NORWOOD FINANCIAL CORP
Form DEF 14A
March 22, 2010

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 x
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))
x	Definitive Proxy Statement
¨	Definitive Additional Materials
¨	Soliciting Material Pursuant to §240.14a-12

NORWOOD FINANCIAL CORP.
(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):

x	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:

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

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¨ Fee paid previously with preliminary materials.

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Form or Schedule and the date of its filing.

(1)Amount previously paid:

(2)Form, Schedule or Registration Statement No.:

(3)Filing Party:

(4)Date Filed:

March 22, 2010

Dear Stockholder:

On behalf of the Board of Directors and management of Norwood Financial Corp., I cordially invite you to attend our 2010 Annual Meeting of Stockholders. The Annual Meeting will be held at the administrative office of Wayne Bank, 717 Main Street, Honesdale, Pennsylvania on Tuesday, April 27, 2010, at 11:00 a.m., local time. The attached Notice of Annual Meeting and Proxy Statement describe the formal business we expect to act upon at the Annual Meeting. I will also report on our operations. Our directors and officers, as well as representatives of S.R. Snodgrass, A.C., our independent auditors, will be present to respond to stockholder questions.

You will be asked to re-elect the Board's three nominees for director, and to ratify the appointment of S.R. Snodgrass, A.C. as our independent auditors for the fiscal year ending December 31, 2010. The Board of Directors has unanimously approved each of these proposals and recommends that you vote FOR them.

Your vote is important, regardless of the number of shares you own. We encourage you to vote by proxy so that your shares will be represented and voted at the meeting even if you cannot attend. All stockholders can vote by returning the enclosed Proxy Card. Stockholders may also vote by telephone or over the internet by following the instructions on the proxy card. Also, you may vote in person at the meeting if you so choose. If you do decide to attend the Annual Meeting and feel for whatever reason that you want to change your vote at that time, you will be able to do so.

Sincerely,

/s/ Lewis J. Critelli

Lewis J. Critelli
President and Chief Executive Officer

NORWOOD FINANCIAL CORP.
717 MAIN STREET
HONESDALE, PENNSYLVANIA 18431

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON APRIL 27, 2010

The 2010 Annual Meeting of Stockholders of Norwood Financial Corp., will be held at the administrative office of Wayne Bank, 717 Main Street, Honesdale, Pennsylvania on Tuesday, April 27, 2010, at 11:00 a.m., local time, for the following purposes:

1. To elect three directors; and

2. To ratify the appointment of S.R. Snodgrass, A.C. as our independent auditors for the fiscal year ending December 31, 2010;

all as set forth in the Proxy Statement accompanying this notice, and to transact any other business that may properly come before the Annual Meeting. The Board of Directors is not aware of any other business to come before the Annual Meeting. Stockholders of record at the close of business on March 16, 2010, are the stockholders entitled to notice of and to vote at the Annual Meeting and any adjournments thereof.

A copy of our Annual Report for the year ended December 31, 2009 is enclosed.

Your vote is important, regardless of the number of shares you own. We encourage you to vote by proxy so that your shares will be represented and voted at the Annual Meeting even if you cannot attend. All stockholders can vote by written proxy card. Also, you may vote in person at the Annual Meeting if you so choose. However, if you are a stockholder whose shares are not registered in your own name, you will need additional documentation from your record holder to vote personally at the Annual Meeting.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ Edward C. Kasper

Edward C. Kasper
Secretary

Honesdale, Pennsylvania
March 22, 2010

Important Notice Regarding Internet Availability of Proxy Materials For the Shareholder Meeting to be Held on April 27, 2010

The Proxy Statement and Annual Report to

Stockholders are available on the Stockholder Services Page
at www.waynebank.com

PROXY STATEMENT
OF
NORWOOD FINANCIAL CORP.
717 MAIN STREET
HONESDALE, PENNSYLVANIA 18431

ANNUAL MEETING OF STOCKHOLDERS
APRIL 27, 2010

GENERAL

This proxy statement and the accompanying proxy card are first being distributed to stockholders of Norwood Financial Corp. on or about March 22, 2010, in connection with the solicitation by our Board of Directors of proxies for use at our 2010 Annual Meeting of Stockholders (the "Annual Meeting") which will be held at the administrative office of Wayne Bank, 717 Main Street, Honesdale, Pennsylvania on Tuesday, April 27, 2010, at 11:00 a.m., local time.

VOTING AND PROXY PROCEDURES

Who Can Vote at the Annual Meeting

You are only entitled to vote at the Annual Meeting if our records show that you held shares of our common stock, $.10 par value (the "Common Stock"), as of the close of business on March 16, 2010 (the "Record Date"). If your shares are held by a broker or other intermediary, you can only vote your shares at the Annual Meeting if you have a properly executed proxy from the record holder of your shares (or their designee). As of the Record Date, a total of 2,772,436 shares of Common Stock were outstanding. Each share of Common Stock has one vote in each matter presented.

