

ARROW FINANCIAL CORP
Form DEF 14A
March 15, 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))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Rule Section 240.14a-12

Arrow Financial Corporation

(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 the 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 the 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.:

3) Filing Party:

4) Date Filed:

[LOGO]

ARROW FINANCIAL CORPORATION

250 Glen Street, Glens Falls, New York 12801

NOTICE OF 2010 ANNUAL MEETING OF SHAREHOLDERS

To the Shareholders of Arrow Financial Corporation:

Notice is hereby given that the Annual Meeting of Shareholders of Arrow Financial Corporation, a New York corporation, will be held at the Charles R. Wood Theater, 207 Glen Street, Glens Falls, New York, 12801 on Wednesday, April 28, 2010, at 10:00 a.m. for the purpose of considering and voting upon the matters set forth below.

Your Board of Directors recommends that you vote FOR the following Items:

Item 1

The election of four (4) Class C directors, nominated by the Board of Directors, to serve a term of three (3) years or until their successors shall have been elected and qualified.

Item 2

Ratification of the selection of the independent registered public accounting firm, KPMG LLP, as the Company's independent auditor for the fiscal year ending December 31, 2010.

Any other business which may be properly brought before the meeting or any adjournment or postponement thereof will be considered and voted upon.

Your vote is important. In order to ensure your representation at the Annual Meeting, you may submit your proxy and voting instructions via the Internet or by telephone, or, if you receive a paper proxy card and voting instructions by mail, you may vote your shares by completing, signing and dating the proxy card as promptly as possible and returning it in the enclosed envelope. No postage is needed if mailed in the United States.

By Order of the Board of Directors,

THOMAS J. MURPHY, CPA

Corporate Secretary

March 15, 2010

TABLE OF CONTENTS

Page

PROXY STATEMENT FOR ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON APRIL 28, 2010

RECORD DATE AND VOTING RIGHTS

Who is entitled to vote?

What constitutes a quorum at the meeting?

How many votes are required for approval of the various items on the agenda?

What is the impact of a vote to WITHHOLD AUTHORITY on Item 1 (Election of Directors)?

What is the impact of a vote to ABSTAIN on Item 2 (Ratification of Selection of Independent Auditor)?

How will broker non-votes be treated in voting on items at the meeting?

How are Plan shares voted?

How do I submit my proxy?

May I revoke my proxy?

How are proxies being solicited?

PROPOSALS BY SHAREHOLDERS

May a shareholder raise a matter for consideration to the Board of Directors at the annual meeting?

OWNERSHIP OF OUR COMMON STOCK

ITEM 1 ELECTION OF DIRECTORS

Information regarding Director Nominees and our Continuing Board of Directors

Qualifications of the Board of Directors

OTHER EXECUTIVE OFFICERS

CORPORATE GOVERNANCE

Board Independence

Audit Committee Independence and Financial Experts

Board Leadership Structure and Role in Risk Oversight

Board Committees

Meetings of the Board of Directors; Director Attendance at Meetings

Communications with the Board of Directors

Director Nomination Process

Section 16(a) Beneficial Ownership Reporting Compliance

COMPENSATION DISCUSSION AND ANALYSIS

Executive Summary

Compensation Philosophy

Risk Oversight of the Company Compensation Program

Oversight of the Executive Compensation Program

Components of Our Compensation Program

Employment and Other Agreements with Executives

Considerations in Making Executive Compensation Decisions

Compensation Committee Decisions on Executive Officer Compensation

Impact of Accounting and Tax on the Form of Compensation

COMPENSATION COMMITTEE REPORT

EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

GRANTS OF PLAN-BASED AWARDS TABLE

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END TABLE

OPTION EXERCISES AND STOCK VESTED TABLE

PENSION PLANS

PENSION BENEFITS TABLE

NONQUALIFIED DEFERRED COMPENSATION TABLE

AGREEMENTS WITH EXECUTIVE OFFICERS

Employment Agreement with Mr. Hoy

Employment Agreements with Messrs. Goodemote, DeMarco and O. Conor

Change-in-Control Agreement with Mr. T. Murphy

POTENTIAL PAYMENTS TO EXECUTIVES UPON TERMINATION OR CHANGE-IN-CONTROL

Voluntary Termination or Early Retirement

Termination for Cause

Death or Disability

Termination Other than for Cause

Termination in Connection with a Change-in-Control

Termination for Good Reason

POTENTIAL PAYMENTS TO EXECUTIVES UPON TERMINATION OR CHANGE-IN-CONTROL TABLE

COMPENSATION OF DIRECTORS

2009 DIRECTOR COMPENSATION TABLE

REPORT OF THE AUDIT COMMITTEE

TRANSACTIONS WITH DIRECTORS, OFFICERS AND ASSOCIATED PERSONS

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

HOUSEHOLDING OF NOTICE TO SHAREHOLDERS

ITEM 2- RATIFICATION OF THE INDEPENDENT AUDITOR

OTHER MATTERS

ARROW FINANCIAL CORPORATION

250 Glen Street

Glens Falls, New York 12801

**PROXY STATEMENT FOR ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON APRIL 28, 2010**

This proxy statement is furnished in connection with the solicitation by the Board of Directors (**Board**) of Arrow Financial Corporation (the **Company**), a New York corporation, of proxies to be voted at the Annual Meeting of Shareholders to be held on Wednesday, April 28, 2010, at 10:00 a.m., at the Charles R. Wood Theater, 207 Glen Street, Glens Falls, New York, 12801, and at any adjournment or postponement thereof. Attached to this proxy statement is a copy of Parts I and II of the Company's Annual Report on Form 10-K for the year ended December 31, 2009, which includes the Company's consolidated financial statements.

A Notice was mailed on March 15, 2010 to all shareholders announcing that our proxy materials are available for viewing online. If you wish to receive printed copies of these proxy materials, please contact us by Internet, phone or email, as shown on the Notice, and we will mail the materials to you within three (3) business days after receipt of your request. We encourage you to vote online or by telephone. See *How do I submit my proxy* on page 3. If you have not voted within ten (10) days after we mail the Notice, we may mail to you a second Notice and a proxy voting card.

