

ORRSTOWN FINANCIAL SERVICES INC

Form S-4

January 20, 2006

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As filed with the Securities and Exchange Commission on January 20, 2006

Registration Statement No.

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-4

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

ORRSTOWN FINANCIAL SERVICES, INC.

(Exact Name of Registrant as specified in its Charter)

Pennsylvania
(State or other jurisdiction of
incorporation or organization)

6021
(Primary Standard Industrial
Classification Code Number)

23-2530374
(I.R.S. Employer
Identification No.)

77 East King Street

Shippensburg, Pennsylvania 17257

(717) 532-6114

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

KENNETH R. SHOEMAKER

President and Chief Executive Officer

Orrstown Financial Services, Inc.

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77 East King Street

Shippensburg, Pennsylvania 17257

(717) 532-6114

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Copies to:

Dean H. Dusinberre, Esquire

Carl D. Lundblad, Esquire

Rhoads & Sinon LLP

One South Market Square, 12th Floor

Harrisburg, Pennsylvania 17108-1146

(717) 233-5731

W. Jeffry Jamouneau, Esquire

McNees, Wallace & Nurick LLC

100 Pine Street

Harrisburg, Pennsylvania 17101

(717) 232-8000

Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement is declared effective.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. "

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered (1)	Proposed maximum offering price per share	Proposed maximum aggregate offering price	Amount of registration fee (2)
Common Stock, no par value	700,000	n/a	n/a	\$2,366.84

- (1) Represents the estimated maximum number of shares of Orrstown common stock, no par value per share, to be issued to shareholders of The First National Bank of Newport in connection with the merger. In accordance with Rule 416, this registration statement also registers such additional number of shares of the Registrant's common stock as may be issuable as a result of a stock dividend, stock split, split-up, recapitalization or other similar event.
- (2) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(f)(1) and Rule 457(c) on the basis of the average of the bid and asked prices of the common stock of The First National Bank of Newport on January 17, 2006 of \$77.50 and 400,000 shares of First National common stock to be exchanged in the merger, reduced, pursuant to Rule 457(f)(3) by the amount of cash (\$8,880,000) to be paid by the Registrant from such common stock.

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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Dear Shareholder:

We cordially invite you to attend a special meeting of shareholders of The First National Bank of Newport to be held at _____ .m., local time on _____, 2006 at First National's main office at Center Square, Newport, Pennsylvania. At the special meeting, you will be asked to approve a merger and reorganization which will result in First National becoming a wholly-owned subsidiary of Orrstown Financial Services, Inc.

If the merger is completed, First National shareholders will receive 1.75 shares of Orrstown common stock and \$22.20 for each share of First National common stock owned. Orrstown common stock is quoted on the National Association of Securities Dealers, Inc.'s Over-the-Counter Bulletin Board under the symbol ORRF. On January 13, 2006, the closing price of Orrstown common stock was \$35.00 per share, making the value of 1.75 shares on that date \$61.25 and the total value of the merger consideration on that date \$83.45 per share of First National common stock. The price of Orrstown common stock, and the aggregate value of the merger consideration, will fluctuate between now and the closing of the merger.

We cannot complete the merger unless the shareholders of First National approve it. Approval of the reorganization agreement and the merger requires the affirmative vote of the holders of at least two-thirds (2/3) of the issued and outstanding shares of First National common stock entitled to vote. Accordingly, it is very important that you carefully review this document and vote your shares.

The First National Board of Directors unanimously approved the reorganization agreement and recommends that you vote FOR the merger. The Board of Directors believes that the proposed transaction with Orrstown is an outstanding opportunity to realize the benefits of affiliating with an excellent financial services organization, enabling our institution to offer an expanded array of products and services, while continuing to operate under The First National Bank of Newport name.

All shareholders of First National are invited to attend the special meeting in person. However, whether or not you plan to attend the special meeting, please take the time to vote by completing and mailing the enclosed proxy card to ensure that your shares will be voted. **Please note that if you do not vote your shares, it will have the same effect as a vote against the merger.**

The attached notice of special meeting and this document provides you with detailed information about the proposed merger transaction and the reorganization agreement. We encourage you to read the entire document carefully. **Please give particular attention to the discussion beginning on page 14 for risk factors relating to the transaction which you should consider.**

Sincerely,

Peter C. Zimmerman, President and

Chief Executive Officer

Neither the SEC nor any state securities commission has approved or disapproved of the Orrstown shares to be issued under this document or passed upon the adequacy or accuracy of this document. Any representation to the contrary is a criminal offense.

The shares of Orrstown common stock offered by this document are not savings accounts, deposits or other obligations of any bank or non-bank subsidiary of any of the parties and are not insured by the FDIC or any other governmental agency.

This document is dated _____, 2006, and first mailed to shareholders on or about _____, 2006.

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HOW TO OBTAIN MORE INFORMATION

This document incorporates important business and financial information about Orrstown that is not included in or delivered with this document. You can obtain free copies of this information through the SEC website at <http://www.sec.gov> or by requesting them in writing or by calling:

Bradley S. Everly, Senior Vice President and

Chief Financial Officer

Orrstown Financial Services, Inc.

77 East King Street

Shippensburg, PA 17257

Telephone Number: (717) 532-6114

First National has historically provided its shareholders with annual reports including its audited financial statements and other business and financial information about First National. To obtain free copies of recent annual reports, please write or call:

Jane L. Timothy, Secretary

The First National Bank of Newport

Center Square

Newport, PA 17074

Telephone Number: (717) 567-3414

To obtain timely delivery of requested documents, you should request the information no later than _____, 2006.

See [Where You Can Find More Information](#) at page 68 and [Incorporation of Certain Information by Reference](#) at page 69.

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THE FIRST NATIONAL BANK OF NEWPORT

Center Square

Newport, PA 17074

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that a special meeting of shareholders of The First National Bank of Newport will be held at First National's main office at Center Square, Newport, Pennsylvania, on _____, 2006 at _____ .m., local time, for the following purposes:

To consider and vote upon the Agreement and Plan of Reorganization, dated as of November 21, 2005, by and between First National and Orrstown Financial Services, Inc., the Plan of Merger attached as an exhibit to the reorganization agreement and the transactions contemplated by the foregoing. The reorganization agreement and plan of merger provide, among other things, for the acquisition of First National by Orrstown through the merger of First National into an interim national bank formed by Orrstown, upon the terms and subject to the conditions set forth in the reorganization agreement and the plan of merger, as more fully described in the accompanying document.

To consider and vote upon a proposal to adjourn the meeting if more time is needed to solicit proxies.

To transact such other business as may properly come before the meeting.

The board of directors has fixed the close of business on _____, 2006 as the record date for determining the shareholders of First National entitled to notice of, and to vote at the special meeting and any adjournments or postponements of the meeting.

The board of directors of First National unanimously recommends that you vote FOR approval of the reorganization agreement, the plan of merger and the related transactions. The affirmative vote of at least two-thirds (2/3) of the outstanding shares of First National common stock entitled to vote at the meeting is required to approve the reorganization agreement and merger.

The board of directors of First National requests that you complete and sign the enclosed proxy card and mail it promptly in the accompanying postage-prepaid envelope. Prior to the First National special meeting, you may revoke any proxy that you deliver by delivering a written notice to the Corporate Secretary of First National stating that you have revoked the proxy or by delivering a later dated proxy. Shareholders of record of First National common stock who attend the First National meeting may vote in person, even if they have previously delivered a signed proxy.

By Order of the Board of Directors

Peter C. Zimmerman, President

and Chief Executive Officer

Newport, Pennsylvania

, 2006

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QUESTIONS AND ANSWERS ABOUT THE TRANSACTION

Q: What am I being asked to vote on?

A: You are being asked to vote on a merger and reorganization transaction in which The First National Bank of Newport will be acquired by Orrstown Financial Services, Inc. through the merger of First National with and into an interim bank organized as a wholly-owned subsidiary of Orrstown.

Q: How does the First National board of directors recommend I vote on the proposal?

A: The First National board of directors unanimously recommends that you vote **FOR** the proposal to approve the merger transaction.

Q: What will I receive in the transaction?

A: If the merger is approved and subsequently completed, you will receive, for each share of First National common stock that you own, 1.75 shares of Orrstown common stock and \$22.20 in cash. On January 13, 2006, the closing price of Orrstown common stock as reported on the OTC Bulletin Board was \$35.00 per share, making the value of 1.75 shares on that date \$61.25 and the total value of the merger consideration on that date \$83.45 per share of First National common stock. The price of Orrstown common stock, and the aggregate value of the merger consideration, will fluctuate between now and the closing of the merger.

Q: What are the tax consequences of the transaction to me?

A: For United States federal income tax purposes, you will recognize income and/or gain equal to the lesser of: (1) the amount of cash you receive (including cash received for fractional shares); or (2) the amount of gain you realize. The amount of gain you realize equals the amount of cash you receive plus the fair market value of Orrstown common stock you receive less your adjusted basis in the shares of First National common stock that you surrender in the exchange. Your income or gain per share may vary where your First National common stock was acquired in more than one transaction.

No gain or loss will be recognized on the Orrstown common stock that you receive. Your basis and holding periods in the Orrstown common stock may vary per share depending upon whether your First National common stock was acquired in more than one transaction. Due to the potential varying tax recognition, basis and holding period consequences which will be governed by your individual consequences, we urge you to consult with your tax advisor to fully understand the tax consequences to you. Additionally, the generalizations set forth above may not apply to all First National shareholders.

Q: How do I vote?

A: After you have carefully read this document, indicate on your proxy card how you want your shares to be voted, then sign, date and mail it in the enclosed postage-paid envelope as soon as possible so that your shares may be represented and voted at the First National special meeting.

In addition, if you are a record owner of shares of First National common stock on the record date for the special meeting, you may attend First National's special meeting in person and vote, whether or not you have signed and mailed your proxy card.

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If you sign and send in your proxy card and do not indicate how you want to vote, your proxy card will be counted as a vote in favor of the reorganization agreement. If you do not send in your proxy card or if you send it in but indicate that you abstain from voting, it will have the effect of a vote against the reorganization agreement.

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Q: If my shares are held in street name by my broker, will my broker vote my shares for me?

A: Maybe. *Your broker will vote your shares only if you provide instructions on how to vote.* You should follow the directions provided by your broker. Your failure to instruct your broker to vote your shares will be the equivalent of voting against the reorganization agreement.

Q: Can I change my vote after I have mailed my signed proxy card?

A: Yes. There are three ways for you to revoke your proxy and change your vote. First, you may send to the Secretary of First National a later-dated, signed proxy card before the First National special meeting. Second, you may attend First National's special meeting in person and vote. Third, you may revoke any proxy by written notice to the Secretary of First National prior to First National's special meeting. If you have instructed a broker to vote your shares, you must follow directions received from your broker to change your vote.

Q: Do I have dissenter's rights of appraisal in connection with the merger?

A: Yes. Under the National Bank Act, First National shareholders have the right to dissent from the merger and receive a payment in cash for the value of their shares of First National common stock, as determined by an appraisal process. This value may be less than the value of the consideration you would receive in the merger if you do not dissent. To perfect your dissenter's rights, you must precisely follow the required statutory procedures. See *The Transaction-Rights of Dissenting Shareholders* at page 35 and the information attached at Annex C.