Voting by Proxy

The Board of Directors is sending you this Proxy Statement for the purpose of requesting that you allow your shares of Common Stock to be represented at the Annual Meeting by the persons named in the Board of Directors' form of proxy. Stockholders of record may vote by proxy in any of three different ways:

Voting by Telephone. Call the toll-free number on the enclosed proxy card and follow the instructions. You will need to have your proxy card with you when you call.

Voting on the Internet. Go to www.ilstk.com, click on "I am a Shareholder" and select the "internet voting" tab. You will need to have your proxy card with you when you link to the internet voting site.

Voting by Mail. Complete, sign, date and return the enclosed proxy card in the envelope provided.

All shares of Common Stock represented at the Annual Meeting by properly executed or authenticated and dated proxies will be voted according to the instructions indicated on the form of proxy. If you return a proxy without giving voting instructions, your shares will be voted as recommended by the Company's Board of Directors. The Board of Directors recommends a vote "FOR" each of its

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nominees for director and a vote "FOR" the ratification of the appointment of S.R. Snodgrass, A.C. as our independent auditors.

If any matters not described in this Proxy Statement are properly presented at the Annual Meeting, the persons named in the Board of Directors' form of proxy will vote your shares as determined by a majority of the Board of Directors. If the Annual Meeting is postponed or adjourned, your Common Stock may be voted by the persons named in the Board of Directors' form of proxy on the new Annual Meeting dates as well, unless you have revoked your proxy. The Company does not know of any other matters to be presented at the Annual Meeting.

You may revoke your proxy at any time before the vote is taken at the Annual Meeting. To revoke your proxy you must either advise the Company's Secretary in writing before your Common Stock has been voted at the Annual Meeting, deliver a later-dated proxy, or attend the Annual Meeting and vote your shares in person. Attendance at the Annual Meeting will not in itself revoke your proxy.

If you hold your Common Stock in "street name," you will receive instructions from your broker, bank or other nominee that you must follow in order to have your shares voted. Your broker, bank or other nominee may allow you to deliver your voting instructions via the telephone or the Internet. Please see the instruction form provided by your broker, bank or other nominee that accompanies this Proxy Statement.

Internet Access to Proxy Materials

Copies of this proxy statement and the 2009 Annual Report to Stockholders are available on the internet on the Stockholder Services page at www.waynebank.com. Stockholders can elect to receive future proxy statements and annual reports over the internet rather than in printed form. Stockholders of record can make this election by calling toll-free to 1 (800) 598-5002, sending an email to info@waynebank.com, or by following the instructions on the Stockholder Services page at www.waynebank.com. If you hold your shares in street name, please refer to the information provided by your broker, bank or other nominee for instructions on how to elect to access future proxy materials over the internet.

Participants in the Wayne Bank Employee Stock Ownership Plan

If you are a participant in the Wayne Bank Employee Stock Ownership Plan (the "ESOP"), you will receive a voting instruction form that reflects all shares you may vote under the ESOP. Under the terms of the ESOP, all shares held by the ESOP are voted by the ESOP trustees, but each participant in the ESOP may direct the trustees on how to vote the shares of Common Stock allocated to his or her account. Unallocated shares and allocated shares for which no timely voting instructions are received will be voted by the ESOP trustees in the same proportion as the shares for which the trustees have received timely voting instructions, provided that in the absence of any voting directions as to allocated stock, the Board of Directors of the Bank will direct the ESOP trustees as to the voting of all shares of stock in the ESOP. The deadline for returning your voting instruction form to the ESOP trustees is April 20, 2010.

Vote Required

The Annual Meeting can only transact business if a majority of the outstanding shares of Common Stock entitled to vote is represented at the Annual Meeting. If you return valid proxy instructions or attend the Annual Meeting in person, your shares will be counted for purposes of determining whether there is a quorum even if you abstain or withhold your vote or do not vote your shares at the Annual Meeting. Under Pennsylvania law, if a proxy casts a vote for a matter on the agenda, the stockholder represented by that proxy is considered present for purposes of a quorum. Broker non-votes will be counted for purposes of determining the existence of a quorum. A broker non-vote occurs when a broker, bank or other nominee holding shares for a beneficial owner does not have discretionary voting power with respect to the agenda item and has not received voting instructions from the beneficial owner.

In voting on the election of directors, you may vote in favor of all nominees, withhold votes as to all nominees, or vote in favor of all nominees except nominees from whom you specifically withhold your vote. There is no cumulative voting in the election of directors. Directors must be elected by a plurality of the votes cast at the Annual Meeting. This means that the nominees receiving the greatest number of votes will be elected. Votes that are withheld and broker non-votes will have no effect on the outcome of the election.

In voting to ratify the appointment of S.R. Snodgrass, A.C. as our independent auditors, you may vote in favor of the proposal, against the proposal or abstain from voting. To be approved, this proposal requires the affirmative vote of a majority of the votes cast at the Annual Meeting. Broker non-votes and abstentions will not be counted as votes cast and will have no effect on the voting on this proposal.

