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NORWOOD FINANCIAL CORP
Form DEF 14A
March 25, 2002

SCHEDULE 14A
(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION
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 Rule 14a-11(c) or Rule 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):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) 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:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount previously paid:

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

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(3) Filing Party:

(4) Date Filed:

[Norwood Financial Corp. letterhead]

March 22, 2002

Dear Stockholder:

On behalf of the Board of Directors and management of Norwood Financial Corp. (the "Company"), I invite you to attend the Annual Meeting of Stockholders of the Company to be held at the administrative office of Wayne Bank, 717 Main Street, Honesdale, Pennsylvania on Tuesday, April 23, 2002, at 11:00 a.m., local time. The attached Notice of Annual Meeting and Proxy Statement describe the formal business to be transacted at the Annual Meeting. During the Annual Meeting, we will also report on the operations of the Company. Directors and officers of the Company, as well as representatives of Beard Miller Company LLP, certified public accountants, will be present to respond to stockholder questions.

You will be asked to elect three directors. The Board of Directors has approved this proposal and recommends that you vote FOR it.

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 written 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/William W. Davis, Jr.

William W. Davis, Jr.
President and Chief Executive Officer

NORWOOD FINANCIAL CORP.
717 MAIN STREET
HONSDALE, PENNSYLVANIA 18431

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(570) 253-1455

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON APRIL 23, 2002

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders (the "Meeting") of Norwood Financial Corp. (the "Company"), will be held at the administrative office of Wayne Bank, 717 Main Street, Honesdale, Pennsylvania on Tuesday, April 23, 2002, at 11:00 a.m., local time, for the following purposes:

I. To elect three directors of the Company;

all as set forth in the Proxy Statement accompanying this notice, and to transact such other business as may properly come before the Meeting and any adjournments. The Board of Directors is not aware of any other business to come before the Meeting. Stockholders of record at the close of business on March 15, 2002, are the stockholders entitled to vote at the Meeting and any adjournments thereof.

A copy of the Company's Annual Report for the year ended December 31, 2001 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 MEETING EVEN IF YOU CANNOT ATTEND. ALL STOCKHOLDERS CAN VOTE BY WRITTEN PROXY CARD. ALSO, YOU MAY VOTE IN PERSON AT THE 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 MEETING.

BY ORDER OF THE BOARD OF DIRECTORS

/s/John E. Marshall

John E. Marshall
Secretary

Honesdale, Pennsylvania
March 22, 2002

IMPORTANT: THE PROMPT RETURN OF PROXIES WILL SAVE THE COMPANY THE EXPENSE OF FURTHER REQUESTS FOR PROXIES IN ORDER TO INSURE A QUORUM AT THE MEETING. IF YOU ARE VOTING BY WRITTEN PROXY CARD, A SELF- ADDRESSED ENVELOPE IS ENCLOSED FOR YOUR CONVENIENCE. NO POSTAGE IS REQUIRED IF MAILED IN THE UNITED STATES.

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

ANNUAL MEETING OF STOCKHOLDERS
April 23, 2002

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GENERAL

This proxy statement and the accompanying proxy card are being mailed to stockholders of Norwood Financial Corp. (the "Company") commencing on or about March 22, 2002 in connection with the solicitation by the Company's Board of Directors of proxies to be used at the annual meeting of stockholders (the "Meeting") to be held at the administration office of Wayne Bank, 717 Main Street, Honesdale, Pennsylvania on Tuesday, April 23, 2002, at 11:00 a.m., local time.

All properly executed written proxies that are delivered pursuant to this proxy statement will be voted on all matters that properly come before the Meeting for a vote. If your proxy specifies instructions with respect to matters being voted upon, your shares will be voted in accordance with your instructions. If no instructions are specified, your shares will be voted (a) FOR the election of directors named in Proposal I, and (b) in the discretion of the proxy holders, as to any other matters that may properly come before the Meeting. Your proxy may be revoked at any time prior to being voted by: (i) filing with the Secretary of the Company (John E. Marshall, at 717 Main Street, Honesdale, Pennsylvania 18431) written notice of such revocation, (ii) submitting a duly executed proxy bearing a later date, or (iii) attending the Meeting and giving the Secretary notice of your intention to vote in person.