Q: Should I send in my stock certificates now?

A: No. You should not send in your stock certificates at this time. Following completion of the merger, Orrstown will mail instructions to all former First National shareholders for exchanging their stock certificates.

Q: When do you expect to complete the transaction?

A: We are working towards completing the transaction as quickly as possible and currently expect that the merger will be completed during the second quarter of 2006. In addition to the approval of First National shareholders, we must also obtain certain bank regulatory approvals. We expect to receive all necessary approvals no later than April 30, 2006.

Q: Whom should I call with questions or to obtain additional copies of this document?

A: You should call either of the following:

Orrstown Financial Services, Inc.
77 East King Street

Shippensburg, PA 17257

Attention: Bradley S. Everly, Senior
Vice President and Chief
Financial Officer

Phone Number: (717) 532-6114

The First National Bank of Newport
Center Square

Newport, PA 17074

Attention: Jane L. Timothy,
Secretary

Phone Number: (717) 567-3414

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SUMMARY

*This summary highlights selected information from this document. It does not contain all of the information that may be important to you. We urge you to carefully read this entire document, its annexes and the other documents to which this document refers for a more complete understanding of the transaction. In addition, we incorporate by reference important business and financial information about Orrstown into this document. You may obtain the information incorporated by reference in this document without charge by following the instructions in the section entitled *Where You Can Find More Information* on page 68. Each item in this summary includes a page reference directing you to a more complete description of that item.*

The Special Meeting

First National Special Meeting To Be Held, 2006 (page 18)

A special meeting of First National's shareholders will be held on _____, 2006 at First National's main office at Center Square, Newport, Pennsylvania at _____m. local time.

Matters To Be Considered At The Special Meeting (page 18)

At the special meeting, you will consider and vote on a proposal to adopt and approve the reorganization agreement and plan of merger, a proposal to adjourn the meeting to solicit additional proxies if there are not sufficient votes to approve the reorganization agreement and merger and such other matters as may properly come before the special meeting.

Record Date Set At, 2006; **One Vote Per Share Of First National Common Stock** (page 18)

You are entitled to vote at the special meeting if you were the record owner of shares of First National common stock as of the close of business on _____, 2006, the record date established for the special meeting. You are entitled to one vote for each share of First National common stock you owned of record on the record date. If you were the record owner of shares of First National common stock on the record date, you may vote those shares either by attending the special meeting and voting your shares, or by completing the enclosed proxy card and mailing it to First National in the enclosed envelope.

On _____, 2006, a total of _____ votes were eligible to be cast at the First National special meeting.

Two-Thirds Vote Required To Approve Merger (page 18)

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Holders of 2/3 of the outstanding shares of common stock of First National entitled to vote at the meeting must vote to approve the reorganization agreement and plan of merger in order for it to be adopted. A majority of the issued and outstanding First National shares must be present in person or by proxy for any vote to be valid.

The First National directors and executive officers have agreed to vote all shares of First National common stock that they own for approval of the reorganization agreement and plan of merger. As of the record date, First National directors and executive officers beneficially owned and are entitled to vote approximately % of the shares entitled to vote at the special meeting.

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The Merger

The reorganization agreement provides that Orrstown will acquire First National by means of the merger of First National into an interim national bank organized by Orrstown, with the interim bank surviving the merger as a wholly-owned subsidiary of Orrstown. The name of the surviving bank will be changed to The First National Bank of Newport and the board of directors and officers of First National shall be the initial board of directors and officers of the surviving bank with the additional appointment to the board of Kenneth R. Shoemaker, President of Orrstown. *The reorganization agreement is attached as Annex A to this document. We encourage you to read the entire reorganization agreement, including the exhibits attached to the reorganization agreement, because it is the principal legal document that governs the transaction.*

First National Shareholders Will Receive 1.75 Shares Of Orrstown Common Stock And \$22.20 In Cash For Each Share Of First National Common Stock (see page 35)

If the transaction is completed, First National shareholders will receive 1.75 shares of Orrstown common stock and \$22.20 in cash in exchange for each share of First National common stock they own. Orrstown will not issue fractional shares. First National shareholders will instead receive a cash payment equal to the product of such fraction multiplied by the average daily high bid and low offer quotations of Orrstown shares of common stock over the 60 trading days ending on and including the fifth trading day prior to the completion of the merger.

First National s Board Unanimously Recommends Approval Of The Merger (see page 24)

First National s board of directors believes that the merger and reorganization transaction with Orrstown is in the best interests of First National and its shareholders and unanimously recommends that you vote FOR the proposal to approve and adopt the reorganization agreement and plan of merger. In unanimously approving the reorganization agreement, First National s board considered, among other things, the earnings and financial condition of First National and Orrstown, the financial terms and income tax consequences of the merger, the historical market prices of Orrstown common stock, the historical cash dividends paid on Orrstown common stock compared with those paid on First National common stock, and the business and prospects of each of Orrstown and First National.

First National s Financial Advisor Says Merger Consideration Is Fair From A Financial Point Of View To First National Shareholders (see page 24)

In deciding to approve the transaction, the First National board of directors considered the opinion from its financial advisor, Boenning & Scattergood, Inc. that the merger consideration was fair from a financial point of view to the First National shareholders.

The full text of Boenning s updated opinion dated as of _____, 2006, which sets forth the assumptions made, matters considered and qualifications and limitations on the reviews undertaken, is attached as Annex B to this document. We encourage you to read this opinion in its entirety.

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For its financial advisory services, First National paid Boenning a fee of \$5,000 upon execution of the engagement agreement. First National also agreed to pay Boenning a fee of \$45,000 for rendering its fairness opinion, to reimburse Boenning for reasonable out-of-pocket expenses and to indemnify it against certain liabilities.

Management Following The Transaction (see page 43)

If the transaction is completed, First National will be a wholly-owned bank subsidiary of Orrstown. The board of directors of Orrstown will not change as a result of the transaction, except that Orrstown will appoint

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Peter C. Zimmerman, the President and Chief Executive Officer of First National, to its board of directors. Orrstown's current executive management will continue in their positions following the transaction.

The board of directors of First National, as the re-named surviving bank in the merger, will consist of those persons serving as First National directors immediately prior to the merger with the addition of Kenneth R. Shoemaker, President of Orrstown. First National's current executive management team will continue in such positions for the surviving bank following the merger.

Certain Conditions Must Be Satisfied Before The Transaction Is Completed (see page 40)

The completion of the merger and reorganization transaction depends upon satisfaction or waiver of a number of conditions, including the following:

the approval of the reorganization agreement by First National shareholders;

the accuracy of the representations and warranties made in the reorganization agreement;

the performance of obligations by Orrstown and First National under the reorganization agreement;

the receipt of required governmental approvals (including from banking and federal and state securities regulators) and the expiration or termination of all applicable statutory waiting periods relating to the transaction;

the absence of any injunction or other order by any court or other governmental entity which would prohibit or prevent the transaction;
and

receipt by Orrstown and First National of a tax opinion of Rhoads & Sinon LLP, counsel to Orrstown, based on facts, assumptions and representations set forth in the opinion, to the effect that the transaction constitutes a tax-free reorganization under Section 368(a) of the Internal Revenue Code.

The Reorganization Agreement Can Be Amended Or Terminated (see page 42)

The parties can mutually agree to terminate the reorganization agreement at any time prior to completing the transaction. In addition, either party acting alone can terminate the reorganization agreement in certain specified circumstances, including the failure to complete the transaction by September 30, 2006, unless the terminating party's breach is the reason the transaction has not been completed.

We Must Obtain Regulatory Approvals To Complete The Transaction (see page 41)

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The transaction cannot be completed until required approvals are received from banking regulators. Orrstown has filed an application to obtain approval from the Office of the Comptroller of the Currency and has made appropriate filings with the Federal Reserve Bank of Philadelphia and the Pennsylvania Department of Banking. Although we believe regulatory approvals will be received in a timely manner, we cannot be certain when or if Orrstown will obtain them.

First National Executive Officers And Directors Have Additional Interests In The Transaction (see page 44)

When considering the recommendation of the First National board to approve the transaction, First National shareholders should be aware that some officers and the directors of First National have interests in the transaction in addition to their interest as shareholders. These interests include, among others, provisions in the reorganization agreement regarding the appointment of Peter C. Zimmerman, President of First National, as a director of the Orrstown holding company, employment agreements for Mr. Zimmerman and Michael D. Amsler, Senior Vice President and Senior Loan Officer of First National, and the composition and compensation of the surviving bank's board of directors after completion of the merger.

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Also, following the merger, Orrstown has agreed to provide directors and officers insurance for the directors and officers of First National and has agreed to provide indemnification to directors and officers of First National for claims occurring before the effective time of the merger to the same extent as it provides its own directors and officers.

First National Shareholders Have Dissenters Rights of Appraisal (see page 35)

First National shareholders are entitled to assert dissenters rights under Section 215a of the National Bank Act in connection with the proposed merger. These dissenters rights may give you the opportunity to receive the fair value of your shares of First National common stock in cash instead of having each of your shares converted in the merger into a combination of 1.75 shares of Orrstown common stock and \$22.20. In order to perfect your dissenters rights, specific procedures under Section 215a of the National Bank Act must be strictly followed. If you do not follow the procedures set forth in the statutory provisions of the National Bank Act, you may lose your dissenters rights with respect to the merger. Please refer to pages 35 through 36 for more information. You should also read carefully Annex C to this document, which is a copy of Section 215a of the National Bank Act.

The Rights Of Orrstown Shareholders And First National Shareholders Are Different (see page 64)

The rights of Orrstown shareholders are currently governed by Pennsylvania law and by Orrstown's articles of incorporation and bylaws. The rights of First National shareholders are currently governed by the National Bank Act and First National's articles of association and bylaws. These rights are not identical. When the merger is completed, First National shareholders will become Orrstown shareholders and have the rights of Orrstown shareholders.

Dividend Policy (see page 40)

Following completion of the merger, former First National shareholders who become Orrstown shareholders will receive dividends declared by Orrstown. In the reorganization agreement, Orrstown agreed that, subject to future earnings, the financial condition and capital needs of Orrstown and its subsidiaries, as well as applicable regulatory guidelines concerning payment of dividends, it will amend its dividend payout policy on or before March 31, 2006 to increase the annual cash dividend rate from \$.60 per share of Orrstown common stock to \$.80 per share.

Important Federal Income Tax Consequences Of The Transaction (see page 47)

We have structured the transaction to be treated as a reorganization for U.S. federal income tax purposes. The following summary reflects the conclusions reached by Rhoads & Sinon LLP, legal counsel to Orrstown, in its opinion and assumes that you hold your First National common stock as a capital asset. Generally, you will recognize income or gain equal to the amount of cash you receive (including cash in lieu of a fractional share of Orrstown common stock) or the amount of gain you realize, whichever is lower. The amount of gain you realize equals the amount of cash you receive plus the fair market value of Orrstown common stock you receive minus your adjusted tax basis in the share of First National common stock that you surrender in the exchange. You will not recognize any income or gain on the receipt of Orrstown common stock. You will not recognize any loss on the receipt of Orrstown common stock or the receipt of cash.