PRINCIPAL HOLDERS OF OUR COMMON STOCK

Persons and groups beneficially owning more than 5% of the Common Stock are required to report on their ownership to Securities and Exchange Commission. A person is the beneficial owner of shares of Common Stock over which he or she has or shares voting or investment power or which he or she has the right to acquire at any time within 60 days from the Record Date. The following table sets forth information as of the Record Date with respect to the persons or groups known to the Company to beneficially own more than 5% of the Common Stock.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Shares of Common Stock Outstanding
Wayne Bank Trust Department 717 Main Street Honesdale, Pennsylvania 18431	216,701 (1)	7.9%

(1) The Wayne Bank Trust Department has sole voting and dispositive power over 216,701 shares. Excludes 223,108 shares held in seven trusts for which the Bank acts as trustee but as to which it does not have voting power. The shares for which the Wayne Bank Trust Department has sole voting power are expected to be voted for the election of the nominees listed under Proposal 1 and for the ratification of auditors (Proposal 2).

PROPOSAL 1 - ELECTION OF DIRECTORS

The Board of Directors currently consists of ten members, each of whom also serves as a director of our principal subsidiary, Wayne Bank. Our Articles of Incorporation provide that the Board of Directors must be divided into three classes as nearly equal in number as possible. At each annual meeting of stockholders, each of the successors of the directors whose terms expire at the meeting will be elected to serve for a term of three years expiring at the third annual meeting of stockholders following the annual meeting of stockholders at which the successor director was elected.

Richard L. Snyder, Ralph A. Matergia and Dr. Andrew A. Forte (collectively, the "Nominees") have been nominated by the Board of Directors for terms of three years each. The Nominees currently serve as directors of the Company and have consented to serve, if elected.

The persons named as proxies in the Board of Directors' form of proxy intend to vote for the election of the nominees listed below, unless the proxy is marked to indicate that such authorization is expressly withheld. Should any of the nominees withdraw or be unable to serve (which the Board of Directors does not expect) or should any other vacancy occur in the Board of Directors, it is the intention of the persons named in the Board of Directors' form of proxy to vote for the election of such person as may be recommended to the Board of Directors by the Nominating Committee of the Board. If there is no substitute nominee, the size of the Board of Directors may be reduced.

The following table sets forth the names, ages, positions with the Company, terms of, and length of board service, number and percentage ownership of the Common Stock for: each of the persons nominated for election as directors of the Company at the Annual Meeting; each other director of the Company who will continue to serve as director after the Annual Meeting; and each executive officer. Beneficial ownership of the executive officers and directors of the Company as a group, is also set forth below.

Name and Position	Age(1)	Year First Elected or Appointed(2)	Current Term Expires	Common Stock Beneficially Owned as of Record Date(3)	Percent of Class
BOARD NOMINEES FOR TERMS TO EXPIRE IN 2013					
Richard L. Snyder Director	69	2000	2010	9,314(4)	*
Ralph A. Matergia Director	60	2004	2010	3,666(4)	*
Dr. Andrew A. Forte Director	51	2007	2010	1,315	*
DIRECTORS CONTINUING IN OFFICE					
Daniel J. O'Neill Director	72	1985	2011	12,132	*
Dr. Kenneth A. Phillips Director	59	1988	2011	8,618	*
Gary P. Rickard Director	68	1978	2011	32,178	1.1%
William W. Davis, Jr. Director (6)	65	1996	2012	61,018	2.1%
John E. Marshall Director and Chairman of the Board	72	1983	2012	28,320(4)	1.0%
Susan Gumble-Cottell Director	52	2006	2012	1,609	*

Lewis J. Critelli President, Chief Executive Officer and Director	50	2009	2012	37,897	1.3%

(table continued on following page)

EXECUTIVE OFFICERS WHO ARE NOT DIRECTORS

Edward C. Kasper Executive Vice President and Secretary	62	Na	Na	25,456	0.9%
Kenneth C. Doolittle Executive Vice President	52	Na	Na	1,000	*
Joseph A. Kneller Senior Vice President	63	Na	Na	13,497	*
John H. Sanders Senior Vice President	52	Na	Na	15,445	*
William S. Lance Senior Vice President and Chief Financial Officer	50	Na	Na	--	*
All directors, nominees and executive officers as a group (15 persons)				251,465(5)	8.8%

* Less than 1% of the Common Stock outstanding.

(1) As of December 31, 2009.

(2) Refers to the year the individual first became a director of the Company or the Bank.

(3) Unless otherwise noted, the directors, executive officers and group named in the table have sole or shared voting power or investment power with respect to the shares listed in the table. The share amounts include shares of Common Stock that the following persons may acquire through the exercise of stock options within 60 days of the Record Date: William W. Davis, Jr. – 21,600, John E. Marshall – 1,500, Gary P. Rickard – 2,025, Richard L. Snyder – 4,014, Daniel J. O'Neill – 2,025, Dr. Kenneth A. Phillips – 4,104, Susan Gumble-Cottell – 1,500, Ralph A. Matergia – 2,025, Dr. Andrew A. Forte – 1,000; Lewis J. Critelli – 20,500, Edward C. Kasper – 11,850, Kenneth C. Doolittle – 1,000, Joseph A. Kneller – 7,725, and John H. Sanders – 7,725.