WHETHER OR NOT YOU ATTEND THE MEETING, YOUR VOTE IS IMPORTANT. ACCORDINGLY, REGARDLESS OF THE NUMBER OF SHARES YOU OWN, YOU ARE ASKED TO VOTE PROMPTLY BY SIGNING AND RETURNING THE ACCOMPANYING PROXY CARD.

VOTING STOCK AND VOTE REQUIRED

The Board of Directors has fixed the close of business on March 15, 2002 as the record date for the determination of stockholders who are entitled to notice of, and to vote at, the Meeting. On the record date, there were 1,753,733 shares of the Company common stock outstanding (the "Common Stock"). Each stockholder of record on the record date is entitled to one vote for each share held.

The presence in person or by proxy of at least a majority of the outstanding shares of Common Stock entitled to vote is necessary to constitute a quorum at the Meeting. With respect to any matter, any shares for which a broker indicates on the proxy that it does not have discretionary authority as to such shares to vote on such matter (the "Broker Non-Votes") will not be considered present for purposes of determining whether a quorum is present. In the event there are not sufficient votes for a quorum or to ratify any proposals at the time of the Meeting, the Meeting may be adjourned in order to permit the further solicitation of proxies.

As to the election of directors, as set forth in Proposal I, the proxy being provided by the Board of Directors enables a stockholder to vote for the election of the nominees proposed by the Board of Directors, or to withhold authority to vote for the nominees being proposed. Directors are elected by a plurality of votes of the shares present, in person or represented by proxy, at a meeting and entitled to vote in the election of directors. Unless otherwise required by law, all other matters shall be determined by a majority of votes cast affirmatively or negatively without regard to (a) Broker Non-Votes or (b) proxies marked "ABSTAIN" as to that matter.

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PRINCIPAL HOLDERS

Persons and groups owning in excess of 5% of the Common Stock are required to file certain reports regarding such ownership pursuant to the Securities Exchange Act of 1934, as amended. The following table sets forth as of the record date, persons or groups who own more than 5% of the Common Stock. Other than as noted below, management knows of no person or group that owns more than 5% of the outstanding shares of Common Stock as of the record date.

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	131,999(1)	7.5

(1) The information is derived from Amendment No. 2 to a Form 13G dated January 12, 2001, which states that the Wayne Bank Trust Department had sole voting and dispositive power with respect to 131,999 shares.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities and Exchange Act of 1934, as amended, requires the Company's directors and executive officers to file reports of ownership and changes in ownership of their equity securities of the Company with the Securities and Exchange Commission and to furnish the Company with copies of such reports. To the best of the Company's knowledge, all of the filings by the Company's directors and executive officers were made on a timely basis during the 2001 fiscal year. The Company is not aware of any beneficial owners of more than ten percent of its Common Stock.

PROPOSAL I - ELECTION OF DIRECTORS

Election of Directors

The Board of Directors currently consists of nine members, each of whom also serves as a director of Wayne Bank (the "Bank"). The Company's Articles of Incorporation provides 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.

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Daniel J. O'Neill, Dr. Kenneth A. Phillips and Gary P. Rickard have been nominated by the Board of Directors for a term of three years. Messrs. O'Neill, Phillips and Rickard currently serve as directors of the Company.

The persons named as proxies in the enclosed proxy card intend to vote for the election of the person listed below, unless the proxy card 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 enclosed proxy card 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, terms of, and length of board service for the persons nominated for election as directors of the Company at the Meeting and each other director of the Company who will continue to serve as director after the Meeting. Beneficial ownership of named executive officers and directors of the Company as a group, is also set forth below.