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This tax treatment may not apply to everyone. Tax matters are complicated and the tax consequences of this transaction to you will depend upon your individual circumstances. **We urge you to contact your tax advisor to understand fully the transaction's tax consequences to you.**

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Orrstown Will Account For The Transaction As A Purchase (see page 46)

Orrstown expects to account for the transaction using the purchase method of accounting. Under this method of accounting, all of the assets and liabilities of First National will be recorded on Orrstown's consolidated balance sheet at estimated fair value as of the effective date of the merger. The amount by which the purchase price paid by Orrstown exceeds the fair value of the net assets acquired by Orrstown through the transaction will be recorded as goodwill.

The Companies

The First National Bank of Newport (see page 62)

The First National Bank of Newport is a national banking association headquartered in Newport, Pennsylvania, which operates four full-service banking locations in Perry County, Pennsylvania. At September 30, 2005, First National had total assets of \$123.2 million, deposits of \$105.9 million and shareholders' equity of \$13.6 million.

The principal executive offices of First National are located at:

The First National Bank of Newport

Center Square

Newport, PA 17074

(717) 567-3414

Orrstown Financial Services, Inc. (see page 59)

Orrstown Financial Services, Inc. is a Pennsylvania corporation that is a registered financial holding company based in Shippensburg, Pennsylvania. At September 30, 2005, Orrstown and its subsidiaries had total consolidated assets of \$581.2 million, deposits of \$452.3 million and shareholders' equity of \$55.2 million. Orrstown and its wholly-owned bank subsidiary, Orrstown Bank, a Pennsylvania bank and trust company, provide a full range of consumer and business financial services through 14 community bank offices and 4 remote service facilities in Franklin and Cumberland Counties, Pennsylvania.

The principal executive offices of Orrstown are located at:

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Orrstown Financial Services, Inc.

77 East King Street

Shippensburg, PA 17257

(717) 532-6114

Market Price and Dividend Information

First National common stock is traded over the counter and trading is very limited in volume. Quotations for First National common stock appear on the Pink Sheets under the symbol FNBT. Orrstown common stock is also traded over the counter in limited volume and quotations for Orrstown common stock appear on the OTC Bulletin Board under the symbol ORRF. As of _____, 2006, there were _____ shares of Orrstown common stock outstanding, which were held by approximately _____ holders of record, and outstanding options that were exercisable on that date (or within 60 days of that date) for _____ additional shares of Orrstown common stock.

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The following table shows, for the indicated periods, the high and low sales prices per share for First National common stock, as reported by the Pink Sheets, and Orrstown common stock, as reported by the OTC Bulletin Board, and dividends declared per share of First National and Orrstown common stock.

	First National Common Stock			Orrstown Common Stock		
	Price		Dividend Declared	Price		Dividend Declared
	High	Low		High	Low	
2004						
First Quarter	\$ 71.00	\$ 60.50	\$ 0.40	\$ 47.62	\$ 30.95	\$ 0.1143
Second Quarter	\$ 62.00	\$ 61.50	\$ 0.41	\$ 41.90	\$ 38.10	\$ 0.1143
Third Quarter	\$ 62.00	\$ 62.00	\$ 0.41	\$ 44.76	\$ 38.38	\$ 0.1238
Fourth Quarter	\$ 62.00	\$ 55.00	\$ 0.42	\$ 43.10	\$ 40.00	\$ 0.1238
2005						
First Quarter	\$ 59.00	\$ 57.00	\$ 0.43	\$ 47.62	\$ 39.05	\$.1333
Second Quarter	\$ 65.00	\$ 58.00	\$ 0.44	\$ 43.75	\$ 37.14	\$.14
Third Quarter	\$ 60.00	\$ 58.00	\$ 0.45	\$ 42.20	\$ 37.55	\$.15
Fourth Quarter	\$ 80.00	\$ 55.50	\$ 0.45	\$ 37.95	\$ 34.45	\$.16
2006						
First Quarter (through)						

The last trade in First National common stock reported on the Pink Sheets before announcement of the proposed merger occurred on November 7, 2005. On that date and on , 2006, the most recent on which a trade in First National common stock is reported on the Pink Sheets prior to printing this document, the high, low and closing sales prices for First National common stock were as follows:

	November 7, 2005			, 2006		
	High	Low	Closing	High	Low	Closing
First National Common Stock	\$ 60.00	\$ 60.00	\$ 60.00			

On November 21, 2005, the last full trading day before the public announcement of execution of the reorganization agreement, and on , 2006, the latest practicable trading day before the printing of this document, the high, low and closing sales prices for Orrstown shares were as follows.

	November 21, 2005			, 2006		
	High	Low	Closing	High	Low	Closing
Orrstown Common Stock	\$ 35.50	\$ 35.00	\$ 35.50			

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The market prices of First National common stock and Orrstown common stock are subject to fluctuation. As a result, you are urged to obtain current market quotations for First National and Orrstown shares.

Market Value of Securities

The following table sets forth the market value per share of Orrstown common stock, the market value per share of First National common stock and the equivalent market value per share of First National common stock on November 21, 2005. The equivalent market value per share of First National common stock indicated in the table is shown based on a fixed merger consideration of 1.75 shares of Orrstown common stock and \$22.20 cash for each share of First National common stock. See "The Transaction: What You Will Receive" on page 35.

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The historical market values per share of Orrstown common stock and First National common stock and the historical market value of Orrstown common stock used to determine the equivalent market value per share of First National common stock are the per share closing sales prices on November 21, 2005 and January 13, 2006 respectively, as reported on the Pink Sheets with respect to First National common stock and the OTC Bulletin Board with respect to Orrstown common stock.

	Orrstown Historical	First National	
		Historical (1)	Equivalent Market Value
November 21, 2005	\$ 35.50	\$ 60.00	\$ 84.33
January 13, 2006	\$ 35.00	\$ 78.50	\$ 83.45

- (1) There were no trades in First National common stock reported on the Pink Sheets for November 21, 2005. The price shown for that date is for the last trade in First National common stock before announcement of the reorganization agreement, which occurred on November 7, 2005. Similarly, there were no trades in First National common stock reported on the Pink Sheets for January 13, 2006. The price shown is the last trade before filing this document, which occurred on December 19, 2005.

Selected Historical and Pro Forma Financial Data

The following financial information is to aid you in understanding the financial aspects of the transaction. The following tables present selected historical financial data for Orrstown and selected unaudited pro forma financial data reflecting the merger and reorganization transaction. The historical financial data show the financial results actually achieved by Orrstown for the periods indicated. The pro forma unaudited combined financial data show financial results as if the merger had taken place at the beginning of the earliest period presented and assuming the transaction is accounted for as a purchase of First National by Orrstown.

Table of Contents**Orrstown Selected Financial Data**

(in thousands, except per share data)

We derived this information from the consolidated financial statements of Orrstown included in the SEC Forms 10-K and 10-Q filed by it and incorporated by reference in this document. See [Where You Can Find More Information](#) on page 68 and [Incorporation of Certain Information by Reference](#) on page 69.

	As of or for the nine months						
	months ended September 30,		As of or for the year ended December 31,				
	2005	2004	2004	2003	2002	2001	2000
Interest and fee income	23,449	19,015	25,892	23,484	23,173	23,978	21,758
Interest expense	6,733	5,146	6,986	6,757	7,985	10,677	10,318
Net interest income	16,716	13,869	18,906	16,727	15,188	13,301	11,440
Provision for loan losses	72	210	210	491	720	504	360
Noninterest income excluding securities gains	6,937	5,064	6,881	6,233	5,339	4,469	3,628
Securities gains	11	115	88	199	21	11	114
Noninterest expense	12,798	10,863	14,718	13,010	11,688	10,247	9,113
Income before income taxes	10,794	7,975	10,947	9,658	8,140	7,030	5,709
Net income	7,493	5,663	7,770	6,980	5,915	5,092	4,172
PER COMMON SHARE: (1)							
Basic earnings	1.39	1.06	1.45	1.31	1.12	.97	.81
Diluted earnings	1.33	1.02	1.40	1.28	1.10	.96	.80
Cash dividends declared	.4233	.3524	.4762	.4010	.3267	.2705	.2467
Stock dividends distributed	5%	100%	100%	5%		5%	
Book value at period-end	10.19	8.83	9.15	8.04	7.18	5.94	5.14
Tangible book value at period-end	9.75	8.57	8.89	7.98	7.11	5.86	5.05
Average common shares outstanding	5,400,966	5,356,479	5,362,017	5,307,098	5,271,302	5,218,588	5,161,540
Average diluted common shares outstanding	5,624,219	5,547,855	5,558,873	5,476,315	5,390,031	5,287,881	5,186,434
END OF PERIOD BALANCES:							
Securities available for sale	76,460	83,089	79,829	89,074	90,106	68,422	69,919
Securities held to maturity							
Loans	439,206	379,021	389,268	345,054	281,391	249,816	209,181
Allowance for loan losses	4,364	4,339	4,318	4,161	3,734	3,104	2,691
Assets	581,180	519,403	514,651	472,393	410,298	373,728	311,903
Deposits	452,288	397,411	405,363	358,643	319,168	281,168	242,008
Borrowings	68,289	69,812	55,062	66,633	49,347	58,043	40,228
Shareholders' equity	55,219	47,435	49,250	42,835	37,962	31,162	26,674
AVERAGE BALANCES:							
Assets	544,074	490,933	495,919	443,737	385,765	340,428	285,903
Earning assets	510,570	461,611	426,094	416,992	360,622	316,341	263,296
Loans	413,043	364,818	369,409	313,833	264,296	233,103	192,902
Deposits	428,332	380,386	385,344	342,389	293,789	255,374	216,123
Shareholders' equity	52,421	45,507	46,309	40,491	34,408	29,612	23,954
KEY RATIOS:							
Return on average assets	1.84%	1.54%	1.57%	1.57%	1.53%	1.50%	1.46%
Return on average equity	19.11%	16.62%	16.78%	17.24%	17.19%	17.20%	17.42%
Average equity to average assets	9.63%	9.27%	9.34%	9.13%	8.92%	8.70%	8.38%
Net interest margin	4.46%	4.12%	4.21%	4.20%	4.43%	4.38%	4.57%
Efficiency	52.61%	55.52%	55.20%	54.60%	54.50%	55.60%	57.80%
Cash dividend per share payout	.4233	.3524	.4762	.4010	.3267	.2705	.2467
Tier 1 leverage	9.26	8.87	9.30	8.90	8.80	8.20	8.60
Tier 1 risk-based capital	11.69	12.00	12.20	12.20	12.70	12.30	12.40

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Total risk-based capital	12.69	13.15	13.40	13.40	13.90	13.60	13.60
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Notes to Orrstown Financial Services, Inc. Selected Financial Data

(1) All share and per share data has been restated to give retroactive effect to stock dividends and splits.

Table of Contents**Selected Unaudited Pro Forma Combined Financial Data For Orrstown And First National (in thousands)**

The following table shows information about the combined financial condition and results of operations of First National and Orrstown, including per share data, after giving effect to the merger and reorganization transaction. This information is called unaudited pro forma combined financial information in this document. The information under **Selected Combined Balance Sheet Items** in the table below assumes the merger was completed on September 30, 2005. The information under **Combined Income Statement** in the table below gives effect to the pro forma results for the twelve months ended December 31, 2004 and the nine months ended September 30, 2005, as if the merger had been completed on January 1, 2004 and January 1, 2005, respectively. This unaudited pro forma combined financial information assumes that the merger is accounted for using the purchase method of accounting and represents a current estimate of the financial information based on available financial information of Orrstown and First National. See **The Transaction Accounting Treatment** on page 46.

