retainer Fees
Mr. Dudenhoeffer	18,000	5,500	14,200
Mr. Freeman	18,000	5,500	14,000
Mr. Riley	18,000	5,000	12,500
Mr. Wall	18,000	5,500	11,500
Dr. Wetzel	18,000	5,500	15,000

(2) The amounts in this column reflect earnings on imputed shares of stock of a constituent predecessor of Hawthorn Bank received for prior years bonus deferrals under the bank's director deferred compensation plan and which were actually paid in 2007.

As of December 31, 2007,

Messrs. Dudenhoeffer, Freeman and Riley had 620, 868 and 868 shares imputed to them under that plan.

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 2007 Mr. Smith, our chief executive officer, administered the executive compensation program insofar as it pertained to executive officers other than the chief executive officer. All decisions relating to

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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 were an officer or employee of our company or any of its subsidiaries during 2007. Messrs. 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 three other most highly compensated executive officers for 2007, 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 2007.

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

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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 2007, the principal components of compensation for our executive officers were:

base salary;

performance-based incentive compensation;

long-term equity incentive compensation;

retirement and other benefits; and

perquisites and other personal 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. 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, 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.

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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 2007 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. Tier two generally consists of our company's president and our affiliate bank's president. Tier three consists of senior officers of our company and of our affiliate bank. 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. As provided by the terms of his employment agreement, Mr. Taylor is entitled to receive bonus compensation equal to at least 20% of his base salary. 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 two 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. 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

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growth in the value of our common stock, it is intended that stock options be granted to such persons under our company stock option 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 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. No grants or awards were made under this plan in 2007 as our compensation committee determined that the option grants made to our executives under stock option plan were sufficient to advance the longer term interests of our company and its shareholders.

Retirement and Other 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, Turner and Taylor 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. Our company pays local country club membership dues on behalf of Messrs. Smith, Turner and Rose to assist them in developing and enhancing business relationships in our markets.

Compensation Committee Report

The compensation committee of our board of directors has reviewed and discussed the above Compensation Discussion and Analysis required by Item 402(b) of the SEC's Regulation S-K. Based on such review and discussions, our compensation committee recommended to our board of directors that the Compensation Discussion and Analysis be included in this proxy statement.

Compensation Committee

Philip D. Freeman

Charles G.
Dudenhoefter, Jr.

Kevin L. Riley

Gus S. Wetzell, II

Table of Contents**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 2007 and 2006 with respect to our chief executive officer, our principal financial officer and our three other most highly compensated executive officers. In this proxy statement, these individuals are referred to as our named executive officers.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Award (\$)(1)	Option Compensation (\$)(2)	Non-Equity Incentive Compensation (\$)(3)	Change in Pension Value and Nonqualified Deferred Compensation (\$)(4)	All other Compensation (\$)	Total (\$)
James E. Smith Chairman & CEO	2007	397,116		89,173	50,000	55,000	30,253		621,542
	2006	323,462		57,401	100,000	46,000	33,286		560,149
David T. Turner President	2007	268,846	125	29,993	37,500	28,000	31,785		396,249
	2006	238,544		42,574	75,000	31,000	33,358		420,476
Richard G. Rose Chief Financial Officer	2007	120,789	125	11,688	20,000	18,000	18,730		189,332
	2006	115,908		11,262	17,447	14,000	18,105		176,722
Kathleen L. Bruegenhemke Senior Vice President & Secretary	2007	103,846	125	9,530	16,000	1,000	11,599		142,100
	2006	99,465		9,068	16,000	4,000	11,834		140,367
James H. Taylor, Jr. Senior Vice President & Senior Credit Officer	2007	166,154	125	5,703	32,000	27,000	22,018		253,000
	2006	159,615		1,918	32,000	12,000	4,134		209,667

(1) The amounts in this column reflect the dollar amount recognized for financial statement reporting purposes for, in accordance with SFAS No. 123R, awards pursuant to our incentive stock option plan discussed below under the caption Stock Option Plan. Assumptions used in the calculation of these amounts are included in footnote 16 to our consolidated

financial statements
for the year ended
December 31, 2007
included in our
2007 annual report
to shareholders,
which was filed
with the SEC as an
exhibit to our
Annual Report on
Form 10-K for that
year. As of
December 31, 2007,
the aggregate
number of stock
options held by
each named
executive officer
was as follows:
Mr. Smith (59,891);
Mr. Turner
(49,153); Mr. Rose
(13,871);
Ms. Bruegenhemke
(11,279); and
Mr. Taylor (4,057).

- (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 reflect the actuarial increase in the present value of the named executive officer's benefits under all

defined benefit and actuarial 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 2007 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 each of Messrs. Smith, Turner and Taylor of company-provided automobiles (calculated in accordance with Internal Revenue Service guidelines); and

country club membership dues paid by our company for each of Messrs. Smith, Turner and Rose.

Grants of Plan Based Awards

The following table sets forth information concerning grants of plan based awards to each named executive officer during 2007.

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Name	Grant Date	Estimated Possible Future Payouts Under Non-Equity Incentive Plan Awards (1)			All Other Option Awards: Number of Securities	Exercise or Base Price of	Grant Date Fair Value of Stock and
		Threshold (\$)	Target (\$)	Maximum (\$)	Underlying Options (#)(2)	Option Awards (\$/Sh)	Option Awards (\$)(3)
James E. Smith	4/27/2007	59,567	119,135	178,702	9,656	33.50	68,847
David T. Turner	4/27/2007	40,327	80,654	120,981	7,164	33.50	51,079
Richard G. Rose	4/27/2007	7,247	14,494	21,742	1,736	33.50	12,378
Kathleen L. Bruegenhemke	4/27/2007	6,231	12,462	18,692	1,493	33.50	10,645
James H. Taylor, Jr.	4/27/2007	9,969	19,938	29,908	2,388	33.50	17,026

(1) These estimated future payouts are determined under our incentive bonus program discussed above under the caption Compensation Discussion and Analysis Compensation Components Incentive Compensation. In the case of Mr. Taylor, his employment agreement guarantees a minimum equity incentive award equal to at least 20% of his base compensation.

- (2) These options were granted under our incentive stock option plan.
- (3) Assumptions used in the calculation of these amounts are included in footnote 16 to our consolidated financial statements for the year ended December 31, 2007 included in our 2007 annual report to shareholders, which was filed with the SEC as an exhibit to our Annual Report on Form 10-K for that year.

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, 2007.

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, 2007. None of the named executive officers held any stock awards or other equity incentive plan awards as of December 31, 2007.