(4) Excludes 158,593 shares of Common Stock held under the Wayne Bank Employee Stock Ownership Plan ("ESOP") for which such individuals serve as the ESOP trustees. Such shares are voted by the ESOP trustees in a manner proportionate to the voting directions of the allocated shares received by the ESOP participants, subject to the fiduciary duty of the trustees. Beneficial ownership is disclaimed with respect to such ESOP shares held in a fiduciary capacity.

(5) Includes 88,593 shares of Common Stock which all continuing directors, nominees and executive officers as a group may acquire through the exercise of options within 60 days of the Record Date.

(6) Mr. Davis retired as President and Chief Executive Officer effective December 31, 2009.

Biographical Information

The principal occupation during the past five years of each director, nominee for director, and executive officer of the Company is set forth below. Unless otherwise stated, all directors, nominees, and executive officers have held their present positions for five years.

The biographies of each of the nominees and continuing directors below contains information regarding the person's service as a director, business experience, director positions held currently or at any time during the last five years, information regarding involvement in certain legal or administrative proceedings, if applicable, and the experiences, qualifications, attributes or skills that caused the Nominating Committee and the Board to determine that the person should serve as a director for the Company beginning in 2010.

Nominees for Director:

Richard L. Snyder is a retired executive and certified public accountant. He served in a number of executive positions with Pricewaterhouse Coopers LLP, Bell Equipment/Alcom Combustion Company, and most recently with Phillip Morris Companies, Inc.

Ralph A. Matergia is a founding partner of the law firm of Matergia and Dunn in Stroudsburg, Pennsylvania with which he has practiced for over 25 years. He has served as the Solicitor for the Borough of Stroudsburg since 1979 and as Solicitor for the Monroe County Treasurer for over 25 years.

Dr. Andrew A. Forte is the President of Forte, Inc., a family owned corporation which operates the Stroudsmoor Country Inn, a hospitality and banquet facility in Stroudsburg, Pennsylvania. He has Doctoral Degree in management from the Lubin School of Business, Pace University. He is a Certified Public Accountant, who practiced public accountancy with KPMG Peat Marwick as an Audit Manager through June 1985.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A
VOTE "FOR" THE ELECTION OF THE ABOVE NOMINEES

Continuing Directors:

Daniel J. O'Neill is an Adjunct Professor at Wilkes University, the retired Superintendent of the Wayne Highlands School District, Honesdale, Pennsylvania, and Commander 28th Infantry Division (Retired).

Dr. Kenneth A. Phillips is an optometrist in Waymart, Pennsylvania. Dr. Phillips has in-depth knowledge of the Bank's market area and is active in various community activities.

Gary P. Rickard is a partner of Clearfield Farms, Honesdale, Pennsylvania, a dairy farm. Mr. Rickard has experience in various aspects of agribusiness.

William W. Davis, Jr. served as President and Chief Executive Officer of the Company and the Bank until his retirement on December 31, 2009.

John E. Marshall is president of Marshall Machinery, Inc., Honesdale, Pennsylvania, a local compact tractor and light industrial dealer. Through his business, Mr. Marshall deals with a variety of contractors and developers.

Susan Gumble-Cottell is the President and Chief Executive Officer of Gumble Brothers, Inc., a building materials supplier located in Paupack, Pennsylvania. She works with various contractors and builders and has knowledge of the local construction market.

Lewis J. Critelli was named President and Chief Executive Officer effective January 1, 2010. He had served as Executive Vice President, Secretary and Chief Financial Officer of the Company and the Bank since 1998 after joining the Bank in 1995.

Executive Officers Who Are Not Directors:

Edward C. Kasper is Executive Vice President of the Company and Executive Vice President and head of Corporate Banking for the Bank.

Kenneth C. Doolittle was named Executive Vice President in December 2009. He joined the Bank as Vice President in May 2009. Prior to joining the Bank, he had served as chief operating officer of Pennstar Bank, Scranton, Pennsylvania, a subsidiary of NBT Bancorp.

Joseph A. Kneller is Senior Vice President of the Company and Senior Vice President - Information Systems of the Bank.

John H. Sanders is Senior Vice President of the Company and Senior Vice President and head of Retail Banking for the Bank.

William S. Lance was named Senior Vice President and Chief Financial Officer in March 2010. Prior to joining the Company, he had served as Chief Financial Officer of First National Community Bank, Dunmore, Pennsylvania for over 15 years.