The unaudited pro forma combined financial information includes adjustments to reflect the assets and liabilities of First National at their estimated fair values at or near September 30, 2005. Such adjustments are subject to further adjustment as additional information becomes available and as additional analyses are performed. The unaudited pro forma combined financial information is presented for illustrative purposes only and does not include any assumptions regarding the possible impact of revenue enhancements, expense efficiencies, asset dispositions or share repurchases.

The information presented below should be read together with the historical consolidated financial statements of Orrstown, including the related notes, filed with the Securities and Exchange Commission and together with the consolidated historical financial data for Orrstown and First National and First National's historical financial statements and the other financial information, including the related notes, appearing elsewhere in this document. See **Where You Can Find More Information** on page 68, **Unaudited Pro Forma Combined Financial Information** beginning on page 51 and **Index to First National's Financial Statements** beginning on page F-1. The unaudited pro forma combined financial information is not necessarily indicative of results that actually would have occurred had the merger been completed on the dates indicated or that may be realized in the future.

	At and for the	For the
	Nine Months Ended	Twelve Months Ended
	September 30, 2005	December 31, 2004
	(dollars in thousands, except per share data)	
Pro forma condensed combined income statement data:		
Total interest income	\$ 28,198	\$ 32,228
Total interest expense	8,625	9,529
Net interest income	19,573	22,699
Provision for loan losses	72	210
Net interest income after provision for loan losses	19,501	22,489
Other income	7,758	7,989
Other expense	15,414	18,306
Income before taxes	11,845	12,172
Income taxes	3,469	3,296
Net income	8,376	8,876
Pro forma earnings per share:		
Basic	\$ 1.37	\$ 1.46
Diluted	1.32	1.42
Pro forma selected combined balance sheet data:		
Investment securities	\$ 117,819	\$ 126,130

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Total loans	510,986	458,370
Total assets	722,996	658,543
Total deposits	557,866	513,202
Borrowings and long-term debt	77,089	63,862
Stockholders equity	80,062	74,093

Table of Contents**Comparative Unaudited Per Share Data**

The following table shows information, at and for the periods indicated, about Orrstown's and First National's historical net income per share, dividends per share and book value per share. The table also contains pro forma information that reflects the merger of Orrstown and First National using the purchase method of accounting. The unaudited pro forma equivalent data were obtained by multiplying the combined company pro forma information by the exchange ratio for each share of First National common stock.

You should read the information in the following table in conjunction with the historical financial information and related notes contained in the annual, quarterly and other reports that Orrstown has filed with the Securities and Exchange Commission. Orrstown has incorporated its prior filings into this document by reference. For information on how to obtain the reports Orrstown has filed, please refer to the section entitled

"Where You Can Find More Information" on page 68 of this document. You should not rely on the pro forma information as being indicative of the results that Orrstown will achieve in the transaction.

	<u>At</u> <u>September 30, 2005</u>	<u>At</u> <u>December 31, 2004</u>
Book value per share:		
First National historical	\$ 33.97	\$ 32.83
Orrstown historical	10.19	9.15
Combined Company	13.09	12.18
First National pro forma equivalent	22.90	21.32
Tangible book value per share:		
First National historical	\$ 33.97	\$ 32.83
Orrstown historical	9.83	8.89
Combined Company	9.59	8.68
First National pro forma equivalent	16.79	15.20
	<u>Nine Months Ended</u> <u>September 30,</u> <u>2005</u>	<u>Year Ended</u> <u>December 31, 2004</u>
Cash dividends declared per share:		
First National historical	\$ 1.32	\$ 1.64
Orrstown historical	0.42	0.48
Combined Company	0.42	0.48
First National pro forma equivalent	0.74	0.83
Basic net income per share:		
First National historical	\$ 3.09	\$ 3.94
Orrstown historical	1.39	1.45
Combined Company	1.37	1.46
First National pro forma equivalent	2.40	2.56
Diluted net income per share:		
First National historical	\$ 3.09	\$ 3.94
Orrstown historical	1.33	1.40
Combined Company	1.32	1.42
First National pro forma equivalent	2.31	2.48

Recent Developments

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First National's management reported net income (unaudited) for First National of \$1,417,000 or \$3.54 per share for the twelve months ended December 31, 2005, compared to net income of \$1,576,000 or \$3.94 per share for the twelve months ended December 31, 2004.

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For the three months ended December 31, 2005, First National realized net income (unaudited) of \$181,000, or \$0.45 per share, compared to net income of \$375,000, or \$0.94 per share, for the same period of 2004.

The decrease in First National's net income for the quarter ended December 31, 2005 is primarily the result of losses related to First National's determination to restructure its investment portfolio and certain costs associated with the termination of First National's data processing agreement with Enterprise Technology Alliance, Inc. (ETA). Changes to the investment portfolio included the sale of approximately \$3.6 million low yield government agency bonds at a loss of \$125,347 and the write-down of below-investment grade GMAC bonds to their estimated year-end market value for a recognized loss of \$19,672. Charges related to the termination of First National's relationship with ETA included a \$44,691 de-conversion fee and recognition of a \$201,000 loss associated with the termination of First National's 9.09% interest in ETA.

Excluding the one-time charges described above, First National's operating income for the twelve months ended December 31, 2005 was \$1,675,000, representing a 6.3% increase over 2004 income.

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RISK FACTORS

An investment in Orrstown common stock in connection with the merger and reorganization transaction involves certain risks, including, among others, the risks described below. In addition to the other information contained in this document, you should carefully consider the following risk factors in deciding whether to vote for approval of the reorganization agreement.

RISK FACTORS RELATED TO THE TRANSACTION

Fluctuations in the market price of Orrstown common stock may cause the value of the stock portion of the merger consideration to decrease.

Upon completion of the merger transaction, your shares of First National common stock will be converted into 1.75 shares of Orrstown common stock and \$22.20 in cash. The merger consideration is fixed and not subject to adjustment. Changes in Orrstown's stock price may result from a variety of factors that are beyond the control of Orrstown, including, among other things, changes in Orrstown's business, operations and prospects, regulatory considerations and general market and economic conditions. Therefore, the market value of the Orrstown common stock that you receive, and the aggregate value of the merger consideration, will fluctuate. The price of Orrstown common stock may vary from its price on the date of this document, the date of the First National special meeting, and the date of closing. You will not know at the time of the special meeting what the price of the Orrstown common stock will be on the date the transaction is completed.

You will have less influence as a shareholder of Orrstown than as a shareholder of First National.

As a First National shareholder, you currently have the right to vote in the election of the board of directors of First National and on certain other matters affecting First National. The amount of Orrstown common stock and cash you will receive for your shares of First National common stock will result in the transfer of control of First National to the shareholders of Orrstown. Although when the merger occurs you will become a shareholder of Orrstown, your percentage ownership of Orrstown will be significantly smaller than your percentage ownership of First National and you will no longer have the right to cumulate your votes for the election of directors. Because of this, you will have less influence on the management and policies of Orrstown than you now have on the management and policies of First National.

Orrstown may fail to realize all of the anticipated benefits of the transaction.

The success of the transaction will depend, in part, on Orrstown's ability to realize the anticipated benefits and cost savings from integrating the business of First National with the business of Orrstown. If Orrstown is not able to achieve these objectives, the anticipated benefits and cost savings of the transaction may not be realized fully, or at all, or may take longer to realize than expected.

First National and Orrstown have operated and, until the completion of the merger, will continue to operate, independently. It is possible that the integration process could result in the loss of key employees, the disruption of the ongoing businesses of Orrstown and/or First National, or inconsistencies in standards, controls, procedures and policies. The occurrence of any of the foregoing could adversely affect Orrstown's ability

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to maintain relationships with the respective clients, customers, depositories and employees of Orrstown and First National and its ability to achieve the anticipated benefits of the merger. Integration efforts between the Orrstown and First National may, to some extent, also divert management attention and resources. These integration matters could have an adverse effect on each of First National and Orrstown during the transition period.

The reorganization agreement limits First National's ability to pursue alternatives to the merger transaction with Orrstown.

The reorganization agreement contains no shop provisions that, subject to certain exceptions, limit First National's ability to discuss, facilitate or commit to competing third-party proposals to acquire all or a significant

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part of the bank. Additionally, if the merger would fail to occur in certain circumstances that relate to a possible combination of First National with another acquiror, First National could be obligated to pay Orrstown \$1,500,000 as a termination fee. See The Transaction Termination Fee on page 43. These provisions may discourage a potential competing acquiror that might have an interest in acquiring all or a significant part of First National from considering or proposing an acquisition of First National even if it were prepared to pay consideration with a higher per share market price than that proposed in the merger, or might result in a potential competing acquiror proposing to pay a lower per share price to acquire First National than it might otherwise have proposed to pay.

First National's executive officers and directors have financial interests in the transaction that are different from, or in addition to, the interests of First National shareholders.

Executive officers of First National negotiated the terms of the reorganization agreement with their counterparts at Orrstown, and First National's board of directors unanimously approved the reorganization agreement and plan of merger and recommended that First National shareholders vote to approve the reorganization agreement and plan of merger. In considering these facts and the other information contained in this document, you should be aware that First National's executive officers and directors have financial interests in the transaction that are different from, or in addition to, the interests of First National shareholders. For example, in connection with the closing, certain executive officers will enter into employment agreements with Orrstown and the surviving bank. These and other interests of First National directors and executive officers may create potential conflicts of interest and cause some of these persons to view the proposed transaction differently than you may view it as a shareholder. Please see The Transaction Interests of Management and Others in the Transaction beginning on page 44 for information about these financial interests.

RISK FACTORS RELATED TO ORRSTOWN'S BUSINESS

Changes in interest rates may have an adverse effect on Orrstown's profitability.

Orrstown's business is affected by fiscal and monetary policies of the federal government, including those of the Federal Reserve Board, which regulates the national money supply in order to manage recessionary and inflationary pressures. Among the techniques available to the Federal Reserve Board are engaging in open market transactions of U.S. Government securities, changing the discount rate and changing reserve requirements against bank deposits. The use of these techniques may also affect interest rates charged on loans and paid on deposits.

Net interest income is the most significant component of Orrstown's net income, accounting for approximately 73% of total revenues in 2004 and 71% of revenues in the first nine months of 2005. The narrowing of interest rate spreads (the difference between interest rates earned on loans and investments and interest rates paid on deposits and borrowings), would adversely affect Orrstown's earnings and financial condition. Among other things, regional and local economic conditions as well as fiscal and monetary policies of the federal government, including those of the Federal Reserve Board, may affect prevailing interest rates. Orrstown cannot predict or control changes in interest rates.

When short-term interest rates rise, Orrstown generally expects improvements in net interest income. However, a flat or declining interest rate environment would adversely impact Orrstown's net interest income. In addition, increasing short-term rates tend to have a detrimental impact on mortgage loan origination volumes and related mortgage-banking income.