NAME -----	AGE (1) -----	YEAR FIRST ELECTED OR APPOINTED (2) -----	CURRENT TERM EXPIRES -----	COMMO BENEF OWNE MARCH 1 -----
BOARD NOMINEES FOR TERMS TO EXPIRE IN 2005				
Daniel J. O'Neill	64	1985	2002	
Dr. Kenneth A. Phillips	51	1988	2002	
Gary P. Rickard	60	1978	2002	1
DIRECTORS CONTINUING IN OFFICE				
Charles E. Case	67	1970	2003	4
William W. Davis, Jr.	57	1996	2003	3
John E. Marshall	64	1983	2003	1
Russell L. Ridd	72	1980	2004	5
Harold A. Shook	63	1988	2004	
Richard L. Snyder	61	2000	2004	
NAMED EXECUTIVE OFFICERS WHO ARE NOT DIRECTORS				
Lewis J. Critelli	42			1
Edward C. Kasper	54			1
Joseph A. Kneller	55			
All Executive Officers and Directors as a Group (13 persons)				22

(footnotes on next page)

(1) As of December 31, 2001

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

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- (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: Daniel J. O'Neill - 1,000, Dr. Kenneth A. Phillips - 500, Charles E. Case - 1,000, William W. Davis, Jr. - 22,000, John E. Marshall - 1,000, Russell L. Ridd - 1,000, Harold A. Shook - 1,000, Richard L. Snyder - 500, Lewis J. Critelli - 16,740, Edward C. Kasper - 13,740 and Joseph A. Kneller - 5,000.
- (4) Excludes 58,090 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 trustee 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.
- * Less than 1% of the Common Stock outstanding.

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.

Nominees for Director:

Daniel J. O'Neill is the retired Superintendent of the Wayne Highlands School District, Honesdale, Pennsylvania.

Dr. Kenneth A. Phillips is an optometrist in Waymart, Pennsylvania.

Gary P. Rickard is a partner of Clearfield Farms, Honesdale, Pennsylvania, a dairy farm.

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

Continuing Directors:

Charles E. Case is Vice President at CR Case and Sons, Inc., Honesdale, Pennsylvania, an automotive/tire services store.

William W. Davis, Jr. is President and Chief Executive Officer of the Company and the Bank.

John E. Marshall is president of Marshall Machinery Inc., Honesdale, Pennsylvania, a farm equipment and sales company.

Russell L. Ridd is Chairman of the Board. Mr. Ridd retired as the President and Chief Executive Officer of the Bank in May 1993.

Harold A. Shook is president of Shooky's Distributors, Hawley, Pennsylvania, a food and beverage distributor.

Richard L. Snyder is a retired executive and certified public accountant. He served in a number of executive positions with Pricewaterhouse

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Coopers LLP, Bell Equipment/Alcom Combustion Company, and most recently with Phillip Morris Companies, Inc.

Named Executive Officers Who Are Not Directors:

Lewis J. Critelli is Executive Vice President and Chief Financial Officer of the Company and the Bank. Prior to December 1998, Mr. Critelli has served in a variety of capacities with the Company and the Bank.

Edward C. Kasper is Senior Vice President of the Company and the Bank.

Joseph A. Kneller is Senior Vice President of the Company and Senior Vice President - Information Systems of the Bank. Prior to December 1998, Mr. Kneller served as Vice President of the Bank.

Certain Other Executive Officer:

John H. Sanders, 44, is Senior Vice President of the Company and Senior Vice President and head of Retail Banking for the Bank.

Meetings and Committees of the Board of Directors

The Board of Directors of the Company 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, 2001, the Board of Directors of the Company held six regular meetings and no special meetings and the Board of Directors of the Bank held 12 regular meetings and no special meetings. No director attended fewer than 75% of the total meetings of the Boards of Directors of the Company and the Bank and committees on which such director served during the fiscal year ended December 31, 2001.