Name		Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Awards	Option Exercise Price (\$)	Option Expiration Date
				Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)		
James E. Smith	2007 Grant	0	9,656	0	33.50	4/27/2017

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2006 Grant	9,516	0	0	29.95	3/3/2016
2005 Grant	9,561	0	0	28.45	4/21/2015
2004 Grant	1,704	5,672	0	35.25	2/19/2014
2003 Grant	8,323	0	0	26.57	3/3/2013
2002 Grant	7,500	0	0	18.67	2/14/2012
2000 Grant	7,959	0	0	16.33	12/4/2010

David T.
Turner

2007 Grant	0	7,164	0	33.50	4/27/2017
2006 Grant	0	6,749	0	29.95	3/3/2016
2005 Grant	0	6,898	0	28.45	4/21/2015
2004 Grant	1,317	4,141	0	35.25	2/19/2014
2003 Grant	6,600	0	0	26.57	3/3/2013
2002 Grant	7,758	0	0	18.67	2/14/2012
2000 Grant	8,526	0	0	16.33	12/4/2010

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Name		Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Awards	Option Exercise Price (\$)	Option Expiration Date
				Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)		
Richard G. Rose	2007 Grant	0	1,736	0	33.50	4/27/2017
	2006 Grant	441	1,324	0	29.95	3/3/2016
	2005 Grant	902	902	0	28.45	4/21/2015
	2004 Grant	1,071	357	0	35.25	2/19/2014
	2003 Grant	1,804	0	0	26.57	3/3/2013
	2002 Grant	2,541	0	0	18.67	2/14/2012
	2000 Grant	2,793	0	0	16.33	12/4/2010
Kathleen L. Bruegenhemke	2007 Grant	0	1,493	0	33.50	4/27/2017
	2006 Grant	359	1,078	0	29.95	3/3/2016
	2005 Grant	732	733	0	28.45	4/21/2015
	2004 Grant	846	283	0	35.25	2/19/2014
	2003 Grant	1,461	0	0	26.57	3/3/2013
	2002 Grant	2,038	0	0	18.67	2/14/2012
	2000 Grant	2,256	0	0	16.33	12/4/2010
James H. Taylor, Jr.	2007 Grant	0	2,388	0	33.50	4/27/2017
	2006 Grant	417	1,252	0	29.95	3/3/2016

Stock Option Plan

On February 29, 2000, our board of directors adopted what is now known as the Hawthorn Bancshares, Inc. Incentive Stock Option Plan. The Plan is sponsored by our company for key employees of our company and its subsidiaries, and is intended to encourage such employees to participate in the ownership of our company, and to provide additional incentive for them to promote the success of our business through sharing in the future growth of our business. As of February 29, 2008, options to purchase a total of 242,968 shares of common stock pursuant to the Plan were outstanding.

The Plan is administered by a committee composed of Messrs. Dudenhoeffer, Freeman, Riley and Wetzel. The Plan committee has the power to determine in its discretion the persons to whom options are granted under the Plan, the number of shares covered by those options, and the time at which an option becomes exercisable, subject in each case to the limitations set forth in the Plan. Options can be granted under the Plan only to key employees of our company or any of its subsidiary corporations. The eligibility of the persons to whom options may be granted under the Plan is limited to those persons whom the Plan committee determines have made, or are expected to make, material contributions to the successful performance of our company. The period of up to ten years during which an

option may be exercised, and the time at which it becomes exercisable, are fixed by the Plan committee at the time the option is granted. No option granted under the Plan is transferable by the holder other than by will or the laws of descent and distribution.

The aggregate number of shares of our common stock that may be issued pursuant to the exercise of options granted under the Plan is limited to 450,000 shares, subject to increase or decrease in the event of any change in our capital structure. As of February 29, 2008, options for 193,845 shares remained available for grant under the Plan. Shares subject to options granted under the Plan which expire or terminate without being exercised in full become available, to the extent unexercised, for future grants under the Plan. No consideration is paid to our company by any optionee in exchange for the grant of an option. The per share exercise price for an option granted under the Plan is determined by the Plan committee but may not be less than the greater of the par value or the fair

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market value of our common stock on the date that the option is granted. The Plan provides for automatic adjustments to prevent dilution or enlargement of the optionee's rights in the event of a stock split, stock dividend, reorganization, merger, consolidation, liquidation, combination or exchange of shares, or other change in the capital structure of our company.

2007 Omnibus Incentive Plan

We adopted our 2007 omnibus incentive plan or Equity Plan for the purpose of encouraging employees and non-employee directors of our company, its affiliates and subsidiaries to acquire a proprietary and vested interest in the growth and performance of our company. The Equity Plan also is designed to assist our company in attracting and retaining employees and non-employee directors by providing them with the opportunity to participate in the success and profitability of our company. Equity-based awards also are intended to further align the interests of award recipients and with the interests of our shareholders.

Eligible Participants. The eligible participants in the Equity Plan are all employees of our company, its affiliates and its subsidiaries, including employees who are officers or members of our board of directors, members of our board who are not employees of our company and our advisory board members. Currently, there are approximately 378 officers and employees of our company, its affiliates and its subsidiaries and 60 advisory board members.

Equity Plan Administration. The compensation committee of our board of directors currently administers the Equity Plan and has the sole discretion to administer and interpret the Equity Plan and determine who will be granted awards under the Equity Plan, the size and types of such awards and the terms and conditions of such awards.

Shares Subject to the Equity Plan. The Equity Plan permits the issuance of up to 400,000 shares of our common stock pursuant to awards granted under the Equity Plan. Awards may be made under the Equity Plan in any of the following forms:

Stock Options. A stock option is the right to purchase shares of common stock at a future date at a specified price per share. Both incentive stock options and nonqualified stock options may be granted under the Equity Plan. Incentive stock options are taxed differently from nonqualified stock options, and are subject to more restrictive terms. The per-share exercise price of an option is set by the committee and generally may not be less than the fair market value of a share of our common stock on the date of grant. Options granted under the Equity Plan are exercisable at the times and on the terms established by the committee. The maximum term of an option is ten years from the date of grant.

Stock Appreciation Rights. A stock appreciation right or SAR is the right to receive payment of an amount equal to the excess of the fair market value of a share of common stock on the date of exercise of the stock appreciation right over the grant price of the stock appreciation right. The Equity Plan permits the grant of two types of SARs: freestanding SARs, tandem SARs, or any combination of the two. A freestanding SAR is a SAR that is granted independently of any stock option. A tandem SAR is a SAR that is granted in connection with a related stock option, the exercise of which requires a forfeiture of the right to purchase a share under the related option (and when a share is purchased under the option, the SAR is similarly canceled). The committee has complete discretion to determine the number of SARs granted to any participant and the terms and conditions pertaining to such SARs.

Restricted Stock and Restricted Stock Unit Grants. Restricted stock is a share of our common stock that is issued subject certain restrictions, such as the participant's continued service, or the attainment of specified performance goals and objectives. A restricted stock unit represents the right to receive shares of our common stock (or a cash payment in the place of such shares) at some future date, subject conditions specified by the committee. The committee may establish conditions under which restrictions on shares of restricted stock or restricted stock units lapse over a period of time or according to such other criteria as the committee deems appropriate, including the achievement of specific performance goals.

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Performance Unit and Performance Shares. Performance units and performance share awards are bonuses payable in cash, common stock or a combination of cash and stock. Each performance unit and performance share will represent the right of the participant to receive an amount based on the value of the performance unit or share, if performance goals established by the committee are met. A performance unit will have a value based on such measurements or criteria as the committee determines. A performance share will have a value equal to the fair market value of a share of our common stock. When an award of these are granted, the committee will establish a performance period during which performance will be measured. At the end of each performance period, the committee will determine to what extent the performance goals and other conditions of the performance units or shares are met.

Bonus Shares and Deferred Shares. The Equity Plan permits the grant of shares to participants from time-to-time as a bonus. Such shares may be paid on a current basis or may be deferred and paid in the future. Our board of directors or the committee may impose such conditions or restrictions on any such deferred shares as it may deem advisable, including time-vesting restrictions and deferred payment features.