Changes in economic conditions and the composition of Orrstown's loan portfolios could lead to higher loan charge-offs or an increase in Orrstown's allowance for loan losses and may reduce Orrstown's income.

Changes in national and regional economic conditions could impact the loan portfolios of Orrstown's subsidiary bank(s). For example, an increase in unemployment, a decrease in real estate values or increases in

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interest rates, as well as other factors, could weaken the economies of the communities Orrstown serves. Weakness in the market areas served by Orrstown could depress its earnings and consequently its financial condition because:

customers may not want or need Orrstown's products or services;

borrowers may not be able to repay their loans;

the value of the collateral securing Orrstown's loans to borrowers may decline; and

the quality of Orrstown's loan portfolio may decline.

Any of the later three scenarios could require Orrstown to charge-off a higher percentage of its loans and/or increase its provision for loan and lease losses, which would reduce its income.

In addition, the amount of Orrstown's provision for loan losses and the percentage of loans it is required to charge-off may be impacted by the overall risk composition of the loan portfolio. While Orrstown believes that its allowance for loan losses as of December 31, 2004 and September 30, 2005 is sufficient to cover losses inherent in the loan portfolio on each of those dates, Orrstown cannot assure you that it will not be required in the future to increase its loan-loss provision or charge-off a higher percentage of loans due to changes in the risk characteristics of the loan portfolio resulting from the merger, which would thereby reduce its net income.

The competition Orrstown faces is increasing and may reduce Orrstown's customer base and negatively impact Orrstown's results of operations.

There is significant competition among commercial banks in the market areas served by Orrstown. In addition, as a result of the deregulation of the financial industry, Orrstown and First National also compete with other providers of financial services such as savings and loan associations, credit unions, consumer finance companies, securities firms, insurance companies, commercial finance and leasing companies, the mutual funds industry, full service brokerage firms and discount brokerage firms, some of which are subject to less extensive regulations than Orrstown is with respect to the products and services they provide. Some of Orrstown's competitors, including certain super-regional and national bank holding companies that have made acquisitions in its market area, have greater resources than Orrstown has, and as such, may have higher lending limits and may offer other services not offered by Orrstown.

Orrstown also experiences competition from a variety of institutions outside its market areas. Some of these institutions conduct business primarily over the Internet and may thus be able to realize certain cost savings and offer products and services at more favorable rates and with greater convenience to the customer.

Competition may adversely affect the interest rates Orrstown pays on deposits and charges on loans, thereby potentially adversely affecting Orrstown's profitability. Orrstown's profitability depends upon its continued ability to successfully compete in the market areas it serves while achieving its investment objectives.

The supervision and regulation to which Orrstown is subject can be a competitive disadvantage.

Orrstown is a registered financial holding company, and each of Orrstown Bank and First National Bank is a depository institution whose deposits are insured by the Federal Deposit Insurance Corporation (FDIC). As a result, Orrstown and its subsidiaries are subject to various regulations and examinations by various regulatory authorities. In general, statutes establish the corporate governance and permitted business activities for Orrstown, certain acquisition and merger restrictions, limitations on inter-company transactions such as loans and dividends, and capital adequacy requirements, requirements for anti-money laundering programs and other compliance matters, among other regulations. Orrstown is extensively regulated under federal and state banking laws and regulations that are intended primarily for the protection of depositors, federal deposit insurance funds and the banking system as a whole. Compliance with these statutes and regulations is important to Orrstown's ability to engage in new activities and to consummate additional acquisitions. In addition, Orrstown is subject to changes in federal and state tax laws as well as changes in banking and credit regulations, accounting principles

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and governmental economic and monetary policies. Orrstown cannot predict whether any of these changes may adversely and materially affect it. Federal and state banking regulators also possess broad powers to take supervisory actions as they deem appropriate. These supervisory actions may result in higher capital requirements, higher insurance premiums and limitations on Orrstown's activities that could have a material adverse effect on its business and profitability. While these statutes are generally designed to minimize potential loss to depositors and the FDIC insurance funds, they do not eliminate risk, and compliance with such statutes increases Orrstown's expense, require management's attention and can be a disadvantage from a competitive standpoint with respect to unregulated competitors.

A CAUTION ABOUT FORWARD-LOOKING INFORMATION

This document and the documents incorporated by reference into this document contain statements that constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements include information concerning possible or assumed future results of operations of Orrstown and its subsidiaries, or the combined businesses of Orrstown and First National. When we use words such as believes, expects, anticipates or similar expressions, we are making forward-looking statements. Forward-looking statements are also statements that are not statements of historical fact. These forward-looking statements involve risks and uncertainties. Factors that may cause actual results to differ materially from those contemplated by these forward-looking statements include, among others, the following possibilities:

regulatory approvals and clearances and other prerequisites or conditions to the merger may not be obtained, or may be received outside of expected time frames;

competitive pressures among depository and other financial institutions may increase significantly;

revenues may be lower than expected;

changes in the interest rate environment may reduce interest margins;

general economic conditions, either nationally or regionally, may be less favorable than expected, resulting in, among other things, a deterioration in credit quality and/or a reduced demand for credit;

legislative or regulatory changes, including changes in accounting standards, may adversely affect the ability of the combined company to conduct its current and future operations;

costs or difficulties related to the integration of the businesses of Orrstown and First National may be greater than expected;

expected cost savings associated with the merger may not be fully realized or realized within the expected time frames;

deposit attrition, customer loss, or revenue loss following the merger may be greater than expected;

competitors may have greater financial resources and develop products that enable such competitors to compete more successfully than Orrstown; and

adverse changes may occur in the securities markets or with respect to inflation.

This list is not exhaustive. Forward-looking statements speak only as of the date they are made. Orrstown and First National do not undertake to update forward-looking statements to reflect future circumstances or events. If one or more of these risks or uncertainties occurs or if the underlying assumptions prove incorrect, actual results, performance or achievements could differ materially from those expressed in, or implied by, the forward-looking statement.

Further information on other factors that could affect the financial results of Orrstown after the merger is included in this document under Risk Factors beginning on page 14 and in Orrstown's Securities and Exchange Commission filings incorporated by reference in this document.

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THE SPECIAL MEETING

Date, Time And Place

First National will hold a special meeting of shareholders on _____, 2006 at _____ .m., local time, at its main office at Center Square, Newport, Pennsylvania.

Matters To Be Considered At The Special Meeting

At the special meeting, First National shareholders will consider and vote upon proposals to:

approve and adopt the reorganization agreement and plan of merger;

adjourn the meeting if more time is needed to solicit proxies; and

transact any other business that may properly be brought before the meeting.

Recommendation Of First National Board Of Directors

The First National board of directors unanimously approved the reorganization agreement, plan of merger and the related transactions and recommends a vote FOR approval and adoption of the reorganization agreement and plan of merger.

The matters to be considered at the First National special meeting are of great importance to First National shareholders. Therefore, we urge you to read and consider carefully the information in this document. We also urge you to complete, date, sign and return promptly the enclosed proxy card using the enclosed postage-paid envelope.

Shareholders Entitled to Vote

You are entitled to notice of and to vote at the First National special meeting if you were a holder of record of First National common stock at the close of business on _____, 2006, the record date established by the First National board of directors for the special meeting. As of the record date, there were _____ shares of First National common stock issued and outstanding, held by _____ holders of record. Each share entitles the holder to one vote. Shareholders may vote either in person or by proxy.

Quorum

To have a quorum at the First National special meeting, the holders of at least a majority of the issued and outstanding shares of First National common stock entitled to vote must be present either in person or by properly executed proxy. Proxies that are marked `abstain` will be counted as shares of common stock present for the purposes of determining the presence of a quorum.

Required Vote; Voting Agreements

Under the National Bank Act, shareholder approval and adoption of the reorganization agreement and the plan of merger requires the affirmative vote of at least two-thirds of the outstanding shares of common stock by the shareholders entitled to vote at the special meeting. If fewer shares of First National common stock voting in favor of the transaction are present in person or by proxy than are necessary to approve the reorganization agreement, we expect to adjourn or postpone the special meeting to allow additional time for obtaining additional votes or proxies. At any subsequent reconvening of the special meeting, all proxies obtained before the adjournment or postponement will be voted in the same manner as they would have been voted at the original convening of the special meeting. However, any proxies which have been properly revoked or withdrawn will not be voted.

The directors and executive officers of First National have agreed to vote all shares of First National common stock that they own or over which they exercise voting control for approval and adoption of the

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reorganization agreement and the merger. As of _____, 2006, the record date for the special meeting, First National directors and executive officers and their affiliates had the right to vote an aggregate of _____ shares of First National common stock. This number amounts to approximately _____ % of the voting power of all outstanding shares on that date.

Voting By Proxy

All shares of First National common stock represented by properly executed proxy cards will be voted in accordance with the instructions indicated on those proxy cards, unless those proxies have been previously revoked. **If you return a signed proxy card but fail to indicate how you want to vote, your shares of First National common stock will be voted FOR approval and adoption of the reorganization agreement and plan of merger and in favor of the adjournment proposal.**

First National shareholders should *not* mail their common stock certificates with their proxy cards.

Abstentions; Broker Non-Votes

A properly executed proxy card marked *abstain* will not be voted on the approval and adoption of the reorganization agreement but will count toward determining whether a quorum is present. Because approval and adoption of the reorganization agreement requires the affirmative vote of the holders of at least two-thirds of the outstanding shares of First National common stock entitled to vote, a vote to *abstain* will have the same effect as a vote against the reorganization agreement.

Broker-Held Shares

Brokers who hold shares of First National common stock in *street name* for the beneficial owners of those shares cannot vote those shares without specific instructions from the beneficial owners. Therefore, if you are the beneficial owner of shares of First National common stock held by a broker in *street name*, you should sign, date and return your proxy card to the broker in the envelope provided by the broker. If a broker indicates on the proxy card that it does not have discretionary authority as to shares of common stock to vote on a particular matter, those shares of common stock will be considered as present but shall not be voted with respect to that matter. Because approval and adoption of the reorganization agreement requires the affirmative vote of the holders of at least two-thirds of the outstanding shares of First National common stock entitled to vote, if you abstain or, if your shares are held in *street name* and you fail to instruct your broker how to vote, it will have the same effect as a vote against the reorganization agreement.

Changing Your Vote

If you give the proxy we are soliciting, you may revoke it at any time before it is exercised:

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by giving written notice to The First National Bank of Newport, Center Square, Newport PA 17074, Attention: Jane L. Timothy, Secretary,

by signing and returning a later-dated proxy, or

by voting in person at the special meeting.

A shareholder whose shares are held in street name should follow the instructions of his or her broker regarding revocation of proxies. You should note that your presence at the First National special meeting without voting in person will not revoke an otherwise valid proxy.

Adjournment

In the event that there are not sufficient votes to constitute a quorum or approve the adoption of the reorganization agreement at the time of the special meeting, the reorganization agreement would not be able to be

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approved unless the meeting could be adjourned to a later date in order to permit further solicitation of proxies. The persons named as proxies may propose and vote for one or more adjournments of the special meeting, including adjournments to permit further proxy solicitations. No proxy voted against the proposal to approve the reorganization agreement will be voted in favor of any such adjournment or postponement.