At the meeting, there will be two (2) items submitted for a shareholder vote. First, four (4) directors will be elected to Class C of our Board of Directors. Second, shareholders will be asked to ratify the selection of the independent registered public accounting firm, KPMG LLP, as our independent auditor for the fiscal year ending December 31, 2010.

RECORD DATE AND VOTING RIGHTS

Who is entitled to vote?

Each shareholder of record as of the close of business on the record date, March 1, 2010, is entitled to notice of, and to vote at, the shareholders' meeting. At the close of business on that date, there were outstanding and entitled to vote 11,018,288 shares of our common stock, \$1.00 par value, our only class of stock outstanding. Owners of record at the close of business on the March 1, 2010 record date are entitled to one vote for each share of common stock held, on each matter submitted to a vote at the meeting.

What constitutes a quorum at the meeting?

In order to conduct business at the meeting, a quorum must be present. Under our Bylaws, a quorum is present if one-third of the total number of outstanding shares of our common stock are present in person or represented by proxy at the meeting. Consistent with applicable state law and our Certificate of Incorporation and Bylaws, we will treat all shares present in person or represented by proxy at the meeting, including so-called broker non-votes, as shares present or represented by proxy for purposes of determining the meeting quorum. Broker non-votes are shares held in street name by brokers who are present in person or represented by proxy at a meeting, but who have not received a voting instruction on a particular item or matter on behalf of the customers who actually own our shares and the item or matter is not within the broker's discretionary authority to vote. See *How will broker non-votes be treated in voting on items at the meeting?* on page 2.

How many votes are required for approval of the various items on the agenda?

Item 1 - Election of Directors. The first item on the agenda is the election of four (4) Class C directors. The affirmative vote of the holders of a plurality of the shares present in person or represented by proxy at the meeting and eligible to vote on such matter is required for the election of each such director. A plurality in an election of directors means that the nominees with the largest number of votes cast will be elected as directors, up to the maximum number of directors to be chosen at the meeting. At this year's meeting there are only as many nominees, four (4), as there are directors to be elected, four (4). Therefore, each nominee is assured of election provided he or she receives any FOR votes, regardless of how many negative votes (WITHHOLD AUTHORITY) such nominee receives.

However, under the Majority Voting Policy in our Corporate Governance Guidelines, if an election of directors is uncontested, as is the case at this year's meeting, if any nominee receives a number of negative votes (WITHHOLD AUTHORITY) exceeding fifty percent (50%) of the total number of shares outstanding and entitled to vote in such election, he or she must tender his or her resignation as director following the meeting. The Governance Committee of the Board is then required to evaluate the tendered resignation and make a recommendation to the full Board on appropriate action, which may or may not be to accept such resignation. The Board will take appropriate action on the resignation, taking into account the best interests of the Company and its shareholders.

Item 2 - Ratification of our Independent Auditor. The second item on the agenda is the ratification of the selection of our independent registered public accounting firm, KPMG LLP, as our independent auditor, for the fiscal year ending December 31, 2010. The affirmative vote of a majority of the shares present in person or represented by proxy at the meeting and voting on such matter will be required for such ratification.

Any Other Matters. The affirmative vote of a majority of the shares present in person or represented by proxy and voting on such matter will be required for approval of any other matter that might be properly raised and submitted to a vote at the meeting. However, consistent with our Bylaws, the agenda for this year's meeting is set and no additional matters, other than Items 1 and 2, may be submitted for consideration by our shareholders at the meeting, other than procedural issues such as adjournment, postponement or continuation. On procedural issues, all shares represented by proxy may be voted at the discretion of the attorneys-in-fact named in the proxies, to the extent permitted by law.

What is the impact of a vote to WITHHOLD AUTHORITY on Item 1 (Election of Directors)?

On Item 1, Election of Directors, a proxy or ballot marked WITHHOLD AUTHORITY will be the equivalent of an abstention from voting. Neither a ballot marked WITHHOLD AUTHORITY or an abstention will affect the outcome of the election for any of the nominees if the nominees each receive any votes in favor of their election because there is exactly the same number of nominees as there are director positions to be filled. However, a ballot marked WITHHOLD AUTHORITY may have an impact under our Majority Voting Policy in our Corporate Governance Guidelines as described in the prior section *How many votes are required for approval of the various items on the agenda?* on page 1.

What is the impact of a vote to ABSTAIN on Item 2 (Ratification of Selection of Independent Auditor)?

In order for Item 2 to be approved by shareholders, it must receive the affirmative vote of the holders of a majority of the shares present in person or represented by proxy at the meeting and voting on such matter. A proxy or ballot marked ABSTAIN on Item 2 will be treated as not having voted on this issue. A proxy or ballot marked AGAINST on Item 2 will be treated as having been voted against such matter. Therefore, a vote AGAINST Item 2 will make it harder to achieve shareholder approval than a vote to ABSTAIN .

How will broker non-votes be treated in voting on items at the meeting?

When shares are held in street name by the broker, it is the broker who solicits the shareholder's vote and provides us with the results of the vote of all of its customers who own Company shares. Under the rules that govern securities brokers, if a broker does not receive voting instructions from its customers regarding the shares held in street name by the broker, the broker may only vote such shares in its discretion on routine matters put to a vote of shareholders at a meeting. All shares for which the broker does not receive voting instructions are not eligible to be voted by the broker on non-routine matters. When shares are ineligible for voting by a broker on a proposal at a shareholders' meeting, i.e., because the matter is non-routine, those votes of such ineligible shares are referred to as broker non-votes. Broker non-votes on any non-routine matter presented at the meeting are not treated as being present or represented by proxy. Under current stock exchange regulations, an election of directors at a shareholder meeting, Item 1, is a non-routine matter and the ratification of the selection of the Company's independent auditor, Item 2, is a routine matter. **Please note in particular that this is the first year broker non-votes will not be counted with regard to the election of directors, so your vote is important.** We urge you to provide instructions to your broker so that your votes may be counted.

How are Plan shares voted?