The Company's nominating committee consists of Directors Ridd, Marshall and Shook. The Committee presents its recommendation of nominees to the full Board of Directors. Nomination to the Board of Directors made by stockholders must be made in writing to the Secretary of the Company and received by the Company not less than 60 days prior to the anniversary date of the immediately preceding annual meeting of stockholders of the Company. Notice to the Company of such nominations must include certain information required pursuant to the Company's Articles of Incorporation. This standing committee met twice during the 2001 fiscal year.

The Compensation Committee consists of Directors Ridd, Marshall and Shook. This standing committee met twice during the fiscal year ended December 31, 2001 to review the compensation of the chief executive officer and other executive officers.

The Audit Committee is comprised of directors Snyder, Shook, Phillips, Case and Marshall. The Board of Directors has determined that each of the members of the Audit Committee satisfy the requirements of the Nasdaq as to independence, financial literacy and experience. The Board of Directors has adopted a written audit charter. 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

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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, 2001.

Audit Committee Report

Review of Audited Financial Statements with Management.

The Audit Committee reviewed and discussed the audited financial statement for the year ended December 31, 2001 with the management of the Company.

Review of Financial Statements and Other Matters with Independent Accountant.

The Audit Committee discussed with Beard Miller Company LLP ("Beard Miller"), the Company's independent accountants, the matters required to be discussed by the statement on Auditing Standards No. 61 (Communications with Audit Committees), as may be modified or supplemented. The Audit Committee has received the written disclosures and the letter from Beard Miller required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), as may be modified or supplemented, and has discussed with Beard Miller its independence.

Recommendation that Financial Statements be Included in Annual Report.

Based on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2001, for filing with the Securities and Exchange Commission.

Audit Committee:

Richard L. Snyder - Chairman
Harold A. Shook
Dr. Kenneth A. Phillips
Charles E. Case
John E. Marshall

Audit Fees

The aggregate fees billed by Beard Miller for professional services rendered for the audit of the Company's consolidated annual financial statements for the 2001 fiscal year and the reviews of the financial statements included in the Company's Forms 10-Q were \$47,800.

Financial Information Systems Design and Implementation Fees

For the 2001 fiscal year, Beard Miller did not render to the Company and its consolidated subsidiary professional services for financial information systems design and implementation.

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All Other Fees

The aggregate fees billed by Beard Miller to the Company and its consolidated subsidiary for all other services other than those covered under "Audit Fees" for the 2001 fiscal year were \$35,325. These services consisted primarily of tax services and internal audit services.

The Audit Committee considered whether the provision of the non-audit

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services listed under "All Other Fees" above were compatible with maintaining Beard Miller's independence.

DIRECTOR AND EXECUTIVE OFFICER COMPENSATION

Director Compensation

The Company does not presently compensate its directors. Each director of the Company is also a director of the Bank and receives fees accordingly. Mr. William W. Davis, Jr., President and Chief Executive Officer of the Company and the Bank, does not receive board or committee fees for his participation thereon. Each non-employee member of the Board of Directors receives a retainer of \$1,375 per month. In addition, fees are paid for various committee meetings as follows: Trust Committee (\$300); Audit Committee (\$300); Compensation Committee (\$300). For the fiscal year ended December 31, 2001, fees paid to all directors totaled approximately \$160,500, all of which were paid by the Bank.

Under the terms of the 1999 Directors stock compensation plan, options to purchase 500 shares of Common Stock were granted to each non-employee director on December 11, 2001. The options granted to the non-employee directors are exercisable one year from the date of grant. A total of 17,600 shares of Common Stock were reserved under the plan. At December 31, 2001, aggregate options granted were 11,500, of which 7,000 were fully vested.

Executive Compensation

Summary Compensation Table. The following table sets forth the cash and non-cash compensation awarded to or earned, for services rendered by the named executive officers of the Company for each of the three years ended December 31, 2001. No other executive officer of the Company had a combined salary and bonus that exceeded \$100,000.