Restrictions on Transfer. Awards under the Equity Plan generally are not transferable by the recipient other than by will or the laws of descent and distribution, and generally are exercisable, during the recipient's lifetime, only by the recipient. Any amounts payable or shares issuable pursuant to an award generally will be paid only to the recipient or the recipient's beneficiary or representative.

Changes in Capital or Corporate Structure. If, without the receipt of consideration by our company, there is any change in the number or kind of shares of our common stock outstanding by reason of a stock dividend or any other distribution upon the shares payable in stock, or through a stock split, subdivision, consolidation, combination, reclassification or recapitalization, the maximum number of shares of our common stock available for grants, the maximum number of shares of our common stock that any individual participating in the Equity Plan may be granted in any year, and the number of shares covered by outstanding grants will be appropriately adjusted by the committee to reflect any increase or decrease in the number of issued shares of our common stock to preclude, to the extent practicable, the enlargement or dilution of rights and benefits under such grants. Any fractional shares resulting from such adjustment will be eliminated. Adjustments determined by the committee are final, binding and conclusive.

If our company undergoes a change of control, as that term is defined in the Equity Plan, each option, share of restricted stock and other grant held by a non-employee director will, without regard to any vesting schedule, restriction or performance target, automatically become fully exercisable or payable, as the case may be, as of the date of the change of control.

Profit-Sharing 401(k) Plan

We have established a profit-sharing plan under which all employees of the controlled group of corporations (namely, our company and our affiliate bank) who have completed one year of service and attained age 21 are eligible to participate. The members of the controlled group may make a discretionary contribution to the trust associated with the plan. In general, the contributions by members of the controlled group to the trust for any given year are allocated to the accounts of the participants in direct proportion to the compensation of the participants for such year. The plan permits eligible participants to make elective deferrals up to a maximum dollar amount as set forth by law. These deferrals and earnings thereon are fully vested. There is no employer match to such deferrals.

Each participant may direct the trustee as to investment of his or her account. At the direction of a participant, the trustee can invest assets in a participant's account in our common stock. Each participant may direct the trustee with respect to the voting of shares of our stock allocated to his account on such matters upon which shareholders are entitled to vote. As of February 29, 2008, the trust held 154,080 shares (or 3.7%) of our outstanding common stock.

The interest of a participant in employer contributions is subject to graded vesting over five years. After five years a participant becomes fully vested in the value of his or her employer contribution account. A participant whose employment terminates because of his or her normal retirement, death, or permanent disability is also fully

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vested. Payments are made to participants upon termination of service. A participant may withdraw his or her own contributions, but a participant may not borrow from the trust. The plan and the trust is administered by a retirement committee which is appointed by our board of directors.

The following table sets forth information with respect to each named executive officer concerning contributions, earnings and distributions under our profit-sharing plan and trust in 2007, as well as the year-end balance as of December 31, 2007.

Name	Executive Contributions in Last Fiscal Year (\$)	Registrant Awards/ Contributions in Last Fiscal Year (\$)	Aggregate Earnings in Last Fiscal Year (\$)	Aggregate Withdrawals/ Distributions (\$)	Aggregate Balance at Last Fiscal Year-End (\$)
James E. Smith	19,158	23,233	56,282	0	790,147
David T. Turner	8,205	23,233	(39,617)	0	1,263,648
Richard G. Rose	11,912	13,916	(1,658)	0	193,364
Kathleen L. Bruegenhemke	14,158	11,777	(75,020)	0	295,569
James H. Taylor, Jr.	4,000	18,969	2,876	0	25,845

Pension Plan

We have established a defined benefit plan for employees of our company and of our affiliate bank. Under the plan, all full-time employees become participants on the earlier of the first of June or the first of December coincident with or immediately following the later to occur of (i) the completion of one year of service or (ii) the attainment of the age of 21, and continue to participate so long as they continue to be full-time employees, until their retirement, death or termination of employment prior to normal retirement date. The plan has a five-year vesting schedule under which a participant becomes fully vested in his accrued benefit after completing five years of service. This plan provides for the payment of retirement and death benefits that are funded by investments which, at December 31, 2007, had an aggregate market value of \$6,968,205.

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/her average compensation over a ten-year period, less 50% of his social security benefit. Compensation covered by the plan is an employee's W-2 compensation plus deferrals under the cafeteria plan and 401(k) plan. Amounts reported in the compensation table include salaries, directors' fees, commissions and bonuses. For employees with less than 25 years of continuous service, retirement benefits are reduced proportionally. Provision is made for early or late retirement and optional payment provisions are available. For a married participant, payment is by monthly benefit to the participant during his or her lifetime, and 50% of that amount is paid to the spouse monthly during the spouse's life after the participant's death. For an unmarried participant, payment is by a lifetime monthly benefit, with payments guaranteed for the first 120 months.

The table below shows the present value of accumulated benefits payable to each of the named executive officers, including the number of years of service credited to each such named executive officer, under the plan determined using interest rate and mortality rate assumptions consistent with those used in our consolidated financial statements.

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Name	Plan Name	Number of Years Credited Service (#)	FY 2007		Payments During Last Fiscal Year (\$)
			Change in Present Value of Accumulated Benefit (\$)	Present Value of Accumulated Benefit (\$)	
James E. Smith	Hawthorn Bancshares, Inc. Retirement Plan	9	55,000	291,000	
David T. Turner	Hawthorn Bancshares, Inc. Retirement Plan	29	28,000	240,000	
Richard G. Rose	Hawthorn Bancshares, Inc. Retirement Plan	8	18,000	83,000	
Kathleen L. Bruegenhemke	Hawthorn Bancshares, Inc. Retirement Plan	15	1,000	31,000	
James H. Taylor, Jr.	Hawthorn Bancshares, Inc. Retirement Plan	2	27,000	38,000	

Employment Agreements

James E. Smith. Our company has entered into an employment agreement with James E. Smith. The agreement had an initial three-year term which expired on November 3, 2000, but was subject to automatic extensions of one additional year upon the expiration of each year prior to Mr. Smith's 62nd birthday (unless either party were to give notice not to so extend the term). The last of the automatic extensions has been applied and the agreement is scheduled to expire on November 3, 2009. The agreement provides for an annualized base salary of at least \$110,000, and eligibility for merit-based increases. Mr. Smith's annual salary currently is \$400,000. In addition to base salary, the agreement also provides that Mr. Smith is eligible to participate in bonus and other incentive compensation plans made available to employees having responsibilities comparable to those of Mr. Smith.

Mr. Smith's employment is subject to early termination in the event of his death, disability or adjudication of legal incompetence, and otherwise may be terminated only for cause (as defined). The employment agreement prevents Mr. Smith from competing with our company, soliciting customers or hiring employees during the term of the agreement and for a period of two years thereafter. In addition, the employment agreement requires Mr. Smith to maintain the confidentiality of our confidential information prior to its disclosure by our company.

James H. Taylor, Jr. Our company has entered into an employment agreement with James H. Taylor, Jr. The agreement had an initial three-year term ending May 31, 2008, but is subject to automatic extensions of one additional year on each anniversary of date of the agreement (unless either party were to give notice not to so extend the term). The agreement provides for an annualized base salary of at least \$150,000, and eligibility for merit-based increases. Mr. Taylor's annual salary currently is \$166,400. In addition to base salary, the agreement also provides that Mr. Taylor is eligible to participate in bonus and other incentive compensation plans made available to employees having responsibilities comparable to those of Mr. Taylor, except his bonus compensation will be equal to at least 20% of his base salary. He also is provided with the use of an automobile provided by our company.