If you are enrolled in the Arrow Dividend Reinvestment Plan (DRIP), the shares in your account as of the March 1, 2010 record date will be combined with all shares of common stock owned by you directly on March 1, 2010 and will be presented to you for voting by you on a single voting form.

If you are enrolled in the Company's Stock Purchase Plan (SPP), the shares of common stock owned by you in your SPP account on the March 1, 2010 record date will be presented to you for voting by you on a separate voting form.

If you are a participant in the Company's Employee Stock Ownership Plan (ESOP), the shares of common stock owned by you in the ESOP on the March 1, 2010 record date will be voted on your behalf by the ESOP Trustee in accordance with voting instructions you provide to the Trustee on a separate voting form that you will receive from the Plan Administrator. The ESOP Trustee will vote the ESOP shares in accordance with these voting instructions. If you do not provide the Trustee with instructions on how to vote your ESOP shares, the Trustee will vote your shares in the same way the Trustee will vote all shares held in the ESOP that are not yet allocated to participant accounts, i.e., in accordance with the mirror voting provisions of the ESOP. Under the mirror voting provisions, all such shares will be voted in a pro rata manner calculated to most accurately reflect the instructions received from accountholders who provide voting instructions for their shares to the Trustee.

How do I submit my proxy?

Shareholders of record on March 1, 2010 are entitled to vote at the Annual Meeting of Shareholders, which will be held on April 28, 2010. Whether or not you attend that meeting, we encourage all shareholders to submit a proxy with their vote before the meeting. Shareholders may vote online at www.proxyvote.com or by telephone by calling toll-free **1-800-690-6903**. We encourage you to vote online or by telephone.

If you have not voted within ten (10) days after we mail the original Notice, we may mail you a second Notice, along with a proxy voting card to be completed and returned to our proxy voting tabulator. We will include a postage-paid business reply envelope for this purpose. If your shares are held by a broker or bank, you must follow the voting instructions on the form you receive from your broker or bank.

If you return a proxy card, but no specific voting instructions are given with respect to an item, your shares will be voted FOR each of the four (4) Class C nominees and FOR the ratification of the appointment of KPMG LLP as our independent auditor for 2010, as applicable.

May I revoke my proxy?

Yes, you have the power to revoke your proxy at any time prior to the voting of the proxy at the Annual Meeting of Shareholders. You may revoke your proxy by (i) attending the meeting and voting your shares of stock in person, or prior to the meeting, by (ii) Internet or by Telephone on a later date, or (iii) delivering a written notice of revocation of proxy or a later-dated properly executed proxy to our Corporate Secretary at the following address:

Mr. Thomas J. Murphy, CPA

Corporate Secretary

Arrow Financial Corporation

250 Glen Street

Glens Falls, New York 12801

How are proxies being solicited?

Proxies are being solicited electronically, by telephone and by mail. Proxies may also be solicited, without additional compensation, by our directors, officers and other employees personally, by telephone or other means. We will bear all costs of proxy solicitation. If we utilize the services of other financial institutions, brokerage houses, custodians, nominees or fiduciaries to solicit proxies, we will reimburse them for their out-of-pocket expenses.

PROPOSALS BY SHAREHOLDERS

May a shareholder raise a matter for consideration to the Board of Directors at the annual meeting?

If a shareholder wishes to have a proposal included in the Company's proxy statement for an annual meeting, including the nomination of a person for election to the Board of Directors, the shareholder must satisfy the requirements established under our Bylaws and the requirements established by the Securities and Exchange Commission (SEC). Rule 14a-8 under the Securities Exchange Act of 1934, requires that shareholders requesting to have a proposal included in the Company's proxy statement for an annual meeting of shareholders must submit their proposal in writing to the Company at least 120 days before the anniversary date of the date the Company's proxy statement was released to shareholders for the prior year's annual meeting. Therefore, any shareholder requesting to submit a proposal for inclusion in the Company's proxy statement for the 2011 annual shareholders' meeting must deliver a proposal to the Corporate Secretary, at the address listed above, no later than November 15, 2010. If the date of the Company's annual meeting is changed by more than 30 days from the date of the prior annual meeting, different rules apply. Any shareholder proposal must satisfy the SEC rules, including a clear description of the proposal, a brief statement supporting the proposal and all required information about the proposing shareholder, and must contain the information specified in our Bylaws, including, without limitation, the name and address of record of the proposing shareholder, appropriate information regarding the matter sought to be presented or person proposed to be nominated, and the number of shares of our common stock owned by the proposing shareholder.

If a shareholder wishes to raise a matter for consideration at the annual meeting, but not include the proposal in the Company's proxy statement, the shareholder must comply with the requirements set forth under our Bylaws. Our Bylaws require that the shareholder give notice to the Corporate Secretary of the Company not less than 120 days before the anniversary date of the prior annual meeting date. Therefore, any shareholder wishing to raise a matter for consideration at the 2011 annual shareholders' meeting must deliver a proposal to the Corporate Secretary, at the address listed above, no later than December 29, 2010. If the date of the Company's annual meeting is changed by more than 30 days from the date of the prior annual meeting, different rules apply. The notice must contain the information specified in our Bylaws, including, without limitation, the name and address of record of the proposing shareholder,

appropriate information regarding the matter sought to be presented or person proposed to be nominated, and the number of shares of common stock owned by the proposing shareholder.

For further information on the process for shareholders to submit recommendations to the Board for its nominees for director, see *Shareholder Submissions of Candidates* on page 12.

OWNERSHIP OF OUR COMMON STOCK

The following table sets forth the beneficial ownership of the Company's common stock, as of January 15, 2010, by (i) each person who is known by us to be the beneficial owner of more than 5% of the outstanding shares of our common stock, (ii) each director and director nominee of the Company, (iii) each executive officer of the Company and (iv) all directors, director nominees and executive officers as a group.