CORPORATE GOVERNANCE

Director Independence

The Board of Directors has determined that Directors Snyder, Phillips, Matergia, Marshall, Rickard, O'Neill, Gumble-Cottell and Forte are independent under the independence standards of The Nasdaq Global Market on which the Common Stock is currently listed. In determining the independence of directors, the Board of Directors considered the deposit and loan relationships which various directors have with Wayne Bank and certain business relationships between Wayne Bank and organizations in which certain directors have an interest. In determining whether Mr. Matergia is independent, the Board of Directors considered work occasionally done by his law firm for the Bank but determined that due to the small volume of work done, his independence was not affected. There are no members of the Audit Committee who do not meet the independence standards of the The Nasdaq Global Market for Audit Committee members and no members of the Audit Committee are serving under any exceptions to these standards.

Code of Ethics

The Company has adopted a Code of Ethics, which applies to all directors, officers and employees of the Company and the Bank. It is expected that all directors, officers and employees act, in all matters, in accordance with the highest standards of personal and professional conduct in all aspects of their employment and association with the Company and the Bank, to comply with all applicable laws, rules and regulations and to adhere to all policies and procedures adopted by the Company and the Bank.

Board Leadership Structure

Under the Board of Directors' current leadership structure, the offices of Chairman of the Board and Chief Executive Officer are held by separate individuals. John E. Marshall serves as Chairman of the Board of Directors. Mr. Marshall is an independent director and does not serve in any executive capacity with the Company. The Company's Chief Executive Officer is Mr. Lewis J Critelli.

Board Role in Risk Oversight

The Board of Directors has general authority over the Company’s risk oversight function with authority delegated to various board committees to review risk management policies and practices in specific areas of the Company's business. The Audit Committee is primarily responsible for overseeing the Company's risk management. The Audit Committee works closely with officers involved in the risk management function including the internal audit staff who report directly to the Audit Committee.

Meetings and Committees of the Board of Directors

The Board of Directors conducts its business through meetings of the Board and through activities of its committees. All committees act for both the Company and the Bank. During the fiscal year ended December 31, 2009, the Board of Directors of Norwood Financial Corp. held four regular meetings and the Board of Directors of the Wayne Bank held 12 regular meetings. Independent directors meet twice annually in executive session. [Confirm] No director attended fewer than 75% of the total meetings of the Boards of Directors of the Company and committees on which such director served during the fiscal year ended December 31, 2009.

Audit Committee. The Audit Committee is comprised of Directors Forte, Phillips, Matergia and Gumble-Cottell. The Board of Directors has determined that each of the members of the Audit Committee is independent in accordance with the listing requirements for The Nasdaq Global Market. The Board of Directors has adopted a written audit charter which is included as Appendix A to this proxy statement. A current copy of the Audit Committee charter is not available on our website. The Audit Committee is a standing committee and, among other matters, is responsible for developing and maintaining the Company's audit program. The Audit Committee also meets with the Company's independent auditors to discuss the results of the annual audit and any related matters.

In addition to regularly scheduled meetings, the Audit Committee is available either as a group or individually to discuss any matters that might affect the financial statements, internal controls or other financial aspects of the operations of the Company. The Audit Committee met four times during the fiscal year ended December 31, 2009.

Compensation Committee. The Compensation Committee consists of Directors Marshall, Matergia and Snyder. This standing committee met twice during the fiscal year ended December 31, 2009 to review the compensation of the chief executive officer and other executive officers. The members of the Compensation Committee are independent in accordance with the listing requirements of The Nasdaq Global Market. For a discussion of the committee's processes and procedures for determining director and executive officer compensation, see the "Compensation Discussion and Analysis" below. The Compensation Committee has not adopted a written charter.

Audit Committee Financial Expert

The Board of Directors has determined that Dr. Andrew A. Forte, a member of the Company's Audit Committee, is an "Audit Committee Financial Expert" as that term is defined in the Securities Exchange Act of 1934. The Board of Directors has also determined that Dr. Forte is independent as that term is used in the Securities Exchange Act of 1934.

Compensation Committee Interlocks and Insider Participation

The Compensation Committee consisted of Directors Marshall, Matergia and Snyder at December 31, 2009. Director Marshall is Chairman of the Board of the Company and the Bank and serves as Chairman of the Compensation Committee. Members of the Compensation Committee are non-employee directors of the Company and the Bank. No member of the Committee or any other director is, or was during 2009, an executive officer of another company whose board of directors has a comparable committee on which one of the Company's executive officers serves. None of the executive officers of the Company is, or was during 2009, a member of the board of directors or a comparable compensation committee of a company of which any of the directors of the Company is an executive officer.

Director Nomination Process

The Nominating Committee consists of Directors Marshall, Matergia and Snyder, each of whom is independent within the meaning of the rules of The Nasdaq Global Market. The Nominating Committee met once during the year ended December 31, 2009. The Board of Directors has adopted a charter for the nominating committee which was included as an appendix to the proxy statement for the 2007 Annual Meeting of Stockholders. The Nominating Committee Charter is not available on our website.

The Company does not currently pay fees to any third party to identify or evaluate or assist in identifying or evaluating potential nominees. The Committee's process for identifying and evaluating potential nominees includes soliciting recommendations from directors and officers of the Company and its wholly-owned subsidiary, Wayne Bank. Additionally, the Committee will consider persons recommended by stockholders of the Company in selecting the Committee's nominees for election. There is no difference in the manner in which the Committee evaluates persons recommended by directors or officers and persons recommended by stockholders in selecting Board nominees.