Mr. Taylor's employment is subject to early termination in the event of his death, disability or adjudication of legal incompetence, and otherwise may be terminated only for cause (as defined). The employment agreement prevents Mr. Taylor from competing with our company, soliciting customers or hiring employees during the term of the

agreement and for a period of two years thereafter. In addition, the employment agreement requires Mr. Taylor to maintain the confidentiality of our confidential information prior to its disclosure by our company.

Change of Control Agreement

Our company has entered into change of control agreements with approximately 19 executive officers, including each of the named executive officers. These agreements provide that if, within two years after a change in control (as defined below), our company or any subsidiary that is the primary employer of the executive terminates the executive's employment other than by reason of the executive's death, disability or for cause (as defined) or if the executive terminates his or her employment for good reason (as defined), the executive will be entitled to receive:

an amount equal to two to three years of the executive's salary (based on the executive's highest monthly base salary for the preceding twelve-month period);

an amount equal to two to three times the executive's incentive bonus for the preceding year;

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the proportionate amount of any incentive bonus and other compensation, payments and benefits which would otherwise have been received by the executive for the year in which employment was terminated; and

any accrued and unpaid vacation pay.

The total payments made under the change of control agreements and under any other agreements, plans or arrangements as a result of a change in control is not permitted to be in excess of 5% of the aggregate cash consideration that our shareholders would receive as a result of a change of control. Our company will reimburse the executive for any excise taxes that result from any of such payments being considered excess parachute payments under Section 280G of the Internal Revenue Code of 1986, and will make a gross-up payment to reimburse the executive for any income or other tax attributable to the excess parachute payment and to the tax reimbursement payments themselves. The change of control agreements require the executives to maintain the confidentiality of our confidential information prior to its disclosure by our company.

A change in control generally is defined to take place when (a) a person or group (other than our company and various affiliated persons or entities) becomes the beneficial owner, directly or indirectly, of 50% or more of the total voting power of our outstanding securities, (b) our shareholders approve a merger or consolidation involving our company in which at least 50% of the total voting power of the voting securities of the surviving corporation is held by persons who were not previously shareholders of our company, or (c) our shareholders approve a plan of complete liquidation of our company or an agreement for the sale or disposition by our company of all or substantially all of its assets.

The following table shows the potential payments upon certain termination events following a change of control of our company, and the value of accelerated option vesting upon a change of control, for each of the named executive officers if the termination and change of control had occurred on December 31, 2007.

Benefit	Termination without Cause or for Good Reason After Change in Control
James E. Smith	
Cash payment based on prior year salary (1)	\$ 1,200,000
Cash payment based on prior year bonus (2)	300,000
Cash payment based on current year bonus (3)	50,000
Accrued and unpaid vacation pay	30,769
280G tax gross-up (4)	987,190
Acceleration of stock option vesting (5)	0
Total for Mr. Smith	\$ 2,567,959
David T. Turner	
Cash payment based on prior year salary (1)	\$ 810,000
Cash payment based on prior year bonus (2)	225,000
Cash payment based on current year bonus (3)	37,500
Accrued and unpaid vacation pay	20,769
280G tax gross-up (4)	682,747
Acceleration of stock option vesting (5)	0
Total for Mr. Turner	\$ 1,776,016

Richard G. Rose		
Cash payment based on prior year salary (1)	\$	241,394
Cash payment based on prior year bonus (2)		39,546
Cash payment based on current year bonus (3)		20,000
Accrued and unpaid vacation pay		9,284
280G tax gross-up (4)		193,735
Acceleration of stock option vesting (5)		0
Total for Mr. Rose	\$	503,959

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Benefit	Termination without Cause or for Good Reason After Change in Control
Kathleen L. Bruegenhemke	
Cash payment based on prior year salary (1)	\$ 208,000
Cash payment based on prior year bonus (2)	32,000
Cash payment based on current year bonus (3)	16,000
Accrued and unpaid vacation pay	8,000
280G tax gross-up (4)	164,868
Acceleration of stock option vesting (5)	0
Total for Ms. Bruegenhemke	\$ 428,868
James H. Taylor, Jr.	
Cash payment based on prior year salary (1)	\$ 332,800
Cash payment based on prior year bonus (2)	64,000
Cash payment based on current year bonus (3)	32,000
Accrued and unpaid vacation pay	12,800
280G tax gross-up (4)	275,779
Acceleration of stock option vesting (5)	0
Total for Mr. Taylor	\$ 717,379

(1) Represents the amount calculated pursuant to the change of control agreements equal to the product of the executive's multiple (three, in the case of Mr. Smith and Mr. Turner, and two, in the case of the other named executives) times the

executive's
annual salary
(based on the
executive's
highest monthly
base salary for
the preceding
twelve-month
period).

- (2) Represents the amount calculated pursuant to the change of control agreements equal to the product of the executive's multiple (three, in the case of Mr. Smith and Mr. Turner, and two, in the case of the other named executives) times the executive's incentive bonus for the preceding year.

- (3) Represents the amount calculated pursuant to the change of control agreements equal to the proportionate amount of any incentive bonus and other compensation, payments and benefits which would otherwise have been

received by the executive for the year in which employment was terminated.

- (4) Represents an estimate of the amount calculated pursuant to the change of control agreements for the tax gross-up based upon the following assumed tax rates:
Section 280G excise tax 20%;
federal income tax 35%; state income tax 6%;
and Medicare tax 1.45%.
- (5) The acceleration of stock option vesting would occur upon a change of control regardless of whether there also would be a termination of employment. The value of accelerated options is calculated based on the \$25.00 closing price of our common stock on December 31, 2007. As of that date, there were no unvested

stock options
having an
exercise price
below that
closing price.

RELATED PARTY TRANSACTIONS

Our executive officers, directors and director nominees, their immediate family members, and companies associated with any such persons, may have been customers of, and had banking transactions with, our subsidiary bank (or its constituent predecessors) in the ordinary course of the bank's business during 2007. Among these banking transactions were the provision of loans and loan commitments by our subsidiary bank that (i) were made in the ordinary course of business, (ii) were made 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) did not involve more than the normal risk of collectibility or present other unfavorable features.

In June 2007, our company entered into an agreement with James H. Taylor, Jr., our senior vice president and senior credit officer, and his wife in connection with the transfer of Mr. Taylor from our Jefferson City, Missouri office to our Lee's Summit, Missouri headquarters. Under this agreement, our company paid \$199,350 to the Taylors and assumed responsibility for the sale of the Taylors' residence on such terms, including sales price, as our company may determine in its discretion. The Taylors assigned to our company the exclusive right to all proceeds from the sale of the residence, which proceeds will be applied to pay all closing costs and fees due in such sale and to repay the mortgage loan for the residence. Our company will keep any remaining proceeds; except that if we sell the residence for a price greater than \$385,000, we then will pay to the Taylors an amount equal to the difference between the price at which the residence was sold and \$385,000. Until the residence is sold, our company will continue to make the regular monthly mortgage payments for the residence, and will be responsible for the payment of utilities, repairs and general upkeep of the residence. The Taylors will maintain the current

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homeowner's insurance on the residence until it is sold, and then our company will reimburse them for the cost of such insurance from the date of the agreement until closing.