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Name and Principal Position -----	Year ----	Annual Compensation (1)		Long Term Compensation Awards
		Salary -----	Bonus -----	Securities Underlying Options (#) (1) -----
William W. Davis, Jr. President and Chief Executive Officer	2001	\$190,000	\$50,000	3,000
	2000	181,039	45,000	3,000
	1999	175,783	35,000	3,000
Lewis J. Critelli Executive Vice President and Chief Financial Officer	2001	125,000	35,000	2,000
	2000	121,154	30,000	2,000
	1999	113,862	28,500	2,000
Edward C. Kasper Senior Vice President	2001	98,750	25,000	1,500
	2000	95,913	15,000	1,500
	1999	95,465	12,000	1,500
Joseph A. Kneller Senior Vice President	2001	89,000	12,000	1,500
	2000	87,134	12,000	1,500

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1999 85,269 12,000 1,500

-
- (1) See "-- Stock Awards."
 - (2) Includes \$45,926 related to an accrual under the salary continuation plan; 955 shares of Common Stock allocated under the ESOP at an average cost of \$16.39 per share (such shares had an aggregate market value at December 31, 2001 of \$24,935); and \$11,400 in Bank matching funds in the 401(k) retirement plan.
 - (3) Includes \$10,019 related to an accrual under the salary continuation plan; 628 shares of Common Stock allocated under the ESOP at an average cost of \$16.39 per share (such shares had an aggregate market value at December 31, 2001 of \$16,397 and \$7,500 in Company matching funds in the 401(k) retirement plan.
 - (4) Includes \$17,905 related to an accrual under the salary continuation plan; 496 shares of Common Stock allocated under the ESOP at an average cost of \$16.39 per share (such shares had an aggregate market value at December 31, 2001 of \$12,950); and \$5,925 in Company matching funds in the 401(k) retirement plan.
 - (5) Includes \$10,014 related to an accrual under the salary continuation plan; approximately 447 shares of Common Stock scheduled to be allocated under the ESOP at an average cost basis of \$16.39 per share (such shares had an aggregate market value at December 31, 2001 of \$11,671); and \$5,340 in Company matching funds in the 401(k) retirement plan.

Other Benefits

Employment Agreements. The Company and the Bank entered into five-year employment agreements with Messrs. Davis and Critelli. Under the Agreements, Mr. Davis' and Mr. Critelli's employment may be terminated by the Company or the Bank for "just cause" as defined in the Agreement. If the Company or the Bank terminated Messrs. Davis and Critelli without just cause, Messrs. Davis and Critelli would be entitled to a continuation of their salaries for the remaining term of the Agreement with a minimum of one year from the date of termination as well as the continuation of other benefits. In the event there is an involuntary termination of employment in connection with any change in control of the Company or the Bank during the term of the Agreement, Messrs. Davis and Critelli will be paid in a lump sum an amount equal to 2.99 times the five year average of his annual compensation. In the event of a change in control of the Company or Bank at December 31, 2001, Messrs. Davis and Critelli would currently be entitled to an aggregate lump-sum payment of approximately \$501,000 and \$329,000, respectively.

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Salary Continuation Plan. The Bank entered into salary continuation agreements with Messrs. Davis, Critelli, Kasper and Kneller (the "Executives"). The agreements provide that upon termination of employment on or after reaching the age of 62, the Executives will be entitled to maximum annual retirement benefits equal to \$46,000, \$61,000, \$29,000 and \$14,000, respectively, payable for 15 years. These amounts are adjusted for early retirement. The Executives are entitled to full payment at age 62 under a change in control of the Company. The Executives are not entitled to such benefits in the event they voluntarily leave the Company or are terminated for cause. For the year ended December 31, 2001, Messrs. Davis, Critelli, Kasper and Kneller had accrued salary continuation plan benefits of approximately \$111,000, \$24,000, \$43,000 and \$27,000, respectively, and such benefits were vested for such Executives.