The number of shares of our common stock shown in the following security ownership table as beneficially owned by each director nominee, director and executive officer and 5% shareholder is determined under the rules of the SEC and the information is not necessarily indicative of beneficial ownership for any other purpose. For purposes of the following table, beneficial ownership includes any shares of common stock as to which the individual has sole or shared voting power or investment power and also any shares of common stock that the individual has the right to acquire within 60 days of January 15, 2010 through the exercise of any option, warrant or right. Unless otherwise indicated below, the shares of common stock in the table below are owned directly and the indicated person or entity has sole voting power or investment power over the shares of common stock shown. As of January 15, 2010 there were 11,024,093 shares of our common stock outstanding.

Director Nominees, Directors and Executive Officers: (a)

**Shares of Company Common Stock
Beneficially Owned as of January 15, 2010**

	<u>Number</u>	<u>Percent (b)</u>
	8,720	
Herbert O. Carpenter	(c)	*
John J. Carusone, Jr.	6,982	*

Edgar Filing: ARROW FINANCIAL CORP - Form DEF 14A

	(d)	
	19,718	
Michael B. Clarke	(e)	*
	13,059	
Gary C. Dake	(f)	*
	28,424	
David S. DeMarco	(g)	*
	8,175	
Mary-Elizabeth T. FitzGerald	(h)	*
	15,870	
Terry R. Goodemote, CPA	(i)	*
Thomas L. Hoy	215,906	
	(j)	1.95%
David G. Kruczynski	14,233	
	(k)	*
	8,253	
Elizabeth O. C. Little	(l)	*
David L. Moynehan	30,531	
	(m)	*
John J. Murphy	88,414	
	(n)	*
Thomas J. Murphy, CPA	4,327	
	(o)	*
	71,278	
Raymond F. O. Conor	(p)	*
Richard J. Reisman	18,677	
	(q)	*
Shares of Directors and Executive Officers as a Group (15 persons)	552,567	
	(r)	4.94%
5% Shareholder:		
BlackRock, Inc.	591,193	
	(s)	5.37%
40 East 52 nd Street		

New York, NY 10022

Notes to Stock Ownership Table:

(a)

All of our directors and executive officers use our Company address which is 250 Glen Street, Glens Falls, New York 12801.

(b)

The use of an asterisk (*) denotes a percentage of less than 1%.

(c)

Includes 1,912 shares held directly by Mr. Carpenter, 6,551 shares held in Mr. Carpenter's Stock Purchase Plan (SPP) account, and 257 shares subject to exercisable options within sixty (60) days awarded under the Company's long-term incentive compensation plan.

(d)

Includes 6,721 shares held directly by Mr. Carusone, 4 shares held in Mr. Carusone's SPP account, and 257 shares subject to exercisable options within sixty (60) days awarded under the Company's long-term incentive compensation plan.

(e)

Includes 2,161 shares held directly by Mr. Clarke, 17,300 shares held directly by Mr. Clarke's wife in a revocable trust, and 257 shares subject to exercisable options within sixty (60) days awarded under the Company's long-term incentive compensation plan.

(f)

Includes 5,209 shares held directly by Mr. Dake, 7,634 shares held in Mr. Dake's SPP account, and 216 shares subject to exercisable options within sixty (60) days awarded under the Company's long-term incentive compensation plan.

(g)

Includes 100 shares held in Mr. DeMarco's SPP account, 12,668 shares held in Mr. DeMarco's account under the Company's Employee Stock Ownership Plan (ESOP), and 15,656 shares subject to exercisable options within sixty (60) days awarded under the Company's long-term incentive compensation plan.

(h)

Includes 7,274 shares held directly by Mrs. FitzGerald, 644 shares held in Mrs. FitzGerald's SPP account, and 257 shares subject to exercisable options within sixty (60) days awarded under the Company's long-term incentive compensation plan.

(i)

Includes 1,115 shares held directly by Mr. Goodemote, 248 shares held as custodian for his children, 907 shares held in Mr. Goodemote's SPP account, 5,890 shares held in Mr. Goodemote's account under the ESOP, and 7,710 shares subject to exercisable options within sixty (60) days awarded under the Company's long-term incentive compensation plan.

(j)

Includes 94,794 shares held directly by Mr. Hoy, 139 shares held in Mr. Hoy's SPP account, 673 shares held in Mr. Hoy's Simplified Employee Pension Plan account, 2,717 shares held directly by Mr. Hoy's wife, 2,274 shares held by Mr. Hoy's wife in an Individual Retirement Account, 39,212 shares held in Mr. Hoy's account under the ESOP, 3,094 shares held in a Hoy family irrevocable trust as to which Mr. Hoy is grantor and 73,003 shares subject to exercisable options within sixty (60) days awarded under the Company's long-term incentive compensation plan.

(k)

Edgar Filing: ARROW FINANCIAL CORP - Form DEF 14A

Includes 4,078 shares held directly by Mr. Kruczlnicki, 9,898 shares held in Mr. Kruczlnicki's SPP account, and 257 shares subject to exercisable options within sixty (60) days awarded under the Company's long-term incentive compensation plan.

(l)

Includes 6,944 shares held directly by Senator Little, 1,052 shares held in Senator Little's SPP account, and 257 shares subject to exercisable options within sixty (60) days awarded under the Company's long-term incentive compensation plan.

(m)

Includes 19,285 shares held directly by Mr. Moynehan, 5,137 shares held in Mr. Moynehan's SPP account, 5,852 shares held jointly by Mr. Moynehan with his wife, and 257 shares subject to exercisable options within sixty (60) days awarded under the Company's long-term incentive compensation plan.

(n)

Includes 14,022 shares held directly by Mr. John Murphy, 28,865 shares held jointly by Mr. J. Murphy with his wife, and 45,527 shares subject to exercisable options within sixty (60) days awarded under the Company's long-term incentive compensation plan.

(o)

Includes 1,519 shares held in Mr. Thomas Murphy's SPP account, 457 shares held in Mr. T. Murphy's account under the ESOP, and 2,351 shares subject to exercisable options within sixty (60) days awarded under the Company's long-term incentive compensation plan.

(p)

Includes 24,433 shares held directly by Mr. O'Connor, 843 shares held in Mr. O'Connor's SPP account, 17,325 shares held in Mr. O'Connor's account under the ESOP, and 28,677 shares subject to exercisable options within sixty (60) days awarded under the Company's long-term incentive compensation plan.