To be considered in the Committee's selection of Board nominees, recommendations from stockholders must be received by the Company in writing by at least 120 days prior to the date the proxy statement for the previous year's annual meeting was first distributed to stockholders. Recommendations should identify the submitting stockholder, the person recommended for consideration and the reasons the submitting stockholder believes such person should be considered. The Committee believes potential directors should be stockholders, should have the highest personal and professional integrity and should be knowledgeable about the business activities and market areas in which the Company and its subsidiaries engage.

Stockholder Communications

The Board of Directors does not have a formal process for stockholders to send communications to the Board. In view of the infrequency of stockholder communications to the Board of Directors, the Board does not believe that a formal process is necessary. Written communications received by the Company from stockholders are shared with the full Board no later than the next regularly scheduled Board meeting. In addition, directors are accessible to stockholders on an informal basis throughout the year and formally at the Annual Meeting. The Board encourages, but does not require, directors to attend the Annual Meeting of Stockholders. All directors then serving attended the 2009 Annual Meeting of Stockholders.

COMPENSATION DISCUSSION AND ANALYSIS

Philosophy and Objectives

The Company's compensation programs are designed to effectively attract, retain, motivate and reward Named Executive Officers (NEOs) and all employees for their performance. The Company believes in maintaining a competitive compensation package to insure continuity of the management team with the goal of increasing shareholder value over the long-term.

The objectives of the compensation package include the following:

- Create an overall compensation package that is competitive with those offered by other financial institutions in our market area while providing appropriate incentives for the achievement of short and long term performance goals.
- Encourage achievement of short-term performance goals through cash incentive programs
- Use stock incentive plans to reward long-term performance and align interests of management with stockholders
- Encourage long-term management continuity and loyalty through the accrual of post-employment benefits

Financial services is a competitive industry and the Company operates in a market area which is headquarters to many other community banks as well as much larger institutions. The NEOs officer compensation package is therefore structured to keep the current team in place. The Company feels this is important due to the following attributes of the NEOs:

- In depth knowledge of the local markets
- Familiarity with Norwood's operations
- Strong customer relationships
- Management succession planning
- Proven success
- Over twelve consecutive years of earnings growth and dividend increases

The Company has a balanced package of short-term cash based compensation and longer-term stock based plans and retirement plans. The Company's Executive Compensation package includes the following key elements:

- Base Salary
- Cash Incentive Bonus Plan
- Long Term Equity-Based Incentive Compensation
- Employment Agreements
- Post-Employment and Retirement Programs
- Insurance and Other Benefits
- Perquisites and other Personal Benefits

Administration of Compensation Program

The Compensation Committee of the Company is responsible for the administration of the compensation program of the President, Chief Executive Officer and Chief Financial Officer and the other Named Executive Officers.

The Compensation Committee meets in December of each year to determine annual salary adjustments, cash bonus and stock option awards for NEOs. The Company does not have a formal policy addressing each specific type of compensation.

The Committee does consider a variety of factors as it evaluates compensation for each NEO, including:

- Overall company performance as compared to budget and prior year's performance;
- Bank regulatory examination results;
- Bank performance metrics compared to peers, including return on assets, return on equity, charge-offs, level of non-performing loans and efficiency ratio; and
- The individual achievements of each NEO in their respective areas of responsibility.

In establishing base salaries and increases, the committee has access to various compensation surveys to ensure a competitive salary level. These include:

- The Conference Board Salary increase survey
- The Nash and Company PA Bank and Thrift Compensation Report
- SNL Executive Compensation Review

The Company does not specifically benchmark compensation to any specific group of companies.

The peer group consists of the following banks in northeast Pennsylvania: Community Bank & Trust, Dime Bank, Penn Security, Honesdale National, First Keystone National, Fidelity Deposit & Discount, Luzerne Bank and First National Community Bank.

Annual salary increases are generally made in amounts deemed necessary to maintain the competitiveness of the salary structure Absent a material increase in duties or a significant change in the economic or competitive landscape, salaries are not increased materially from year to year.

At each meeting, the Chief Executive Officer discusses with the Committee the performance evaluations of each of the NEOs excluding himself, and presents his recommendations. The Chief Executive Officer is not present for any discussion involving his compensation.

Depending on the Company's performance for the year, the Compensation Committee establishes a cash incentive bonus pool based on a percentage of pre-tax earnings. Specific bonus amounts are awarded to each NEO based on performance. The Company realizes that all employees contribute to its success, and therefore, cash bonuses are also distributed to employees at all levels based on merit. The Company has never been required to materially adjust or restate the pre-tax earnings on which the bonus pool has been calculated and does not have a policy regarding the adjustment or recovery of bonuses in such an event.

The Committee also grants stock option awards under the Norwood Financial Corp. 2006 Stock Option Plan. The Stock Option Plan was designed to provide long-term incentives to NEOs, directors and other key employees that contribute to the success of the Company. The ten-year life of the options is structured to retain the NEOs and promote the long-term success of the Company.