Jeffrey C. Smith, the son of James E. Smith, our chairman of the board and chief executive officer, is employed by Hawthorn Bank as the senior vice president of its Lees Summit branch. Sarah C. Wagoner, the daughter of James E. Smith, also was employed by Hawthorn Bank during 2007. The salary, bonus and other benefits provided to Jeffrey Smith and Sarah Wagoner during 2007 were comparable to those provided to other similarly situated employees of our company and its subsidiary bank.

On an annual basis, each executive officer, director and director nominee is obligated to complete a director and officer questionnaire which requires disclosure of any transactions with our company in which the executive officer, director and director nominee, or any member of his or her immediate family, have a direct or indirect material interest. Pursuant to our corporate governance guidelines, our board of directors is charged with resolving any conflict of interest question involving our chief executive officer or any other executive officer, and our chief executive officer is charged with resolving any conflict of interest issue involving any other officer or employee of our company.

Our company's policy is that all transactions between us and our officers, directors and/or five percent shareholders will be on terms no more favorable to those related parties than the terms provided to our other customers.

INDEPENDENT AUDITOR FEES AND SERVICES

The following table presents fees for professional audit services rendered by KPMG LLP for the audit of our annual financial statements for 2006 and 2007, and fees billed for other services rendered by KPMG LLP during such years. All audit and non-audit services provided to our company by KPMG LLP were approved by our audit committee.

Type of Fee	2006	2007
Audit Fees (1)	\$ 282,000	\$ 358,500
Audit-Related Fees (2)	39,500	0
Tax Fees (3)	0	66,000
All Other Fees	0	0
Total	\$ 321,500	\$ 424,500

(1) Audit Fees, including those for statutory audits, include the aggregate fees paid by us during 2006 and 2007 for professional services rendered by KPMG LLP for the audit of our annual financial statements and the audit of internal control over financial

reporting, as well as the review of financial statements included in our quarterly reports on Form 10-Q.

- (2) Audit Related Fees include the aggregate fees paid by us during 2006 for assurance and related services rendered by KPMG LLP that are reasonably related to the performance of the audit or review of our financial statements and not included in Audit Fees, including the audits of the company's employee benefit plans.

- (3) Tax Fees include the aggregate fees paid by us during 2007 for professional services rendered by the principal accountant for tax compliance, tax advice and tax planning.

In making its determination regarding the independence of KPMG LLP, our audit committee considered whether the provision of the services for which we incurred the Audit-Related Fees, Tax Fees, and All Other Fees was compatible with maintaining such independence.

Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services

Pursuant to its charter, the audit committee of our board of directors is responsible for reviewing and approving, in advance, any audit and any permissible non-audit engagement or relationship between our company and its independent auditors. Our engagement of KPMG LLP to conduct the audit of our company for 2007 was approved by the audit committee on February 6, 2007. Additionally, each permissible non-audit engagement or

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relationship between our company and KPMG LLP entered into since January 1, 2007 has been reviewed and approved by the audit committee. All audit-related, tax and all other fees were pre-approved by the audit committee. We have been advised by KPMG LLP that substantially all of the work done in conjunction with its audit of our financial statements for the most recently completed fiscal year was performed by permanent full time employees and partners of KPMG LLP.

The audit committee of our board of directors has adopted the following guidelines regarding the engagement of our independent registered public accounting firm to perform services for our company:

The audit committee will pre-approve all auditing services and permitted non-audit services (including the fees and terms thereof) to be performed for our company by its independent registered public accounting firm, subject to the exceptions for non-audit services described in Section 10A(i)(1)(B) of the Securities Exchange Act of 1934 which must be approved by the audit committee prior to the completion of the audit.

AUDIT COMMITTEE REPORT

The audit committee of our board of directors assists the 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 composed of four directors. All committee members satisfy the definition of an independent director as established in the NASDAQ listing standards, and the board of directors has determined that Mr. Dudenhoeffer qualifies as an audit committee financial experts within the meaning of the rules and regulations of the SEC. The audit committee has adopted a written charter, which is available on our internet website (www.hawthornbancshares.com) under Governance Documents.

In connection with these responsibilities, the audit committee reviewed, and discussed with management and with KPMG LLP, the December 31, 2007 financial statements and management's assessment on internal control over financial reporting as of December 31, 2007. The audit committee also discussed with the independent accountants the matters required by Statement on Auditing Standards No. 61, *Professional Standards*, as amended. The audit committee received written disclosures and the letter from the independent accountants required by Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*, and the audit committee discussed with the independent accountants that firm's independence. The audit committee has considered whether the services provided under other non-audit services are compatible with maintaining the independence of KPMG LLP.

Based upon the audit committee's discussions with management and the independent accountants, and the audit committee's review of the representations of management, the audit committee recommended that the board of directors include the audited consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2007, to be filed with the SEC.

Audit Committee

Philip D. Freeman

Charles G. Dudenhoeffer, Jr.

Kevin L. Riley

Gus S. Wetzel, II

OWNERSHIP OF COMMON STOCK

The table below sets forth information, as of January 31, 2008 (unless otherwise indicated below), with respect to the beneficial ownership of shares of all series of our common stock by each person known to our company to own beneficially more than 5% of the aggregate number of the outstanding shares of our common stock. All information with respect to beneficial ownership has been furnished by the respective directors, officers or 5% or more shareholders, as the case may be.

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Name	Amount and Nature of Beneficial Ownership(1)	Percentage of Shares Outstanding(1)
Donald L. Campbell (2)	214,389	5.2%
Jeffrey L. Gendell Tontine Management, L.L.C. Tontine Financial Partners, L.P. Tontine Overseas Associates, L.L.C. (3)	303,111	7.3%

(1) Beneficial ownership is determined in accordance with the rules of the SEC which generally attribute beneficial ownership of securities to persons who possess sole or shared voting power and/or investment power with respect to those securities.

(2) Information concerning these shares as of December 31, 2007 was obtained from a Schedule 13G/A dated February 14, 2008. According to this filing, 155,178 shares owned of record by Campbell Family L.P., and 56,211 shares are held in the

Donald L.
Campbell Trust
under agreement
dated
September 27,
1997.

Mr. Campbell
has sole voting
and dispositive
power over all
the shares
reported. The
address for
Mr. Campbell is
601 Eagle Trace,
Jefferson City,
MO 65109.

- (3) Information concerning these shares as of December 31, 2007 was obtained from a Schedule 13G/A dated February 12, 2008. According to this filing,
- (i) Tontine Overseas Associates, L.L.C. serves as investment manager to TFP Overseas Fund, Ltd. with respect to the shares directly owned by TFP Overseas Fund, Ltd.,
 - (ii) Tontine Management, L.L.C., the general partner of Tontine Financial Partners, L.P., has the power to direct the affairs of Tontine

Financial Partners, L.P., including decisions respecting the disposition of the proceeds from the sale of the shares directly owned by Tontine Financial Partners, L.P., and (iii) Jeffrey L. Gendell is the managing member of Tontine Management, L.L.C. and Tontine Overseas Associates, L.L.C. and in that capacity directs their operations. As a result, Mr. Gendell is reported as having shared voting and dispositive power with respect to 303,111 shares, Tontine Management, L.L.C. and Tontine Financial Partners, L.P. are reported as having shared voting and dispositive power with respect to 283,055 shares and Tontine Overseas

Associates,
L.L.C. is
reported as
having shared
voting and
dispositive
power with
respect to 20,056
shares. The
address of each
of the reporting
persons is 55
Railroad
Avenue,
Greenwich,
Connecticut
06830.