(q)

Includes 10,289 shares held directly by Dr. Reisman, 7,735 shares held in Dr. Reisman's SPP account, 410 shares held directly by Dr. Reisman's wife, and 243 shares subject to exercisable options within sixty (60) days awarded under the Company's long-term incentive compensation plan.

(r)

Includes an aggregate of 175,182 shares subject to exercisable options.

(s)

Based solely upon a Schedule 13G filed on January 29, 2010 with the Securities and Exchange Commission in which BlackRock, Inc. reported that as of December 31, 2009, it had sole and dispositive voting power over all of these shares. On December 1, 2009, BlackRock, Inc. completed its acquisition of Barclays Global Investors from Barclays Bank PLC. As a result, Barclays Global Investors, NA and certain of its affiliates are now included as subsidiaries of BlackRock, Inc. for purposes of Schedule 13G filings. BlackRock, Inc. and its affiliates provide asset and investment

management services.

Our subsidiary banks, Glens Falls National Bank and Trust Company ("GFNB") and Saratoga National Bank and Trust Company (SNB), in their capacity as fiduciary of numerous accounts in their respective Trust Departments, including as trustee of our Employee Stock Ownership Plan ("ESOP"), held 1,522,963 shares of our common stock, or 13.82% of the total shares outstanding and entitled to vote on our March 1, 2010 record date. GFNB and SNB were the beneficial owners of only a relatively small number of these shares. Other persons, such as the individual ESOP participants, had the sole power to vote and/or direct the disposition of most of these shares. As a result, neither GFNB nor SNB were the beneficial owners of more than 5% of the shares of our common stock outstanding and entitled to vote on the March 1, 2010 record date.

ITEM 1 ELECTION OF DIRECTORS

Under our Certificate of Incorporation and Bylaws, the Board of Directors is divided into three classes, one class to be elected each year for a term of three years. Under our Bylaws, the total number of directors is as specified from time-to-time by our Board of Directors. We currently have eleven (11) directors on our Board.

The first Item to be acted upon at the meeting is the election of four (4) directors to Class C (the class whose term expires at this meeting) of our Board of Directors, to three-year terms to expire in 2013. The only nominees are the four (4) individuals nominated by the Board of Directors. Upon recommendation by the Board's Governance Committee, the Board nominated Herbert O. Carpenter, Gary C. Dake, Mary-Elizabeth T. FitzGerald and Thomas L. Hoy for election to Class C of the Board of Directors, each to hold office for a term of three years or until his or her successor shall be duly elected and qualified. Each of the nominees is currently serving as a director and each was previously elected by our shareholders to his or her position, most recently at our 2007 Annual Meeting of Shareholders.

Under applicable law, directors are elected by a plurality of the shares voted at the meeting, meaning the nominees receiving the most FOR votes for the available seats will be elected. Because at this year's meeting there are only as many nominees as there are directors to be elected, each nominee is assured of election as long as he or she receives any FOR votes, regardless of how many negative votes (WITHHOLD AUTHORITY) the nominee receives. However, under the Majority Voting Policy in our Corporate Governance Guidelines, if an election of directors is uncontested, as will be the case at this year's meeting, any nominee for director who receives a negative vote (WITHHOLD AUTHORITY) from the holders of a number of shares exceeding fifty percent (50%) of the total number of shares that are outstanding and entitled to vote in such election, must tender his or her resignation as director following the meeting, even though the nominee has technically been elected a director. Under this policy, the Governance Committee of the Board is then required to evaluate the tendered resignation and make a recommendation to the full Board on appropriate action. The Board may take such action on the resignation as it deems appropriate, taking into account the best interests of the Company and its shareholders.

All proxies which are in proper form and received timely by the Corporate Secretary prior to the election of directors at the meeting, and which have not been revoked, will be voted FOR the Board's nominees described above, unless any nominee is unable to serve or, for good cause, refuses to serve, subject to any specific voting instructions received with any proxy, including the direction to WITHHOLD AUTHORITY to vote for any one or more nominees.

Each of the nominees has consented to being named in this proxy statement and to serve if elected. The Board knows of no reason to believe that any nominee will decline or be unable to serve if elected.

VOTE RECOMMENDATION:

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR EACH OF THE NOMINEES FOR ELECTION AS DIRECTOR (ITEM 1 ON THE PROXY CARD).

Information regarding Director Nominees and our Continuing Board of Directors

The following table sets forth each director and director nominee and includes such person's name, age as of the date of the Shareholders Meeting, April 28, 2010, the year he or she first became a director, the year in which his or her term will expire, such person's principal occupation or employment for the last five years and current status with respect to being an independent member of the Board of Directors. All current directors of the Company also serve as directors of its principal subsidiary bank, Glens Falls National Bank and Trust Company, except for Mr. Carusone and Mr. Dake who also serve as directors of the Company's other subsidiary bank, Saratoga National Bank and Trust Company.

Name	Age	Year First Elected Director	Term to Expire	Principal Occupation or Employment for Last Five Years (a)	Independent Yes / No
Class C Director Nominees					
Herbert O. Carpenter	72	2007	2010	Mr. Carpenter is the Chairman of Northeast Printing and Distribution Company, which provides commercial printing, publishing, mailing, fulfillment and distribution services.	Yes
Gary C. Dake	49	2003	2010	Mr. Dake is the President of Stewart's Shops Corp., a regional chain of convenience stores.	Yes
Mary-Elizabeth T. FitzGerald	70	2001	2010	Mrs. FitzGerald was formerly the Executive Director of Tri-County United Way. Mrs. FitzGerald retired in 1997.	Yes
Thomas L. Hoy	61	1996	2010	Mr. Hoy has served as Chairman, President and Chief Executive Officer of the Company since 2005, as President since 1996, as Chief Executive Officer since 1997, and has served as President of Glens Falls National Bank and Trust Company since 1995.	No (b)
Class A Directors					
Elizabeth O. C. Little	69	2001	2011		Yes

Edgar Filing: ARROW FINANCIAL CORP - Form DEF 14A

Senator Little has served as the New York State Senator from the 45th District since 2003. Prior to 2003, Senator Little served as the New York State Assemblywoman from the 109th District.