The Board of Directors believes that equity-based compensation is important in aligning the interests of management with those of shareholders and has established the Wayne Bank Employee Stock Ownership Plan and 2006 Stock Option Plan to help it achieve this objective. Although each of the NEOs has a substantial personal investment in the Common Stock, the Board of Directors does not have formal equity ownership requirements or guidelines for executive officers.

Components of Compensation Program

The components of compensation for 2009 are as follows:

Salary

As a result of the Company’s ongoing success and the continuity of the management team, current base salary levels are above the median. The Compensation Committee approved a 3.00% increase in salaries at the December meeting. This level was based on information from the Conference Board which indicated commercial banks would increase officer salaries by 3.00%. NEOs salary increases ranged from 2.5% to 2.9% excluding increases related to any material changes in duties. Under their employment agreements as in effect in 2009, Messrs. Davis and Critelli had base salary amounts of $226,000 and $141,500, respectively, with minimum annual increases of $6,000 and $3,000, respectively.

Bonus

For 2009, the Board approved a bonus pool equal to 4.0% of pre-tax earnings to be distributed to all NEOs, other officers and employees. Historically, this bonus pool percentage has varied from 4.0% to 4.4% of pre-tax earnings. In establishing this bonus pool, the Committee considered the Company’s overall performance including an increase in earnings and ROA, ROE, the efficiency ratio and loan quality each of which ranks in the top quartile of the Company’s peer group.

Stock Based Awards

The Compensation Committee approved stock option awards under the Norwood Financial Corp 2006 Stock Option Plan. The purpose of the plan is to provide incentives and rewards to officers, employees and directors that contribute to the success and growth of the Company. In 2009, a total of 20,000 options were granted to 22 key employees including the NEOs. Because Mr. Davis had announced his retirement effective as of December 31, 2009, the Compensation Committee determined not to award options to him. Of the total options granted in 2009, 20,000, which represents .72% of total shares outstanding, related to the Company’s 2009 performance. The NEOs were awarded 38% of the total options granted. The percentage awarded to NEOs has declined over time as more key employees have been included in the plan.

Timing of Grants

Stock awards are typically granted annually as part of the individual performance review process. This takes place at the Compensation Committee Meeting in December. The full board ratifies the actions of the Committee in December and establishes the grant date. The exercise price is based upon the last sale price of the Company’s stock at the closing on the effective date of grant or if there is no trading on such date then the last trading day prior to such date of grant. As described above, grants for 23,000 shares were awarded effective December 31, 2009.

Retirement and Severance Arrangements

The Company has salary continuation plan agreements (SCP) with each NEO. The agreements provide that upon termination of employment on or after reaching age 62, or following a change-in-control, if earlier, the NEOs will be eligible to receive annual retirement benefits as detailed in the Pension Benefits Table below. The SCP was initially established in 1999. Benefit amounts were calculated based on the amount of supplemental retirement income needed to allow the NEO to retire on approximately 40-75% of projected final salary when such supplemental benefit is added to the

Company's qualified retirement plans and social security. The range of 40% to 75% of final salary is based on total years of service with the Company from inception date of the plan. The target supplemental salary levels payable at normal retirement age as follows: up to 15 years of service – 40%, 15-25 years – 65% and 25 or more – 75%.

The NEOs participate in the Bank's defined contribution profit-sharing and 401(k) Plan which is open to all employees over the age of 21 after one year of employment. The 401(k) Plan permits employees to make pre-tax contributions of between 2% and 10% of their compensation to their accounts in the 401(k) Plan and the Bank will match the first 2% of the contribution. In addition, in December 2009, the Compensation Committee approved an additional corporate contribution equal to 7% of each eligible employee's compensation. The Committee considers the financial performance of the Company when it sets the Company's annual contribution under the plan. For each NEO, the Company contributed a total of 9% of the NEO's base salary to the Plan, the same percentage as for all eligible employees who contributed at least 2% of their compensation to their account.

Each of the NEOs participate in the Employee Stock Ownership Plan (ESOP) which is open to all employees who have met the eligibility requirements. (See Note 9 of Notes to the Consolidated Financial Statements in the 2009 Annual Report to Stockholders.)

As part of the long-term compensation package, the Company and the Bank have entered into a three-year employment agreement with Mr. Critelli. The agreement has a two step change-in-control trigger under which, in case of a voluntary termination within 30 days of a change-in-control or an involuntary termination or voluntary termination for good reason during the six months before or within one year after a change-in-control, the NEO would be paid a lump sum amount equal to three times the five-year average of his annual compensation less $1.00. We believe that the change-in-control provision is desirable in order to ensure that Mr. Critelli remains focused on the interests of the Company and its shareholders in the event of a pending change-in-control. In the event of a change in control, the Company will indemnify the NEOs for any 20% tax penalties that may be incurred by them for amounts payable that exceed the limitations under Sections 280G and 4999 of the Code. If the Company terminated Mr. Critelli, without just cause, he would be entitled to a payment of salary for amounts due under the agreement with a minimum severance payment of one year's salary.