The table below sets forth information, as of January 31, 2008 (unless otherwise indicated below), with respect to the beneficial ownership of shares of all series of our common stock by:

our chief executive officer, our principal financial officer and each of our other named executive officers;

each of our directors and director nominees; and

our executive officers and directors as a group.

All information with respect to beneficial ownership has been furnished by the respective directors, director nominees or officers, as the case may be.

Name	Amount and Nature of Beneficial Ownership(1)	Percentage of Shares Outstanding(1)
Charles G. Dudenhoefter, Jr. (2)	51,256.00	1.2%
Philip D. Freeman (3)	40,000.00	*
Julius F. Wall (4)	1,000.00	*
Kevin L. Riley (5)	8,500.00	*
James E. Smith (6)	65,641.00	1.6%
David T. Turner (7)	51,858.20	1.2%
Gus S. Wetzel, II (8)	65,397.00	1.6%
Richard G. Rose (9)	12,947.75	*
Kathleen L. Bruegenhemke (10)	21,809.74	*
James H. Taylor, Jr. (11)	630.95	*
All directors & executive officers as a group (10 persons) (12)	319,040.64	7.5%

* Less than one percent.

(1) Beneficial ownership is determined in accordance with the rules of the

SEC which
generally
attribute
beneficial
ownership of
securities to
persons who
possess sole or
shared voting
power and/or
investment
power with
respect

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to those securities.
Unless otherwise indicated, the persons or entities identified in this table have sole voting and investment power with respect to all shares shown as beneficially owned by them.
Percentage ownership calculations are based on 4,169,495 shares of common stock outstanding.

- (2) Includes 18,450 shares held of record by a trust created for the benefit of Mr. Dudenhoeffer's spouse. Mr. Dudenhoeffer's spouse has sole voting and investment power with respect to the 18,450 shares.
- (3) All 40,000 shares are held of record by a revocable living trust, of which Mr. Freeman is a trustee, for the benefit of Mr. Freeman and his spouse.
- (4) Includes 800 shares held in a retirement account for Mr. Wall's benefit and 200 shares held jointly by Mr. Wall

and his spouse, as to which they share voting and investment power.

(5) Includes 8,500 shares held jointly by Mr. Riley and his spouse, as to which they share voting and investment power.

(6) Includes 17,403 shares held jointly by Mr. Smith and his spouse, as to which they share voting and investment power, and 44,563 shares issuable upon the exercise of outstanding stock options.

(7) Includes 2,281.48 shares held jointly by Mr. Turner and his spouse, 18,961.78 shares held in our company's Profit-Sharing 401(k) Plan for his benefit and 24,201 shares issuable upon the exercise of outstanding stock options. Mr. Turner and his spouse share voting and investment power with respect to 2,281.48 shares.

(8) Includes 65,329 shares held by Wetzel Investments, Ltd.

- (9) Includes 855.12 shares held jointly by Mr. Rose and his spouse, 2,540.63 shares held in our company's Profit-Sharing 401(k) Plan for his benefit and 9,552 shares issuable upon the exercise of outstanding stock options. Mr. Rose and his spouse share voting and investment power with respect to 855.12 shares.
- (10) Includes 11,939.74 shares held in our company's Profit-Sharing 401(k) Plan for her benefit and 7,692 shares issuable upon the exercise of outstanding stock options.
- (11) Includes 213.95 shares held jointly by Mr. Taylor and his spouse and 417 shares issuable upon the exercise of outstanding stock options. Mr. Taylor and his spouse share voting and investment power with respect to the 213.95 shares.
- (12) Includes 86,425 shares issuable upon the exercise of outstanding stock options.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

Our company has two equity compensation plans for its employees pursuant to which options, rights or warrants may be granted. The following is a summary of the shares reserved for issuance pursuant to outstanding options, rights or warrants granted under equity compensation plans as of December 31, 2007:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	242,968*	\$ 27.23	593,845**
Equity compensation plans not approved by security holders	-0-	-0-	-0-
Total	242,968*	\$ 27.23	593,845**

* Consists of shares reserved for issuance pursuant to outstanding stock option grants under our company's incentive stock option plan.

** Consists of 193,845 shares available for future issuance under our company's incentive stock option plan and 400,000 shares available for future issuance under our company's 2007 omnibus

incentive plan.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires our directors and executive officers, and persons who own more than 10% of any class of equity securities of our company registered pursuant to Section 12 of the Exchange Act, to file with the SEC initial reports of ownership and reports of changes in ownership in such

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securities and other equity securities of our company. SEC regulations require directors, executive officers and greater than 10% shareholders to furnish our company with copies of all Section 16(a) reports they file.

To our knowledge, based solely on review of the copies of such reports furnished to our company and written representations that no other reports were required, during the year ended December 31, 2007, all Section 16(a) filing requirements applicable to its directors, executive officers and greater than 10% shareholders were complied with on a timely basis, except that Mr. Smith was late in filing a report of change in beneficial ownership on Form 4 which reported the purchase of 200 shares.

SHAREHOLDER PROPOSALS FOR 2009 ANNUAL MEETING

It is anticipated that the 2009 annual meeting of shareholders will be held on June 2, 2009. Any shareholder who intends to present a proposal at the 2009 annual meeting must deliver the proposal to our company at 132 East High Street, Jefferson City, MO 65101, Attention: President by the applicable deadline below:

If the shareholder proposal is intended for inclusion in our proxy materials for that meeting pursuant to Rule 14a-8 under the Securities Exchange Act of 1934, our company must receive the proposal no event later than December 19, 2008. Such proposal must also comply with the other requirements of the proxy solicitation rules of the SEC.

If the shareholder proposal is to be presented without inclusion in our proxy materials for that meeting, our company must receive the proposal no event later than April 4, 2009. In addition, the shareholder must comply with the other advance notice provisions of our articles of incorporation and bylaws. See Advance Notice of Shareholder Proposals below.

Proxies solicited in connection with the 2009 annual meeting of shareholders will confer on the appointed proxies discretionary voting authority to vote on shareholder proposals that are not presented for inclusion in the proxy materials unless the proposing shareholder notifies our company by April 4, 2009 that such proposal will be made at the meeting.

ADVANCE NOTICE OF SHAREHOLDER PROPOSALS

Our articles of incorporation and bylaws provide that advance notice of shareholder nominations for the election of directors or other business must be given. With respect to this annual meeting, written notice of the shareholder's intent to make a nomination at the meeting must be received by our corporate secretary at Hawthorn Bancshares, Inc., 132 East High Street, Jefferson City, MO 65101 not later than the close of business on May 4, 2008. We have not received timely notice in the manner required by our articles of incorporation and bylaws of any other business proposed for consideration at this annual meeting. At future meetings of shareholders, notice of nominations or other business to be brought before the meeting must be delivered to our corporate secretary at the same address not less than 60 days (30 days in the case of nominations for the election of directors) prior to the first anniversary of the previous year's annual meeting. In the event that the date of the annual meeting of shareholders is advanced by more than 30 days or delayed by more than 60 days from such anniversary date, however, notice by the shareholder to be timely must be so delivered not later than the close of business on the later of (i) the 60th day (in the case of nominations, the 30th day) prior to such annual meeting or (ii) the tenth day following the date on which public announcement of the date of such meeting is first made.