John J. Murphy (c)	58	2007	2011	Mr. J. Murphy formerly served as our Executive Vice President, Treasurer and Chief Financial Officer and as the Senior Executive Vice President and Chief Financial Officer of Glens Falls National Bank and Trust Company. Mr. J. Murphy retired on December 31, 2006.	No (b)
Richard J. Reisman, D.M.D.	64	1999	2011	Dr. Reisman is an Oral and Maxillofacial Surgeon in Glens Falls, New York. He is also Chairman of the Section of Dentistry at Glens Falls Hospital, a regional medical center.	Yes
Class B Directors					
John J. Carusone, Jr.	68	1996	2012	Mr. Carusone is an attorney with Carusone & Carusone in Saratoga Springs, New York.	Yes
Michael B. Clarke	63	2006	2012	Mr. Clarke was formerly the President and Chief Executive Officer of Lone Star Industries, engaged in the business of cement manufacturing. Mr. Clarke retired in 2005.	Yes
David G. Kruczlnicki	57	1989	2012	Mr. Kruczlnicki is the President and Chief Executive Officer of Glens Falls Hospital, a regional medical center.	Yes
David L. Moynehan (c)	64	1987	2012	Mr. Moynehan is the President of Riverside Gas & Oil Co., Inc., a convenience store retailer.	Yes

Notes to Director Information Table:

(a)

The business experience of each nominee and director during the past five years was that typical of a person engaged in the principal occupation or business listed for each such person during that period.

(b)

Mr. Hoy is not independent due to his position as our Chief Executive Officer. Mr. J. Murphy is not independent due to his prior service as our Chief Financial Officer and his continuing service as a consultant to the Company.

(c)

No family relationship exists between any two or more of the nominees, directors or executive officers of the Company or its subsidiaries, except that the wives of Mr. Moynihan and Mr. J. Murphy, our former Executive Vice President, Treasurer & Chief Financial Officer of the Company, are sisters.

Qualifications of the Board of Directors

In accordance with the policies and principles of the Governance Committee charter, the Governance Committee reviews and considers the experience, qualifications, attributes and skills, taken as a whole, in its selection of directors and nominees for its Board of Directors. For more information on the director nomination process, see *Director Nomination Process* on page 11. The Governance Committee has set no specific minimum qualification for a nominee to the Board of Directors, although under our Bylaws, no person may stand for election as director after attaining age 75. Generally, the Governance Committee focused on the information discussed in each of the directors individual biographies as set forth in the table on page 7. In particular, the Board of Directors, on the recommendation and input of the Governance Committee, considered the following attributes of our nominees and continuing directors in its assessment:

With regard to Mr. Carpenter, the Board considered his extensive business experience with a manufacturing company with multi facility operations as well as his former and current broad based civic and community service and his experience as a member of the Board of Directors of the Company's principal subsidiary, Glens Falls National Bank and Trust Company (GFNB) beginning in 2004.

.

With regard to Mr. Dake, the Board considered his extensive business experience with a vertically integrated, multi-state convenience store chain as well as his background in economics.

.

With regard to Mrs. FitzGerald, the Board considered her educational background as well as her background in professional standards and multi-board trustee experience.

.

With regard to Mr. Hoy and Mr. J. Murphy, the Board considered their expertise in the banking, investment and financial industries, and long tenures of thirty-five-plus years for both Mr. Hoy and Mr. J. Murphy, serving in various capacities with the Company and its subsidiary banks during that time, including Mr. J. Murphy's experience as a member of the Board of Directors of the Company's principal subsidiary, GFNB, beginning in 2003.

.

With regard to Senator Little, the Board considered her organizational leadership skills and community involvement as a state politician as well as her experience on numerous state commissions and councils.

.

With respect to Dr. Reisman, Mr. Carusone, and Mr. Moynehan, the Board considered their educational backgrounds, their current executive experience and their expertise in the banking and financial industries.

.

With regard to Mr. Clarke, the Board considered his experience as an executive at several private companies, his finance background and his long-standing historical knowledge of the Company, including his previous experience serving on our Board from 1988 through 1999, prior to his relocation out of the area.

.

With regard to Mr. Kruczlnicki, the Board considered his experience as a health care executive with finance and human resources experience as well as his extensive directorship experience at numerous private and regional organizations.

OTHER EXECUTIVE OFFICERS

The following information, as of the record date, March 1, 2010, pertains to the Company's named executive officers and executive officers who are not directors of the Company.

Terry R. Goodemote, CPA has served as our Senior Vice President, Treasurer and Chief Financial Officer and as the Executive Vice President, Treasurer and Chief Financial Officer of Glens Falls National Bank and Trust Company (GFNB) since 2008. Mr. Goodemote was first appointed Chief Financial Officer and Treasurer of the Company and GFNB on January 1, 2007. Prior to becoming Chief Financial Officer, Mr. Goodemote served as Senior Vice President and Head of the Accounting Division of GFNB. Mr. Goodemote started with the Company in 1992 and is 46.

David S. DeMarco has served as our Senior Vice President since May 1, 2009. Mr. DeMarco also serves as our Executive Vice President and Head of the Branch, Corporate Development, Financial Services & Marketing Division of GFNB since January 1, 2003 and as Chairman of Capital Financial Group, Inc., a subsidiary of GFNB since January 1, 2007. Mr. DeMarco started with the Company in 1987 and is 48.

Raymond F. O'Conor has served as our Senior Vice President since May 1, 2009. Mr. O'Conor also serves as the Chairman, President and Chief Executive Officer of Saratoga National Bank and Trust Company (SNB) since April 2007. Prior to that, Mr. O'Conor was President and Chief Executive Officer of SNB since January 1, 1996. Mr. O'Conor started with the Company in 1985 and is 54.

Thomas J. Murphy, CPA has served as our Vice President & Corporate Secretary since May 1, 2009. Prior to that, Mr. T. Murphy was Assistant Corporate Secretary of the Company beginning in 2008. Mr. T. Murphy also serves as Senior Vice President (2008) and Senior Trust Officer (2010), Corporate Secretary (2009), Cashier (2009) and Manager of the Personal Trust Department (2004) of GFNB. Mr. T. Murphy was hired as a Vice President and Manager of the Personal Trust Department of GFNB in 2004. Mr. T. Murphy is 51.