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Severance Agreement. The Bank entered into change-in-control severance agreements with Messrs. Kasper and Kneller. The severance agreements have terms of three years, renewable annually, and severance protection upon a termination of employment following a change in control of the Bank, with such payment equaling two times the current annual compensation of Messrs. Kasper and Kneller. In the event of a change of control at December 31, 2001, Messrs. Kasper and Kneller would have been entitled to a lump sum payment of approximately \$198,000 and \$178,000, respectively.

Compensation Committee Interlocks and Insider Participation

The Compensation Committee consisted of Directors Ridd, Marshall and Shook at December 31, 2001. No member of the Committee is, or was during 2001, 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 2001, a member of a comparable compensation committee of a company of which any of the directors of the Company is an executive officer.

2001 Report of the Compensation Committee

The Compensation Committee of the Company is responsible for the administration of the compensation program of the President and Chief Executive Officer, Executive Vice President and Chief Financial Officer and all other Executive Officers. The Committee is entirely composed of the Board of Directors of the Company. The Committee has access to various surveys of executive compensation packages of banks of similar size and complexity. The compensation package for executive officers consists of base salary, annual cash bonus and incentive stock options and is structured so as to provide a competitive package that allows the Company to retain key executives.

The Committee determines executive base salaries by level of responsibility, individual contribution to the Company and the Company performance including overall profitability, core growth in loans and deposits and loan quality issues. The Chief Executive Officer makes recommendations to the Committee concerning base salary of other executive officers after reviewing the individual's performance as well as the Company's performance. Using a similar process, the Committee makes recommendations to the Board of Directors regarding the President and Chief Executive Officer base salary.

During the year ended December 31, 2001, William W. Davis, Jr., President and Chief Executive Officer received an increase in his base salary from \$180,000 to \$190,000 due to his continued leadership in the management of the Company and the Bank. Additionally, Mr. Davis was awarded stock options under the Stock Option Plan. In making its compensation determinations, the Committee considers the

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annual compensation paid to presidents and chief executive officers of publicly owned financial institutions nationally, in the State of Pennsylvania and surrounding Northeastern states with assets of between \$250 million and \$500 million and the job performance of such individual as determined by the Committee or the Board of Directors.

The Compensation Committee:

John E. Marshall
Russell L. Ridd - Chairman
Harold A. Shook

Stock Awards. The following table sets forth information with respect

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to previously awarded stock options to purchase the Common Stock granted in fiscal 2001 to the named executive officers and held by them as of December 31, 2001. The Company has not granted to the named executive officers any stock appreciation rights.

OPTION GRANTS IN LAST FISCAL YEAR

Name	Number of Securities Underlying Option Granted (#)	Percent of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price (\$/Sh)	Expiration Date
William W. Davis, Jr.	3,000	26.1%	26.75	12/11/11
Lewis J. Critelli	2,000	17.4%	26.75	12/11/11
Edward C. Kasper	1,500	13.0%	26.75	12/11/11
Joseph A. Kneller	1,500	13.0%	26.75	12/11/11

(1) The amounts represent certain assumed rates of appreciation only over a ten-year period. Actual gains, if any, on stock option exercises and Common Stock holdings are dependent on the future performance of the Common Stock and overall stock market conditions. There can be no assurance that the amounts reflected in the table will be achieved. The values in the table are based upon the exercise price of \$26.75 and the closing price of \$26.11 at December 31, 2001.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FY-END OPTION VALUES

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options at Fiscal Year-End (#) Exercisable/Unexercisable
William W. Davis, Jr.	--	--	22,000 / 3,000
Lewis J. Critelli	--	--	16,740 / 2,000
Edward C. Kasper	--	--	13,740 / 1,500
Joseph A. Kneller	--	--	6,500 / 1,500

(1) Based upon an exercise price per share of \$16.438 for 6,000 options; \$17.125 for 6,000 options; \$24.00 for 3,000 options; \$22.25 for 3,000 options; \$16.3125 for 3,000 options; and \$26.75 for 3,000 options. The closing stock price on December 31, 2001 was \$26.11.