The Compensation Committee balances short-term and long-term compensation for the NEOs. Long term compensation includes stock option grants, salary continuation plan and other benefits available to all employees which include contributions to 401(k) Plan, ESOP and life insurance. For 2009, the target range for short-term compensation as a percentage of total compensation was 70% to 80% with long-term compensation at 20% to 30% of total compensation. We believe this formula is competitive within our market place and peer group.

COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed the foregoing Compensation Discussion and Analysis with Management. Based on foregoing review and discussions, the Compensation Committee recommended to the Board of Directors that the foregoing Compensation Discussion and Analysis be included in this proxy statement.

COMPENSATION COMMITTEE

John E. Marshall, Chairman
Ralph A. Matergia
Richard L. Snyder

EXECUTIVE COMPENSATION

Summary Compensation Table. The following table sets forth the cash and non-cash compensation awarded to or earned during the last three fiscal years by our principal executive officer, principal financial officer and the three other most highly compensated executive officers whose total compensation (excluding compensation attributable to changes in pension value and non-qualified deferred compensation earnings) during the fiscal year ended December 31, 2009 exceeded $100,000 for services rendered in all capacities to Norwood Financial Corp. and Wayne Bank. We do not have any plans providing for stock awards or non-equity incentive compensation to the Named Executive Officers.

Name and Principal Position	Year	Salary	Bonus	Option Awards (1)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (2)	All Other Compensation(3)	Total
William W. Davis, Jr. *	2009	$ 256,584	$ 72,000	$ 0	$ 25,452	$ 314,571	$ 668,607
President and Chief	2008	241,000	80,000	16,290	13,134	36,256	386,680
Executive Officer	2007	234,000	80,000	20,970	19,995	42,314	397,279
Lewis J. Critelli *	2009	$ 167,192	$ 47,250	$ 20,310	$ 20,336	$ 28,542	$ 283,630
President and Chief Executive	2008	156,500	52,500	13,575	18,879	27,829	269,283
Officer	2007	151,500	50,000	17,475	17,517	26,430	262,921
Edward C. Kasper	2009	$ 127,731	$ 30,150	$ 10,155	$ 29,458	$ 23,171	$ 220,665
Executive Vice President	2008	120,000	33,500	8,145	33,741	22,617	218,003
	2007	117,000	32,000	10,485	31,314	22,652	213,451
John H. Sanders	2009	$ 113,192	$ 16,650	$ 6,770	$ 9,669	$ 19,573	$ 165,854
Senior Vice President	2008	106,000	18,500	5,430	8,972	19,145	160,762
	2007	103,000	17,500	6,990	8,328	17,977	153,795
Joseph A. Kneller	2009	$ 111,115	$ 12,150	$ 6,770	$ 5,085	$ 141,331	$$ 276,451
Senior Vice President	2008	104,000	13,500	5,430	15,141	18,629	156,700
	2007	101,000	13,000	6,990	17,514	18,467	156,971

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* Mr. Davis retired effective as of December 31, 2009 and Mr. Critelli was named President and Chief Executive Officer effective January 1, 2010. Mr. Critelli served as Chief Financial Officer during fiscal year 2009.

(1) Based on the aggregate grant date fair value of the award computed in accordance with FASB ASC Topic 718. For assumptions used in determining the grant date for value of the options, see Note 13 of Notes to the Consolidated Financial Statements in the 2009 Annual Report to Stockholders.

(2) Consists of increase in actuarial present value of benefits under Salary Continuation Plan.

(3) All other compensation consists of the following:

	401(k) Matching Contributions	Life Insurance Paid	Payout of Post Retirement Life Insurance	ESOP No. of Shares	ESOP Value at $28.59/Share	Total
William W. Davis, Jr.	$ 23,093	$ 3,301	$ 276,227	418	$ 11,951	$ 314,571
Lewis J. Critelli	15,047	1,573	--	417	11,922	28,542
Edward C. Kasper	11,496	1,897	--	342	9,778	23,170
John H. Sanders	10,187	1,466	--	277	7,919	19,571
Joseph A. Kneller	10,000	1,764	124,135	190	5,432	141,331

Grants of Plan-Based Awards. The following tables set forth certain information with respect to plan-based awards granted to the Named Executive Officers. All grants were made under the Norwood Financial Corp. 2006 Stock Option Plan.

Name	Grant Date	Board Action Date *	All Other Option Awards: Number of Securities Underlying Option (#)	Exercise of Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock Option Awards
William W. Davis, Jr.	NA	NA	--	$ --	$ --
Lewis J. Critelli	12/31/2009	12/08/2009	3,000	28.59	20,310
Edward C. Kasper	12/31/2009	12/08/2009	1,500	28.59	10,155
John H. Sanders	12/31/2009	12/08/2009	1,000	28.59	6,770
Joseph A. Kneller	12/31/2009	12/08/2009	1,000	28.59	