CORPORATE GOVERNANCE

Board Independence

Our Board of Directors currently is comprised of eleven (11) directors. Under the National Association of Securities Dealers Automated Quotation (NASDAQ) stock market listing standards, a majority of the members of the full Board must qualify as independent as defined in those standards. Based on the information available to it, the Board of Directors has determined that the following nine (9) directors qualify as independent directors: Directors Carpenter, Carusone, Clarke, Dake, FitzGerald, Kruczynski, Little, Moynehan and Reisman. Each of the independent directors is either up for reelection at this meeting or will continue in office after the meeting. Therefore, the Company's Board satisfies the NASDAQ requirement that a majority of the Board be independent. Mr. Hoy is not independent due to his position as our Chief Executive Officer. Mr. J. Murphy is not independent due to his prior service as our Chief Financial Officer and his continuing service as a consultant to the Company. Mr. J. Murphy provides consulting services to the Company under a Consulting Agreement with the Company. See *Compensation of Directors* on page 30 and *Mr. J. Murphy Consulting Agreement* on page 33.

In making independence determinations for individual directors, the Board considers transactions and relationships between the Company or its subsidiaries with the director and his or her immediate family or with any business that is controlled by the director. The purpose of this review is to determine 1) whether any such transactions or relationships may cause the director not to meet the objective requirements for independence established under the NASDAQ listing standards or the applicable SEC rules or, 2) whether any such transactions or relationships are otherwise sufficiently material such that the Board, in its subjective judgment, is unable to conclude that the director is

independent. The types of transactions and relationships that might cause a director not to qualify as independent under the NASDAQ standards or not to be deemed independent by the Board in the exercise of its subjective judgment are not necessarily the same types of transactions and relationships that are required to be disclosed elsewhere in this proxy statement or in other reports filed with the SEC.

In making determinations about the independence of directors, the Governance Committee and the Board consider the objective standards that directors must meet under the NASDAQ standards as well as a variety of subjective factors. These subjective factors include particular or unique relationships between the Company and the director or the director's interests, even if such relationships do not exceed the specific dollar or other thresholds that would disqualify the director from being independent. Therefore, in assessing the independence of Mr. Dake and determining that Mr. Dake was independent, the Governance Committee and the Board considered the business transactions in 2009 between Glens Falls National Bank and Trust Company and/or Saratoga National Bank and Trust Company and Stewart's Shops Corp., of which Mr. Dake is President, and determined that these transactions were below the objective dollar threshold established by NASDAQ for determining when a director ceases to be independent, and that the transactions were not material to either the Company, its subsidiary banks, or Stewart's, and did not compromise the independence of Mr. Dake. In assessing the independence of Mr. Carusone the Governance Committee and the Board considered payments made in 2009 to Mr. Carusone's law firm for legal services rendered by the firm to or on behalf of Saratoga National Bank and Trust Company and determined that those payments were below the NASDAQ objective limit for independence, and that they were not material in amount and did not compromise the independence of Mr. Carusone. In assessing the independence of director Herbert O. Carpenter, the Governance Committee and the Board considered payments made in 2009 by Glens Falls National Bank and Trust Company to Northeast Printing and Distribution Co., of which Mr. Carpenter is the Chairman, for printing and advertising services, and determined that those payments were below the NASDAQ objective limit for independence, and that they were not material in amount and did not compromise the independence of Mr. Carpenter. See *Transactions with Directors, Officers and Associated Persons* on page 34 for further information on these transactions.

Audit Committee Independence and Financial Experts

The Board of Directors has determined, based on the information available to it, that Directors Clarke and Kruczynicki each qualify as an "Audit Committee Financial Expert" as defined in the rules of the SEC. The Board of Directors has also determined, based on the information available to it, that Directors Clarke, FitzGerald, Kruczynicki and Reisman each qualify as independent, both under the listing standards of NASDAQ and under the SEC's more rigorous independence requirements for Audit Committee.

Board Leadership Structure and Role in Risk Oversight

The positions of Chairman of the Board and Chief Executive Officer are currently held by Mr. Thomas L. Hoy. Since 2005, when Mr. Hoy assumed the role of Chairman following the retirement of our prior Chairman, the Company has operated using the traditional U.S. board leadership structure under which the Chief Executive Officer also serves as Chairman of the Board of Directors. The Board believes that the Company has been well-served by this leadership structure and that this structure continues to be the optimal structure for our Company and our shareholders. The Board believes that this structure demonstrates to our employees, customers and shareholders strong leadership, with a single person having primary responsibility for managing the Company's operations. In balance, the Company has a Board comprised largely of independent Directors (nine of eleven), who meet regularly in executive session, and has designated a Lead Director to chair meetings of the independent Directors.

The Lead Director serves as a liaison between the Chairman and the independent Directors. The Lead Director's functions include facilitating executive sessions of the independent Directors as well as setting the agenda for and presiding at executive sessions. The Lead Director will also report developments to the full Board, as needed, with respect to the determinations and deliberations of the independent Directors. The Board, on an annual basis, will continue as part of its review of corporate governance and succession planning, to evaluate the Board's leadership structure to ensure that it remains best suited for our Company and our shareholders.

Our Board of Directors has responsibility for the oversight of risk management. Our Board of Directors, either as a whole or through its committees, regularly discusses with management areas of material risk exposures, their potential impact on the Company, the steps we take to monitor risk exposure and controls to mitigate such exposures.

While the Board is ultimately responsible the oversight of risk management at our Company, our Board committees assist the Board in fulfilling its oversight responsibilities. In particular, the Audit Committee reviews financial risk exposures through monitoring the independence and performance of the Company's auditors and the quality and integrity of the Company's financial reporting process and systems of internal controls. The Governance Committee focuses on the management of risks associated with Board organization, membership and structure, through the nomination process and independence assessment, and the organizational and governance structure of the Company, through periodic review of Board practices and policies concerning corporate governance and the performance of the Board. The Compensation Committee assists the Board in fulfilling its oversight responsibilities with respect to the management of risks arising from our compensation policies and programs, through a review of compensation to executive officers, directors and employees in general. Finally, the Directors receive periodic reports from the Company's Enterprise Risk Management Committee chaired by our Chief Financial Officer.