(2) Based upon an exercise price per share of \$16.54 for 5,740 options; \$17.125 for 4,000 options; \$24.00 for 3,000 options; \$22.25 for 2,000 options; \$16.3125 for 2,000 options; and \$26.75 for 2,000 options. The closing price on December 31, 2001 was \$26.11.

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(footnotes continue on next page)

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- (3) Based upon an exercise price of \$16.54 for 5,240 options; \$17.125 for 3,000 options; \$24.00 for 2,500 options; \$22.25 for 1,500 options; \$16.3125 for 1,500 options; and \$26.75 for 1,500 options. The closing stock price on December 31, 2001 was \$26.11.
- (4) Based upon an exercise price of \$17.125 for 1,000 options; \$24.00 for 2,500 options; \$22.25 for 1,500 options; \$16.3125 for 1,500 options; and \$26.75 for 1,500 options. The closing stock price on December 31, 2001 was \$26.11.

PERFORMANCE GRAPH

Set forth below is a stock performance graph comparing the cumulative total shareholder return on the Common Stock with (a) the cumulative total stockholder return on stocks included in the Nasdaq Stock Market index and (b) the cumulative total stockholder return on stocks included in the Nasdaq Bank index, as prepared for Nasdaq by the Center for Research in Securities Prices ("CRSP") at the University of Chicago. All three investment comparisons assume the investment of \$1,000 at the market close on December 31, 1996 and the reinvestment of dividends paid. The graph provides comparison at December 31, 1996 and each fiscal year through December 31, 2001.

[GRAPHIC OMITTED]

	12/31/96(\$)	12/31/97(\$)	12/31/98(\$)	12/31/99(\$)	1
Norwood Financial Corp.	1,000	1,319	1,441	1,335	
CRSP Nasdaq U.S. Index	1,000	1,220	1,730	3,210	
CRSP Nasdaq Bank Index	1,000	1,670	1,660	1,600	

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There can be no assurance that the Company's future stock performance will be the same or similar to the historical performance shown in the above graph. The Company neither makes nor endorses any predictions as to stock performance.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Certain directors and executive officers of the Bank, their families and their affiliates are customers of the Bank. Any transactions with such parties including loans and commitments are made on substantially the same terms and conditions, including interest rate and collateral, as those of comparable

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transactions prevailing at the time with other persons, and do not include more than the normal risk of collectibility or present other unfavorable features.

INDEPENDENT PUBLIC ACCOUNTANTS INFORMATION

Beard Miller was the Company's independent public accountants for the 2001 fiscal year. The Board of Directors has renewed the Company's arrangement with Beard Miller for the year ended December 31, 2002. A representative of Beard Miller is expected to be present at the meeting, will have the opportunity to make a statement if he or she so desires and is expected to be available to respond to appropriate questions.

2003 ANNUAL MEETING STOCKHOLDER PROPOSALS

In order to be considered for inclusion in the Company's proxy statement for the annual meeting of stockholders to be held in 2003, all stockholder proposals must be submitted to the Secretary at the Company's office, 717 Main Street, Honesdale, Pennsylvania 18431, on or before November 14, 2002. Under the Articles of Incorporation, in order to be considered for possible action by stockholders at the 2003 annual meeting of stockholders, stockholder nominations for director and stockholder proposals not included in the Company's proxy statement must be submitted to the Secretary of the Company, at the address set forth above, no later than February 20, 2003.

OTHER MATTERS

The Board of Directors does not know of any other matters that are likely to be brought before the Meeting. If any other matters, not now known, properly come before the Meeting or any adjournments, the persons named in the enclosed proxy card, or their substitutes, will vote the proxy in accordance with their judgment on such matters.