The shareholder's notice of nomination must contain (i) the name and address of the nominating shareholder, of each person to be nominated and of the beneficial owner (as defined in the articles of incorporation), if any, on whose behalf the nomination is made, (ii) a representation that the nominating shareholder is the holder of record of our common stock entitled to vote in the election of directors at the meeting and intends to appear at the meeting to nominate the person or persons specified in the notice, (iii) the number of shares of our common stock owned beneficially and of record by the nominating shareholder and by each person to be nominated, (iv) a description of all arrangements or understandings between the nominating shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder, (v) the consent of each nominee to serve as a director if so elected, and (vi) such other information regarding each nominee proposed by the nominating shareholder as would be required to be included in

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a proxy statement filed pursuant to the proxy rules of the SEC, as then in effect, if our company were soliciting proxies for the election of such nominees. If no such notice has been received, the chairman of the annual meeting is entitled to refuse to acknowledge the nomination of any person which is not made in compliance with the foregoing procedure. The board of directors does not know if, and has no reason to believe that, anyone will attempt to nominate another candidate for director at this annual meeting.

ANNUAL REPORT

Our Annual Report to Shareholders, containing consolidated financial statements for the year ended December 31, 2007, is being mailed with this proxy statement to all shareholders entitled to vote at the annual meeting. Such Annual Report is not to be regarded as proxy solicitation material.

A COPY OF OUR ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2007, EXCLUDING EXHIBITS, WILL BE FURNISHED WITHOUT CHARGE TO ANY SHAREHOLDER OF RECORD AS OF MARCH 31, 2008, UPON WRITTEN REQUEST TO KATHLEEN L. BRUEGENHEMKE, HAWTHORN BANCSHARES, INC., 132 EAST HIGH STREET, JEFFERSON CITY, MO 65101. Our company will provide a copy of any exhibit to the Form 10-K report to any such person upon written request and the payment of our reasonable expenses in furnishing such exhibits. You may read and download our Form 10-K, including exhibits, as well as our other SEC filings over the internet from several commercial document retrieval services as well as from the SEC's internet website (www.sec.gov).

By Order of the Board of Directors

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

April 18, 2008
Lee's Summit, Missouri

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Annual Meeting of Shareholders

June 3, 2008

at 9:00 a.m., Local Time

You can vote in one of three ways: (1) By Mail; (2) By Internet; or (3) By Phone.

See the reverse side of this sheet for instructions.

IF YOU ARE NOT VOTING BY TELEPHONE OR BY INTERNET, COMPLETE BOTH SIDES OF PROXY CARD,

DETACH AND RETURN IN THE ENCLOSED ENVELOPE TO:

Hawthorn Bancshares, Inc.

P.O. Box 688

Jefferson City, Missouri 65102-0688

DETACH PROXY CARD HERE

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS FOR THE ANNUAL MEETING OF SHAREHOLDERS. THE UNDERSIGNED HEREBY ACKNOWLEDGES RECEIPT OF THE NOTICE OF ANNUAL MEETING AND PROXY STATEMENT, DATED APRIL 18, 2008.

Dated

SIGNATURE OF SHAREHOLDER(S)

SIGNATURE OF JOINT SHAREHOLDER(S)

Sign exactly as your name appears above. Where shares are held in the name of two or more persons, all should sign individually. A corporation should sign by authorized officer and affix corporate seal.

PLEASE MARK, SIGN, DATE AND RETURN IN THE ENCLOSED POSTAGE PAID ENVELOPE.

If you personally plan to attend the Annual Meeting of Shareholders, please check the box below and list names of attendees on reverse side.

Return this stub in the enclosed envelope with your completed proxy card.

I/We plan to attend the 2008 meeting.

Number attending _____

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TO VOTE BY MAIL

To vote by mail, complete both sides, sign and date the proxy card below. Detach the card below and return it in the envelope provided.

TO VOTE BY INTERNET

Your Internet vote is quick, confidential and your vote is immediately submitted. Just follow these easy steps:

1. Read the accompanying Proxy Statement.
2. Visit our Internet voting site at <http://www.illinoisstocktransfer.com>, click on the heading Internet Voting and follow the instructions on the screen.
3. When prompted for your Voter Control Number, enter the number printed just above your name on the front of the proxy card below.

Please note that all votes cast by Internet must be **completed** and **submitted** prior to Sunday, June 1, 2008 at 11:59 p.m. Central Time.

Your Internet vote authorizes the named proxies to vote your shares to the same extent as if you marked, signed, dated and returned the proxy card.

This is a secured web page site. Your software and/or Internet provider must be enabled to access this site. Please call your software or Internet provider for further information if needed.

If You Vote By INTERNET, Please Do Not Return Your Proxy Card By Mail

TO VOTE BY TELEPHONE

Your telephone vote is quick, confidential and immediate. Just follow these easy steps:

1. Read the accompanying Proxy Statement.
2. Using a Touch-Tone telephone, call Toll Free 1-800-555-8140 and follow the instructions.
3. When asked for your Voter Control Number, enter the number printed just above your name on the front of the proxy card below.

Please note that all votes cast by telephone must be **completed** and **submitted** prior to Sunday, June 1, 2008 at 11:59 p.m. Central Time.

Your telephone vote authorizes the named proxies to vote your shares to the same extent as if you marked, signed, dated and returned the proxy card.

If You Vote By TELEPHONE, Please Do Not Return Your Proxy Card By Mail

PLEASE LIST
NAMES OF PERSONS ATTENDING

Revocable Proxy

Hawthorn Bancshares, Inc.

The undersigned hereby appoints William H. Case and Barbara A. Taggart, and each of them, jointly and severally, the agents and proxies of the undersigned, each with full power of substitution, to attend the Annual Meeting of Shareholders of Hawthorn Bancshares, Inc. (the Company) to be held at Hawthorn Bank's facility located at 132 East High Street, Jefferson City, Missouri, on Tuesday, June 3, 2008, commencing at 9:00 a.m., local time, and any adjournment thereof (the Meeting), and to vote all of the stock of the Company, standing in the name of the undersigned on the books as of the close of business on March 31, 2008, and which the undersigned would be entitled to vote, if present, with the same force and effect as if voted by the undersigned and especially to vote said stock with respect to the following matters:

1. ELECTION OF THREE CLASS I DIRECTORS.

(INSTRUCTIONS: To vote FOR, or to WITHHOLD AUTHORITY to vote for (i.e., AGAINST) any individual nominee named below, mark the appropriate box next to each such nominee's name. Please mark only one box next to each such name.)

	FOR the nominee	WITHHOLD AUTHORITY to vote for the nominee
01 Charles G. Dudenhoeffer, Jr.	<input type="radio"/>	<input type="radio"/>
02 Philip D. Freeman	<input type="radio"/>	<input type="radio"/>
03 James E. Smith	<input type="radio"/>	<input type="radio"/>

2. Proposal to ratify the selection of KPMG LLP as the Company's registered public accounting firm (independent auditions) for the current year.

FOR AGAINST ABSTAIN

3. Such other matters, related to the foregoing or otherwise, as properly may come before the Meeting or any adjournment thereof. The Board of Directors has advised that at present it knows of no other business to be presented by or on behalf of the Company or its management at the Meeting.