Solicitation Of Proxies

First National will bear its own cost of solicitation of proxies. In addition to solicitation by mail, First National's directors, officers and employees may solicit proxies personally or by telephone, facsimile transmission or otherwise. These directors, officers and employees will not be additionally compensated for their solicitation efforts but may be reimbursed for out-of-pocket expenses incurred in connection with these efforts. First National will reimburse brokerage firms, fiduciaries, nominees and others for their out-of-pocket expenses incurred in forwarding proxy materials to beneficial owners of shares of common stock held in their names.

Dissenters Rights

First National shareholders have a right to dissent from the merger transaction and to obtain payment in cash of the fair value of their First National shares by complying with the requirements of Section 215a of the National Bank Act, a copy of which is included as Annex C to this document. See *The Transaction Rights of Dissenting Shareholders* beginning on page 35.

THE TRANSACTION

The following information describes the material features of the proposed transaction. This description, however, is not a complete statement of all provisions of the reorganization agreement and related documents. A copy of the reorganization agreement, including its exhibits, is attached to this document as Annex A, and is incorporated by reference into this document. For a more complete description and understanding of the proposed transaction, we urge you to read the full text of the reorganization agreement carefully. We qualify the following discussion in its entirety by reference to the reorganization agreement.

General

The reorganization agreement provides, that, subject to the satisfaction or waiver of all conditions in the reorganization agreement, First National will merge with and into an interim national bank created by Orrstown. The surviving bank will be a wholly-owned subsidiary of Orrstown and will change its name to *The First National Bank of Newport*. Immediately following the merger, the board of directors and executive officers of First National will be the initial board of directors and executive officers of the surviving bank, except that Kenneth R. Shoemaker, President and Chief Executive Officer of Orrstown, will be appointed as an additional director of the surviving bank. The board of directors of the Orrstown holding company will be increased to include Peter C. Zimmerman, who is currently a director and President and Chief Executive Officer of First National.

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In the transaction, each share of First National common stock will be converted into the right to receive 1.75 shares of Orrstown common stock and \$22.20 in cash. The merger consideration is fixed and is not subject adjustment other than to prevent dilution in the event of a stock split, stock dividend or similar transaction with respect to Orrstown common stock.

We expect to complete the merger during the second quarter of 2006.

Background of the Merger

Through a series of strategic planning sessions over the last several years, the First National board of directors focused on its primary mission of providing quality financial services to the community and enhancing shareholder value. While not adopting a strategy to sell the bank, the board recognized that an opportunity to affiliate with the right partner would be one possible option toward accomplishing this mission.

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In the course of deliberations, the board recognized as an important concern that deposit growth had become sluggish in recent years. The slowing of deposit inflows was felt to be most reflective of an improving stock market and rising interest rates, both of which would serve to attract funds away from the bank. Growth on both the loan and deposit sides, however, was also recognized to be limited by the slow growth of the local economy.

During several planning sessions in the summer of 2005, the topic considered by the board was the possibility of affiliating with other banks in the region, but the board concluded that this was not the direction that would best serve the goal of being part of a more robust growth area. Discussion centered on the need to expand First National's market area outside of Perry County, particularly to the south, where there is a substantial and growing population and business base. Expansion into Cumberland County was discussed, but it was also understood that this was a very competitive environment where First National would be hindered by its relatively small size and lack of name recognition.

As these discussions continued, the board increasingly focused on potential growth opportunities in Cumberland County. This in turn led board members to develop a particular interest in Orrstown, which in the board's view stood out with regard to growth, financial strength, and community orientation. At its September 21, 2005, executive session, the Board directed Peter C. Zimmerman, President and CEO, to informally inquire of his counterpart at Orrstown whether Orrstown had any intentions with regard to Perry County.

On September 30, Mr. Zimmerman met with Kenneth R. Shoemaker, President and CEO of Orrstown. Mr. Shoemaker indicated that Orrstown had often considered expanding into Perry County if the right opportunity presented itself. He further advised that Orrstown's growth in Cumberland and Franklin Counties has been so strong that its priority has been to concentrate on the I-81 corridor. Nonetheless, Mr. Shoemaker stated that he wanted to explore with his Executive Committee the possibility of an acquisition transaction with First National.

On October 4 Messrs. Shoemaker and Zimmerman met again. In the discussion, Mr. Shoemaker reported authorization from his Executive Committee to have First National consider an exchange ratio of approximately 2.25 to 1, with a mix of about 75% stock and 25% cash. Orrstown would have no objection to, and would actually prefer, that First National maintain its separate charter for the foreseeable future, with Mr. Zimmerman remaining as CEO.

The First National board held an executive session on October 5 to receive an update from Mr. Zimmerman. He presented Orrstown's financial statements to the board and noted a number of impressive statistics. Orrstown's second quarter earnings were up about 35%, yielding a return on average assets of 1.90% and a return on average equity of nearly 20%. Orrstown has continually shown double digit asset growth and their stock, while now trading at 3.6 times book value, has traded as high as between 5 and 6 times book value.

Mr. Zimmerman noted that Orrstown's tentative pricing reflected the cost savings that could be achieved by converting First National's data processing to Orrstown's system and by consolidating various back office and financial operations. The board expressed its desire to seriously explore an affiliation with Orrstown and authorized Mr. Zimmerman to do so. The board also directed Mr. Zimmerman to negotiate a higher stock exchange ratio, cash portion, or both.

Subsequent to its regular October 19 board meeting, First National went into executive session to hear a further update from Mr. Zimmerman. He reported that he had again met with Mr. Shoemaker and that both were excited about the possibility of an affiliation. Mr. Shoemaker had made the suggestion to have a meeting between the two banks' Chairmen and Presidents to further explore this matter. The board authorized such a meeting, with the desire to have it scheduled prior to its next regular meeting.

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On October 26, Messrs. Shoemaker and Zimmerman met with the respective Chairmen of their boards, Joel R. Zullinger and Lenus A. Haines. On this date Orrstown and First National entered into a confidentiality

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agreement. Mr. Shoemaker presented a set of detailed financial analyses that supported their offer, which had been enhanced with additional cash. The meeting included significant discussion regarding the cost savings and synergies that could be achieved by combining the banks operations. Both parties concluded that there were compelling reasons to further pursue the proposed transaction.

Mr. Zimmerman reported the results of that meeting to the First National board at its November 2 meeting. He led the board through the terms that had been presented at the October 26 meeting, equating to approximately 2.5 times book value and 21 times First National's last 12 months earnings. The feeling was clearly expressed by several First National board members that these financial terms were very attractive and that an affiliation with Orrstown would provide the strategic fit that would benefit all of First National's constituencies in the long run.

After discussion, Mr. Zimmerman was directed to seek representation by legal counsel and by financial advisors. He indicated a desire to utilize the services of McNees Wallace & Nurick LLC as counsel and to talk to several possible financial advisors. Subsequently, the firm of Boenning & Scattergood, Inc. was chosen because of its familiarity with the Pennsylvania community banking environment and its expertise on such matters.

On November 7, Mr. Zimmerman met with a representative of McNees Wallace & Nurick to ascertain its availability to be retained as legal counsel. It was noted that due diligence for both banks had been scheduled for November 10 and November 11. Discussion and negotiations between the parties and their respective counsel followed, and a draft of the reorganization agreement was distributed to the First National board at its November 16 meeting. Mr. Zimmerman reviewed all of the major aspects of the Agreement, including:

The terms of the proposed exchange ratios of stock and cash;

Conditions to closing the transaction;

Rights of the parties to terminate the reorganization agreement under certain circumstances;

The conditions under which First National would be required to pay Orrstown a termination fee in the event that the transaction did not close under certain circumstances;

The terms of severance for employees who might not continue employment with Orrstown following the transaction;

The terms of the employment agreements for Messrs. Amsler and Zimmerman; and

The terms of the voting agreements required from First National directors and affiliates.

At that meeting, several items were identified as not being acceptable as proposed. Mr. Zimmerman was directed to work with the attorneys to attempt to resolve all open issues. Subject to resolving these issues, it was agreed to hold a special board meeting with the board's legal counsel and financial advisors on Monday, November 21.

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The Orrstown board of directors met on November 18, 2005 at which time counsel to Orrstown reviewed the terms of the reorganization agreement and related documents with the board. After due consideration of the reorganization agreement and consultation with its advisors, the Orrstown board voted to approve the reorganization agreement and authorized Mr. Shoemaker to execute the reorganization agreement and related documents on behalf of Orrstown.

On November 21 the First National board met to consider and act on the reorganization agreement. Representatives of McNees Wallace & Nurick reviewed the terms and conditions of the reorganization agreement. A representative of Boenning & Scattergood reviewed the business terms of the transaction and delivered a written opinion that the consideration, as of November 21, was fair to the First National shareholders from a financial point of view. After extensive discussion and successful negotiation of two issues raised by the First National board, and in reliance upon the reports of its advisors, the First National board of directors unanimously approved the reorganization agreement.

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The parties executed the reorganization agreement and related documents following the First National board meeting on November 21, 2005 and issued a joint press release publicly announcing the transaction prior to the opening of the financial markets on November 22, 2005.

Reasons for the Merger: First National's Board of Directors

At its meeting on November 21, 2005, the First National board of directors determined that the terms of the reorganization agreement were in the best interests of First National. In making this determination, the board concluded that the transaction with Orrstown presented the best long-term strategic fit for First National to continue to operate as part of an independent, community-focused banking company.

In the course of reaching its decision to approve the reorganization agreement, the First National board of directors consulted with Boenning & Scattergood, Inc., its financial advisor, and McNees Wallace & Nurick LLC, its legal counsel. The board considered, among other things, the factors described above and the following:

The terms of and transactions contemplated by the Agreement, the historical trading ranges for Orrstown common stock and the consideration to be received by First National shareholders in the transaction.

The opinion of Boenning that the consideration in the merger was fair to First National's shareholders from a financial point of view.

The First National board's assessment of Orrstown's business growth prospects and current financial strength.

The alternatives of First National continuing as an independent community bank or combining with other potential merger partners versus the determination that the merger with Orrstown presented the best opportunity for maximizing shareholder value and serving the banking needs of the communities in which First National operates.

The expectation that First National shareholders would have the opportunity to continue to participate in the growth of the combined company and would also greatly benefit from the significantly greater liquidity of the trading market for Orrstown common stock.

Orrstown's operating philosophy as a community oriented financial services company with a customer service focus, which is consistent with First National's philosophy.

The effects of market pressures and First National's limited economies of scale and growth opportunities on First National's ability to prosper.

Orrstown's agreement to maintain First National as a separate subsidiary of Orrstown Financial Services, Inc. for at least three years.

Orrstown's agreement that one director from First National would be appointed to the Orrstown board of directors and that all current members of First National's board of directors would continue as directors of First National for at least three years.

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Orrstown's agreement that First National employees who do not continue as Orrstown employees may be eligible to receive up to 26 weeks of severance pay, depending upon years of service with First National.

The determination that a business combination with Orrstown would extend First National's lending capabilities and increase the range of financial products and services available to First National's customers.

The economic vitality of the market areas served by Orrstown, and the opportunities presented by customer demand in those market areas.

The broad experience of Orrstown's management team.

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The expectation that the transaction will be tax deferred with regard to Orrstown common stock received by First National shareholders, noting that the receipt of cash could be taxable.