The cost of soliciting proxies will be borne by the Company. The Company will reimburse brokerage firms and other custodians, nominees and fiduciaries for reasonable expenses incurred by them in sending proxy materials to the beneficial owners of Common Stock. In addition to solicitations by mail, directors, officers, and regular employees of the Company may solicit proxies personally or by telegraph or telephone without additional compensation.

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FORM 10-K

A COPY OF THE COMPANY'S ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001 WILL BE FURNISHED WITHOUT CHARGE TO STOCKHOLDERS AS OF THE RECORD DATE UPON WRITTEN REQUEST TO THE SECRETARY, NORWOOD FINANCIAL CORP., 717 MAIN STREET, HONESDALE, PENNSYLVANIA 18431.

BY ORDER OF THE BOARD OF DIRECTORS

/s/John E. Marshall

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John E. Marshall
Secretary

Honesdale, Pennsylvania
March 22, 2002

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APPENDIX

NORWOOD FINANCIAL CORP.
ANNUAL MEETING OF STOCKHOLDERS
April 23, 2002

The undersigned hereby appoints the official proxy committee of the Board of Directors of the Norwood Financial Corp. (the "Company") with full powers of substitution to act, as attorneys and proxies for the undersigned, to vote all shares of common stock of the Company that the undersigned is entitled to vote at the Annual Meeting of Stockholders (the "Meeting"), to be held at the administrative office of Wayne Bank, 717 Main Street, Honesdale, Pennsylvania 18431, on Tuesday, April 23, 2002, at 11:00 a.m., local time and at any and all adjournments thereof, as follows:

	FOR	WITHHELD
1. The election as director of all nominees listed below:	_	_
Daniel J. O'Neill		
Dr. Kenneth A. Phillips		
Gary P. Rickard		

INSTRUCTIONS: To withhold your vote for any individual nominee, insert the
----- nominee's name on the line provided below.

In their discretion, such attorneys and proxies are authorized to vote upon such other business as may properly come before the Meeting or any adjournments thereof.

The Board of Directors recommends a vote "FOR" the above listed proposition.

THIS SIGNED PROXY WILL BE VOTED AS DIRECTED, BUT IF NO INSTRUCTIONS ARE SPECIFIED, THIS SIGNED PROXY WILL BE VOTED FOR THE PROPOSITION STATED. IF ANY OTHER BUSINESS IS PRESENTED AT THE MEETING, THIS PROXY WILL BE VOTED BY THOSE NAMED IN THIS PROXY IN THEIR BEST JUDGMENT. AT THE PRESENT TIME, THE BOARD OF DIRECTORS KNOWS OF NO OTHER BUSINESS TO BE PRESENTED AT THE MEETING.

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THIS PROXY IS SOLICITED BY THE BOARD OF DIRECTORS

Please complete, date, sign and mail the detached proxy card in the enclosed postage-prepaid envelope.

Should the undersigned be present and elects to vote at the Meeting, or at any adjournment thereof, and after notification to the Secretary of the Company at the Meeting of the stockholder's decision to terminate this proxy, the power of said attorneys and proxies shall be deemed terminated and of no further force and effect. The undersigned may also revoke this proxy by filing a subsequently dated proxy or by written notification to the Secretary of the Company of his or her decision to terminate this proxy.

The undersigned acknowledges receipt from the Company, prior to the execution of this proxy, of Notice of the Meeting, a proxy statement dated March 22, 2002 and an Annual Report to Stockholders.

NORWOOD

Financial Corp.

Signature: -----

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

Signature: -----

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

Date: -----

I/We do plan to attend the 2002 meeting.

Please sign exactly as your name appears on the enclosed card. When signing as attorney, executor, administrator, trustee, or guardian, please give your full title. If shares are held jointly, each holder should sign.