Board Committees

The Audit Committee, currently consisting of Directors Clarke, FitzGerald, Kruczlnicki and Reisman, met four (4) times during 2009. Mr. Clarke serves as Chairman of this committee. The Audit Committee's primary duties and responsibilities are to monitor the independence and performance of the Company's independent auditors and internal audit department, monitor the quality and integrity of the Company's financial reporting process and systems of internal controls regarding financial, accounting and legal compliance, and provide a means of communication among the independent auditors, management, the internal audit department and the Board of Directors. In accordance with applicable rules, the Audit Committee must specifically approve in advance all services performed by the independent auditor, including audit and audit-related services and non-audit services. For additional information, see *Report of the Audit Committee* on page 33.

The Compensation Committee, currently consisting of Directors Carusone, Clarke, Dake, Kruczlnicki and Reisman, met five (5) times during 2009. Mr. Carusone serves as Chairman of the Compensation Committee. The Compensation Committee's principal responsibility is to review and approve, not less often than annually, all aspects of the compensation arrangements and benefit plans covering our executive officers, including the Chief Executive Officer. The Compensation Committee also periodically reviews the compensation of our Board of Directors and makes recommendations to the full Board with respect to the types and amounts of compensation payable to the directors for service on the Board and Board committees. The Compensation Committee also consults with management and provides general oversight of the compensation and benefit programs and policies for employees generally. For more information on the Compensation Committee's involvement with executive compensation, see *Compensation Discussion and Analysis*, beginning on page 12.

The Governance Committee, currently consisting of Directors Carpenter, Carusone, Dake, FitzGerald, Kruczlnicki and Little, met four (4) times during 2009. Mr. Kruczlnicki serves as Chairman of the Governance Committee. The Governance Committee is specifically charged with the following responsibilities: (i) to establish procedures with respect to the director nomination process, to review and consider director nominees and make recommendations to the Board regarding nominees, (ii) to review and recommend practices and policies concerning corporate governance, (iii) to review annually and report to the Board considering the independence of our directors under applicable law, (iv) to review annually and report to the Board considering the performance of our Board of Directors, (v) to review and make recommendations regarding Company codes of conduct and ethics policies for our directors, executive officers and employees and with respect to our Committee charters, and (vi) to review director training initiatives. For more information on the

director nomination process and how a shareholder may participate in that process, see *Shareholder Submissions of Candidates* on page 12.

A copy of each of the current charters of the Audit Committee, Compensation Committee and Governance Committee is available on our website at www.arrowfinancial.com under the link Corporate Governance.

In addition to regular Board and committee meetings, the independent members of the Board periodically meet in executive session to discuss any matters deemed relevant to the Company's operation and condition. No current or former members of management are in attendance during these executive sessions. These sessions are chaired by the Lead Director, an independent director elected by the nine independent directors of the Board. Currently, the Lead Director is Mr. Moynihan. When held, executive sessions normally convene immediately following the regular Board of Directors meetings. The Lead Director will poll independent directors in attendance on their desire to meet in executive session and, if there is a consensus to do so, an ad hoc executive session will be held.

Meetings of the Board of Directors; Director Attendance at Meetings

When the Governance Committee evaluates incumbent directors in determining whether to recommend them for re-nomination, it takes into consideration their attendance record at meetings of the Board and committees of the Board on which they served, as well as at annual shareholders' meetings. In 2009, the Board of Directors of the Company met seven (7) times and each committee met at least four (4) times. During 2009, each of the directors of the Company attended all seven meetings of the Board and all Board committee meetings on which the director served, i.e., there was 100% attendance of meetings during 2009. All directors are encouraged to attend our Annual Meeting of Shareholders, and in 2009 all but one of our directors did attend this meeting.

Communications with the Board of Directors

Shareholders may communicate to our Board of Directors or to an individual director or directors or to a particular committee of the Board any concerns they have as shareholders of the Company by submitting typed or handwritten communications to the following address:

Board of Directors Shareholder Communications

c/o Corporate Secretary

Arrow Financial Corporation

250 Glen Street

Glens Falls, New York 12801

The Corporate Secretary will review all communications and will timely advise the Board of any communication determined to be of a serious nature. Shareholder communications to a particular director or committee will be forwarded by the Corporate Secretary to the appropriate director or committee. The Corporate Secretary will periodically summarize all shareholder communications received and make all such communications available for the directors' review. In order to efficiently process all shareholder communications, the Corporate Secretary, with the Board's approval, may seek the assistance of appropriate Company employees and/or outside counsel or advisors to review and evaluate shareholder communications. In all cases, the complete text of shareholder communications will be made available for review by the directors.

Director Nomination Process

In accordance with the policies and principles of the Governance Committee charter, the Governance Committee is responsible for identifying and recommending to the full Board suitable nominees for directorship, including re-nomination of incumbent directors. The Governance Committee will consider nominee proposals received by it from shareholders under the procedures outlined below in *Shareholder Submissions of Candidates*. In reaching a decision on individual candidates, the Governance Committee evaluates whether the individual's knowledge, experience, skill and expertise may enhance the Board's oversight and direction of the business of the Company. The Governance Committee further assesses an individual's understanding of the regulatory and policy environment in which the Company does business and the individual's interest in the communities served by the Company. More generally, the Governance Committee considers other factors including an individual's personal character, integrity, financial acumen and prior experience as a director. The Governance Committee seeks a diversity of backgrounds, occupations, viewpoints and gender, as well as a balance among age groups and a connection with the communities served by the Company. Generally, the Governance Committee will not recommend a new candidate for nomination unless the individual has demonstrated notable leadership and accomplishment in business, the professions, higher education, politics or cultural endeavors. In the case of incumbent directors, the Governance Committee also considers