The factor that the termination fee provision in the reorganization agreement could have the effect of discouraging superior proposals for a business combination between First National and a third party.

The foregoing discussion of the information and factors considered by the First National board of directors is not intended to be exhaustive, but is believed to include all material factors considered by the First National board. In reaching its determination to approve and recommend the transaction, the First National board based its recommendation on the totality of the information presented to it.

After deliberating with respect to the merger transaction with Orrstown, considering, among other things, the matters discussed above and the opinion of Boenning referred to above, the First National board of directors unanimously approved and adopted the reorganization agreement and the merger with Orrstown.

There can be no certainty that the benefits of the merger anticipated by the First National board will occur. Actual results may vary materially from those anticipated.

The foregoing discussion contains a number of forward-looking statements that reflect the current views of First National with respect to future events that may have an effect on its future financial performance. Forward-looking statements are subject to risks and uncertainties. Actual results and outcomes may differ materially from the results and outcomes discussed in the forward-looking statements. Cautionary statements that identify important factors that could cause or contribute to differences in results and outcomes include those discussed under the section entitled "A Caution About Forward-Looking Information" on page 17 of this document. For more information on the factors that could affect actual results, see "Risk Factors" beginning on page 14.

Recommendation of First National's Board of Directors

The First National board of directors has unanimously approved the reorganization agreement, and believes that the proposed merger is in the best interests of First National. Accordingly, the First National board of directors unanimously recommends that First National shareholders vote FOR approval of the reorganization agreement.

Opinion of First National's Financial Advisor

Pursuant to an engagement letter dated as of November 10, 2005, as amended, First National retained Boenning to render a fairness opinion as to the merger consideration to the holders of First National common stock from a financial point of view in connection with First National's consideration of a possible business combination with Orrstown. At the November 21, 2005 meeting at which First National's board considered the merger agreement, Boenning rendered its opinion to the board that, based upon and subject to the various considerations set forth therein, as of November 21, 2005, the merger consideration was fair to the holders of First National common stock from a financial point of view. Boenning has subsequently rendered a supplemental written opinion dated February 1, 2006 for inclusion in this document. The opinion dated November 21, 2005 is referred to as the "November Opinion" and the opinion as of February 1, 2006 as the "Proxy Opinion."

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The full text of Boenning's Proxy Opinion, which sets forth the assumptions made, matters considered and limitations of the review undertaken, is attached as Annex B to this document, is incorporated herein by reference, and should be read in its entirety in connection with this document. The summary of the opinion of Boenning set forth below is qualified in its entirety by reference to the full text of the opinion attached as Annex B to this document.

Boenning was selected to act as First National's financial advisor in connection with the merger with Orrstown based upon its qualifications, expertise, reputation and experience. Boenning has knowledge of and

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experience with the Pennsylvania and surrounding banking markets, as well as banking organizations operating in those markets. Boenning, as part of its investment banking business, is engaged regularly in the valuation of assets, securities and companies in connection with various types of asset and securities transactions, including mergers, acquisitions, public offerings, private placements, and valuations for various other purposes and in the determination of adequate consideration in such transactions. In the ordinary course of its business as a broker-dealer, Boenning may, from time to time, purchase securities from, and sell securities to, First National and Orrstown. In the ordinary course of business, Boenning may actively trade the securities of First National and Orrstown for its own account and for the accounts of customers and accordingly may at any time hold a long or short position in such securities. Boenning serves as a market maker in Orrstown's common stock.

On November 21, 2005, First National's board of directors approved and executed the reorganization agreement. Prior to the approval, Boenning delivered its November Opinion to First National's board stating that, as of such date, the merger consideration pursuant to the reorganization agreement was fair to the shareholders of First National from a financial point of view. Boenning reached the same opinion as of the date of its Proxy Opinion. The full text of the Proxy Opinion which sets forth assumptions made, matters considered and limits on the review undertaken is attached as Annex B to this document.

No limitations were imposed by First National's board of directors upon Boenning with respect to the investigations made or procedures followed by Boenning in rendering the November Opinion or the Proxy Opinion.

In arriving at its opinion, Boenning, among other things:

reviewed the reorganization agreement;

reviewed and analyzed the stock market performance of First National and Orrstown;

studied and analyzed the consolidated financial and operating data of First National and Orrstown;

considered the terms and conditions of the merger between First National and Orrstown as compared with the terms and conditions of bank, bank holding company, and financial holding company mergers and acquisitions which Boenning deemed comparable;

met and/or communicated with certain members of First National's and Orrstown's senior management to discuss their respective operations, historical financial statements, and future prospects;

reviewed a draft of this registration statement (in the case of the Proxy Opinion);

compared the financial performance of First National and Orrstown and the prices and trading activity of the stocks of First National and Orrstown with those of certain other publicly-traded banks, bank holding companies, and financial holding companies and their securities which Boenning deemed comparable;

discussed the strategic objectives of the merger and the plans for the combined company with senior executives of First National and Orrstown, including estimates of the cost savings and other synergies projected by Orrstown for the combined company;

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participated in discussions and negotiations among representatives of First National and Orrstown and their advisors; and

conducted such other financial analyses, studies and investigations as it deemed appropriate.

In connection with rendering its November Opinion and Proxy Opinion, Boenning assumed that in the course of obtaining the necessary regulatory and governmental approvals for the merger, no restriction will be imposed on Orrstown or First National that would have a material adverse effect on the contemplated benefits of the merger. Boenning also assumed that there will not occur any change in applicable law or regulation that would cause a material adverse change in the prospects or operations of Orrstown after the merger.

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Boenning relied, without independent verification, upon the accuracy and completeness of all of the financial and other information reviewed by and discussed with it for purposes of its opinions. With respect to First National's and Orrstown's financial forecasts and other information reviewed by Boenning in rendering its opinions, Boenning assumed that such information was reasonably prepared on bases reflecting the best currently available estimates and judgments of the managements of First National and Orrstown as to their most likely future performance and the cost savings and other potential synergies (including the amount, timing and achievability thereof) anticipated to result from the merger. Boenning did not make an independent evaluation or appraisal of the assets (including loans) or liabilities of First National or Orrstown nor was it furnished with any such appraisal. Boenning also did not independently verify, and has relied on and assumed, that all allowances for loan and lease losses set forth in the balance sheets of First National and Orrstown were adequate and complied fully with applicable law, regulatory policy and sound banking practice as of the date of such financial statements. In addition, Boenning did not review credit files of either First National or Orrstown.

The following is a summary of the material analyses prepared by Boenning and presented to First National's board in connection with the November Opinion and analyzed by Boenning in connection with the November Opinion and the Proxy Opinion. In connection with delivering its Proxy Opinion, Boenning updated certain analyses described below to reflect current market conditions and events occurring since the date of the November Opinion. The reviews and updates led Boenning to conclude that it was not necessary to change the conclusions it had reached in connection with rendering the November Opinion. Additionally, none of the analyses prepared by Boenning in connection with the issuance of the November Opinion or the Proxy Opinion failed to support Boenning's conclusion that the merger consideration was fair to the holders of First National common stock from a financial point of view.

Summary of Transaction. Boenning calculated the implied pricing and valuation multiples based upon an implied offer price per share of \$84.33 comprised of \$22.20 in cash plus \$62.13 in Orrstown common stock. The implied offer price of Orrstown common stock was derived by multiplying the exchange ratio of 1.75 by the last reported per share sale price of Orrstown common stock of \$35.50 as of November 17, 2005.

Based on First National's last twelve months net income for the period ended September 30, 2005 of \$1.611 million, common shareholders equity of \$13.589 million, common shareholders' tangible equity of \$13.589 million, and price per common share of \$60.00 (the last reported per common share price of First National as of November 17, 2005, the key valuation statistics were as follows:

Aggregate Consideration	\$ 33.73	million
Consideration Per Common Share	\$ 84.33	
Aggregate Consideration / Last Twelve Months Reported Net Income	20.9x	
Aggregate Consideration / Common Shareholders' Equity	248.2%	
Aggregate Consideration / Tangible Common Shareholders' Equity	248.2%	
Consideration Per Common Share / Market Price Per Common Share at Announcement	140.5%	

Comparable Companies Analysis. Boenning compared selected publicly available financial, operating and stock market data for First National with those of a peer group in order to compare First National's historical financial and operating performance with the peers and examine the merger consideration offered by Orrstown relative to the market valuations of the peers. The financial and operating data is as of June 30, 2005, or, if available, September 30, 2005, and the stock market data is as of November 17, 2005. The peers consisted of two groups: (i) a Size & Geography peer group comprised of banks with assets between \$50 million and \$200 million headquartered in Perry and surrounding Pennsylvania counties, and (ii) a SEC Reporting peer group comprised of those SEC reporting banks with assets between \$95 million and \$150 million headquartered in Mid-Atlantic region which have been established a minimum of 10 years.

The companies in the Size & Geography peer group were:

First Perry Bancorp, Inc., Marysville, PA;

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Fleetwood Bank Corporation, Fleetwood, PA;

GNB Financial Services Inc., Gratz, PA;

Halifax National Bank, Halifax, PA;

JTNB Bancorp, Inc., Jim Thorpe, PA;

Mercersburg Financial Corporation, Mercersburg, PA; and

UNB Corporation, Mount Carmel, PA.

The companies in the SEC Reporting peer group were:

Brunswick Bancorp, New Brunswick, NJ;

Citizens Bancorp, Inc., Coudersport, PA;

First National Bank of Groton, Groton, NY;

Fulton Bancshares Corporation, McConnellsburg, PA;

GNB Financial Services Inc., Gratz, PA;

Old Line Bancshares, Inc., Waldorf, MD;

Stamford Bank Corporation, Stamford, NY; and

UNB Corporation, Mount Carmel, PA.

The results of these comparisons, based on June 30, 2005, or, if available, September 30, 2005, financial information and stock price data as of November 17, 2005, are set forth in the following table.

First National	Size & Geography	SEC Reporting
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	_____	Median _____	Median _____
		(\$ in Millions)	
Assets	\$ 123.2	\$ 105.2	\$ 115.8
Common Equity Capital / Assets	11.0%	10.5%	12.3%
Loans / Deposits	67.3%	72.7%	71.8%
Nonperforming Assets ¹ / Assets	0.38%	0.29%	0.34%
Return on Average Assets	1.30%	0.92%	0.90%
Return on Average Common Equity	12.06%	7.54%	6.24%
Non-Interest Income / Average Assets	0.88%	0.51%	0.56%
Non-Interest Expense / Average Assets	2.71%	2.57%	3.03%
Efficiency Ratio ²	62.40%	64.30%	65.50%
Net Interest Margin	3.86%	3.75%	3.67%
Four Year Average Results:			
Return on Average Assets	1.25%	0.94%	0.87%
Return on Average Common Equity	12.21%	8.27%	6.04%
Efficiency Ratio ²	59.70%	61.90%	67.10%
Net Interest Margin	3.96%	3.76%	3.72%
Compound Annual Growth Rate ³ :			
Assets	4.3%	4.3%	2.8%
Loans	2.3%	3.9%	0.4%
Deposits	4.7%	3.4%	3.1%
Common Equity Market Capitalization	\$ 24.0	\$	\$ 17.6
Price / 52 Week High Price	92.3%		91.1%

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	<u>First National</u>	<u>Size & Geography Median</u>	<u>SEC Reporting Median</u>
	(\$ in Millions)		
Price to:			
Book Value Per Common Share	176.6%		111.1%
Tangible Book Value Per Common Share	176.6%		111.5%
LTM ⁴ Earnings Per Common Share	15.0x		19.1x
LTM ⁴ Dividend Payout Ratio	44.1%		33.6%
Avg. Weekly Volume / Common Shares Outstanding	0.0%		0.3%

¹ Defined as total nonaccrual loans plus other real estate owned plus accruing loans that are 90 days past due.