This Proxy will be voted as directed, but if no instructions are specified, this Proxy will be voted FOR the election of the three (3) persons listed above as Class I directors of the Company for the next three years, and FOR approval of each of the other proposals identified above. In their discretion, the appointed proxies and agents are authorized to vote upon such other business as may properly be presented at the Meeting. This Proxy is solicited on behalf of the Board of Directors and may be revoked prior to its exercise.

(Continued and to be signed on the other side)

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**PROXY/DIRECTION TO TRUSTEE
Hawthorn Bancshares, Inc. Profit-Sharing 401(k) Plan
Annual Meeting of Shareholders
June 3, 2008
at 9:00 a.m., Local Time**

You can vote in one of three ways: (1) By Mail; (2) By Internet; or (3) By Phone.

See the reverse side of this sheet for instructions.

IF YOU ARE NOT VOTING BY TELEPHONE OR BY INTERNET, COMPLETE BOTH SIDES OF THIS
PROXY/DIRECTION TO TRUSTEE
DETACH AND RETURN IN THE ENCLOSED ENVELOPE TO:
Hawthorn Bancshares, Inc.
P.O. Box 688
Jefferson City, Missouri 65102-0688

DETACH PROXY/DIRECTION TO
TRUSTEE HERE

THIS PROXY/DIRECTION TO TRUSTEE IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS FOR THE ANNUAL MEETING OF SHAREHOLDERS. THE UNDERSIGNED HEREBY ACKNOWLEDGES RECEIPT OF THE NOTICE OF ANNUAL MEETING AND PROXY STATEMENT, DATED APRIL 18, 2008.

Dated

SIGNATURE OF PLAN PARTICIPANT

Sign exactly as your name appears above.

PLEASE MARK, SIGN, DATE AND RETURN IN THE ENCLOSED POSTAGE PAID ENVELOPE.

If you personally plan to attend the Annual Meeting of Shareholders, please check the box below and list names of attendees on reverse side.

Return this stub in the enclosed envelope with your completed proxy/direction to trustee.

I/We plan to attend the 2008 meeting. o

Number attending

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TO VOTE BY MAIL

To vote by mail, complete both sides, sign and date the proxy/direction to trustee below. Detach the card below and return it in the envelope provided.

TO VOTE BY INTERNET

Your Internet vote is quick, confidential and your vote is immediately submitted. Just follow these easy steps:

1. Read the accompanying Proxy Statement.
2. Visit our Internet voting site at <http://www.illinoisstocktransfer.com>, click on the heading Internet Voting and follow the instructions on the screen.
3. When prompted for your Voter Control Number, enter the number printed just above your name on the front of the proxy/direction to trustee below.

Please note that all votes cast by Internet must be completed and submitted prior to Sunday, June 1, 2008 at 11:59 p.m. Central Time.

Your Internet vote authorizes the plan trustee, Hawthorn Bank, to vote the shares credited to your account in the Plan referred to below to the same extent as if you marked, signed, dated and returned this proxy/direction to trustee.

This is a secured web page site. Your software and/or Internet provider must be enabled to access this site. Please call your software or Internet provider for further information if needed.

If You Vote By INTERNET, Please Do Not Return Your Proxy/Direction To Trustee By Mail

TO VOTE BY TELEPHONE

Your telephone vote is quick, confidential and immediate. Just follow these easy steps:

1. Read the accompanying Proxy Statement.
2. Using a Touch-Tone telephone, call Toll Free 1-800-555-8140 and follow the instructions.
3. When asked for your Voter Control Number, enter the number printed just above your name on the front of the proxy/direction to trustee below.

Please note that all votes cast by telephone must be completed and submitted prior to Sunday, June 1, 2008 at 11:59 p.m. Central Time.

Your telephone vote authorizes the plan trustee, Hawthorn Bank, to vote the shares credited to your account in the Plan referred to below to the same extent as if you marked, signed, dated and returned this proxy/direction to trustee.

If You Vote By TELEPHONE, Please Do Not Return Your Proxy/Direction To Trustee By Mail

PLEASE LIST
NAMES OF PERSONS ATTENDING

**Hawthorn Bancshares,
Inc.**

Revocable Proxy/Direction to Trustee

The undersigned is a participant in the Hawthorn Bancshares, Inc. Profit-Sharing 401(k) Plan (the Plan), and hereby directs the trustee of the Plan, Hawthorn Bank, to attend the Annual Meeting of Shareholders of Hawthorn Bancshares, Inc. (the Company) to be held at Hawthorn Bank's facility located at 132 East High Street, Jefferson City, Missouri, on Tuesday, June 3, 2008, commencing at 9:00 a.m., local time, and any adjournment thereof (the Meeting), and to vote all of the stock of the Company credited to the undersigned's account in the Plan as of the close of business on March 31, 2008 (both vested and unvested), with respect to the following matters:

1. ELECTION OF THREE CLASS I DIRECTORS.

(INSTRUCTIONS: To vote FOR, or to WITHHOLD AUTHORITY to vote for (i.e., AGAINST) any individual nominee named below, mark the appropriate box next to each such nominee's name. Please mark only one box next to each such name.)

	FOR the nominee	WITHHOLD AUTHORITY to vote for the nominee
01 Charles G. Dudenhoeffer, Jr.	<input type="radio"/>	<input type="radio"/>
02 Philip D. Freeman	<input type="radio"/>	<input type="radio"/>
03 James E. Smith	<input type="radio"/>	<input type="radio"/>

2. Proposal to ratify the selection of KPMG LLP as the Company's registered public accounting firm (independent auditions) for the current year.

FOR AGAINST ABSTAIN

The shares of the Company's stock credited to your account in the Plan will be voted as directed in this Proxy/Direction to Trustee. If no instructions are specified with respect to the election of any nominee for director, such shares will be voted to WITHHOLD AUTHORITY for such nominee. If no instructions are specified with respect to any other matter presented at the Meeting, such shares will be voted to

ABSTAIN on such matter. This Proxy/Direction to Trustee is solicited on behalf of the Board of Directors and may be revoked prior to its exercise.

(Continued and to be signed on the other side)

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**Summary of Material Modifications Regarding
Proxy Voting and Tender Offers of Employer Stock**

This is a Summary of Material Modifications that supplements the Summary Plan Description (SPD) provided to you. You should retain this document with your copy of the SPD.

Proxy Voting

Your Employer will take steps to have proxy solicitation materials sent to you when you invest in Employer Stock through the Plan. You have the right to direct the Plan's Trustee how to vote (including not to vote) your proportional interest in Employer Stock (both vested and unvested).

The Trustee will vote the shares of Employer Stock reflecting your proportional interest in Employer Stock, according to your direction. If you fail to sign or timely return the proxy voting instructions, whether by mail, by telephone or over the internet, the Trustee will vote your shares as abstain.

Tender Offers

In the event you are notified of a tender offer for Employer Stock, you may direct the Trustee whether or not to tender your proportional interest in Employer Stock (both vested and unvested). The Trustee will tender or not tender shares of Employer Stock as you direct. Please note that the Trustee will not tender shares of Employer Stock reflecting your proportional interest in Employer Stock if it has not received direction from you. If you directed the Trustee to tender some or all of the shares of your proportional interest in Employer Stock, at least two business days prior to the tender offer withdrawal date, you may direct the Trustee in writing to withdraw some or all of the tendered shares.

Pending receipt of your directions as to how to invest any proceeds, the Trustee will invest the proceeds in the Cash Management Trust of America.