² Defined as non-interest expense less intangible amortization divided by the sum of net interest income plus non-interest income.

³ Reflects compound annual growth rate from fiscal year 2001 to most recent quarter.

⁴ LTM stands for the latest twelve months.

Boenning also compared selected publicly available financial, operating and stock market data for Orrstown with two peer groups: (i) a Regional peer group comprised of SEC reporting banks with assets between \$450 million and \$750 million headquartered in Pennsylvania and (ii) a Performance peer group comprised of SEC reporting banks with equity / assets between 8-10%, return on average assets greater than 1.2%, return on average equity greater than 15.5%, nonperforming assets as a percentage of assets less than 1%, compound annual loan growth of 8% or greater, and with assets between \$400 million and \$1 billion headquartered in the United States. This analysis was performed in order to compare Orrstown's historical financial and operating performance with comparable institutions and to examine its market valuation relative to its peer group. The financial and operating data are as of June 30, 2005, or, if available, September 30, 2005, and the stock market data are as of November 17, 2005.

The companies in the Regional peer group were:

American Bank Incorporated, Allentown, PA;

Bryn Mawr Bank Corporation, Bryn Mawr, PA;

Citizens Financial Services, Inc., Mansfield, PA;

CNB Financial Corporation, Clearfield, PA;

Comm Bancorp, Incorporated, Clarks Summit, PA;

DNB Financial Corporation, Downingtown, PA;

Ephrata National Bank, Ephrata, PA;

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Fidelity D&D Bancorp, Inc., Dunmore, PA;

First Keystone Corporation, Berwick, PA;

First National Bancorp, Incorporated, Newtown, PA;

Franklin Financial Services Corporation, Chambersburg, PA;

IBT Bancorp, Inc., Irwin, PA;

Penns Woods Bancorp, Inc., Williamsport, PA;

Penseco Financial Services Corporation, Scranton, PA;

PSB Bancorp, Inc., Philadelphia, PA; and

QNB Corp., Quakertown, PA.

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The companies in the Performance peer group were:

Business Bank Corporation, Las Vegas, NV;

BWC Financial Corp., Walnut Creek, CA;

Columbia Bancorp, The Dalles, OR;

Community Bank & Trust Company, Wolfeboro, NH;

First Northern Community Bancorp, Dixon, CA;

First South Bancorp, Inc., Washington, NC; and

Pacific Continental Corporation, Eugene, OR.

The results of these comparisons, based on June 30, 2005, or, if available, September 30, 2005, financial information and stock price data as of November 17, 2005, are set forth in the following table.

	<u>Orrstown</u>	<u>Regional Median</u>	<u>Performance Median</u>
	(\$ in Millions)		
Assets	\$ 581.2	\$ 565.8	\$ 574.1
Common Equity Capital / Assets	9.5%	9.2%	8.9%
Loans / Deposits	96.9%	81.2%	91.2%
Nonperforming Assets ¹ / Assets	0.40%	0.36%	0.23%
Return on Average Assets	1.79%	0.99%	1.69%
Return on Average Common Equity	18.65%	10.65%	17.46%
Non-Interest Income / Average Assets	1.63%	0.85%	0.85%
Non-Interest Expense / Average Assets	3.11%	2.77%	3.20%
Efficiency Ratio ²	53.10%	61.20%	55.40%
Net Interest Margin	4.47%	3.74%	5.44%
Four Year Average Results:			
Return on Average Assets	1.62%	1.11%	1.53%
Return on Average Common Equity	17.47%	11.92%	15.37%
Efficiency Ratio ²	54.40%	61.30%	55.80%
Net Interest Margin	4.33%	3.84%	5.34%
Compound Annual Growth Rate ³ :			
Assets	9.2%	4.8%	8.5%
Loans	11.9%	5.2%	11.3%
Deposits	10.0%	3.9%	9.0%
Common Equity Market Capitalization	\$ 192.6	\$ 87.8	\$ 140.3

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Price / 52 Week High Price	74.5%	87.3%	95.0%
Price to:			
Book Value Per Common Share	348.4%	163.0%	265.8%
Tangible Book Value Per Common Share	361.2%	171.7%	274.3%
LTM ⁴ Earnings Per Common Share	20.8x	15.8x	17.7x
LTM ⁴ Dividend Payout Ratio	32.0%	46.7%	23.8%
Avg. Weekly Volume / Common Shares Outstanding	0.1%	0.2%	0.3%

¹ Defined as total nonaccrual loans plus other real estate owned plus accruing loans that are 90 days past due.

² Defined as non-interest expense less intangible amortization divided by the sum of net interest income plus non-interest income.

³ Reflects compound annual growth rate from fiscal year 2001 to most recent quarter.

⁴ LTM stands for latest twelve months.

No company, however, used in this analysis is identical to First National, Orrstown or the transaction. Accordingly, an analysis of the result of the foregoing is not mathematical; rather, it involves complex

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considerations and judgments concerning differences in financial and operating characteristics of the companies and other factors that would affect the public trading values of the companies or company to which they are being compared.

Discounted Dividend Analysis. Using a discounted dividend analysis, Boenning estimated the present value of the future cash flows that would accrue to a holder of a share of First National common stock over a five-year period. This analysis was performed in order to compare the merger consideration offered by Orrstown to a range of estimated implied values for First National common stock based on projected future cash flows. This stand-alone analysis was based on several assumptions, including a range of price to earnings multiples of 13.0x to 17.0x to First National's terminal year common earnings per share, a range of earnings per share (EPS) growth rates based upon First National management's five year projected earnings per share growth rate of 0.0% to 10.0%, and First National's current common stock cash dividend payout ratio of 43.2%. The range of multiples applied to First National's estimated five-year earnings per share value reflected a variety of scenarios regarding the growth and profitability prospects of First National and valuation for banking securities in general. The terminal values and projected annual cash dividends were then discounted to present value using a discount rate of 12.2%. This discount rate was used in order to reflect an expected rate of return required by holders or prospective buyers of First National's common stock. The analysis indicated that, based upon the aforementioned assumptions, the per common share of the present value of First National's common stock, on a stand-alone basis, ranged from \$35.69 to \$63.84 with a median value of \$48.13. The table below summarizes the results under different assumption scenarios.

	Terminal Multiple				
	13.0x	14.0x	15.0x	16.0x	17.0x
EPS Growth Rate (%)					
0.0	\$ 35.69	\$ 37.96	\$ 40.22	\$ 42.49	\$ 44.76
2.5	39.03	41.53	44.04	46.54	49.04
5.0	42.62	45.37	48.13	50.88	53.63
7.5	46.46	49.49	52.51	55.54	58.56
10.0	50.58	53.89	57.21	60.53	63.84

In connection with the discounted dividend analysis performed, Boenning considered and discussed with First National's board how the present value analysis would be affected by changes in the underlying assumptions, including variations with respect to the growth rate of assets, net interest spread, non-interest income, non-interest expenses and dividend payout ratio. Boenning noted that the discounted dividend stream and terminal value analysis is a widely used valuation methodology, but the assumptions that must be made, and the results of this analysis, are not necessarily indicative of actual values or future results.

Comparable Transactions Analysis. Boenning also compared the per share values to First National common shareholders implied by the exchange ratio offered by Orrstown of latest twelve months' earnings, book value, tangible book value, assets and deposits with the price per common share implied by the multiples paid in recent acquisitions of banks, bank holding companies, and financial holding companies that Boenning deemed comparable. The transactions deemed comparable by Boenning included both interstate and intrastate bank, bank holding company, and financial holding company acquisitions announced after January 1, 2005, in which the selling institution's assets were between \$85 million and \$175 million as of the most recent period publicly available prior to announcement. Boenning compared this national group as a whole as well as certain of its subgroups, including a regional group, a performance group, and a recent group, with the First National/Orrstown transaction. The regional group included transactions involving banks, bank holding companies, and financial holding companies in which the acquired company was located in the Mid-Atlantic region and Ohio. The performance group included transactions involving banks, bank holding companies, and financial holding companies which had a return on average common equity between 10.0% and 14.0%. In addition to the national, regional, and performance groups, Boenning also compared recent transactions that were announced after October 1, 2005. The financial and operating results of these comparisons are set forth in the following table.

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	Orrstown/ First National	National Median	Regional Median	Performance Median	Recent Median
Number of Transactions	N/A	45	4	7	7
Seller Information:					
Assets	\$ 123.2	\$ 141.8	\$ 119.1	\$ 147.1	\$ 143.7
Common Equity Capital / Assets	11.0%	9.4%	9.9%	10.0%	9.4%
LTM ¹ Return on Average Assets	1.30%	0.91%	0.22%	1.05%	1.06%
LTM ¹ Return on Average Common Equity	12.06%	8.97%	2.47%	11.12%	7.81%
NPA ² / Assets	0.37%	0.36%	0.56%	0.35%	0.34%

¹ LTM stands for latest twelve months.

² Defined as total nonaccrual loans and other real estate owned.

Boenning also compared the ratios that the implied transaction value represented to First National's book value, tangible book value, net income, deposits, and assets (based on Orrstown's closing market price of \$35.50 as of November 17, 2005) to the median transaction ratio results derived from the comparable transaction peer groups. In addition, Boenning applied the peer groups' transaction ratio results to First National's book value per share, tangible book value per share, earnings per share, deposits per share and assets per share. This was performed in order to compare, on a per share basis, the implied transaction value of \$84.33 (based on Orrstown's closing market price of \$35.50 as of November 17, 2005) to the comparable transaction peer groups. The results of these comparisons are set forth in the following table.

	Orrstown/ First National	National Median	Regional Median	Performance Median	Recent Median
Transaction Value to Book Value	248.2%	225.4%	211.1%	258.9%	187.1%
Tangible Book Value	248.2%	240.3%	211.1%	258.9%	187.1%
LTM ¹ EPS	20.9x	23.8x	33.6x	22.7x	23.8x
Deposits	31.8%	25.3%	21.8%	24.4%	22.3%
Assets	27.4%	22.3%	19.7%	22.2%	19.9%
Implied Per Share Values Based on Ratios Above:					
Book Value	\$ 84.33	\$ 76.56	\$ 71.71	\$ 87.97	\$ 63.55
Tangible Book Value	84.33	81.65	71.71	87.97	63.55
LTM ¹ EPS	84.33	95.98	135.47	91.52	95.97
Deposits	84.33	67.08	57.68	64.59	59.15
Assets	84.33	68.63	60.67	68.45	61.23

¹ LTM stands for latest twelve months.

² Defined as total nonaccrual loans and other real estate owned.

No company or transaction, however, used in this analysis is identical to First National, Orrstown or the transaction. Accordingly, an analysis of the result of the foregoing is not mathematical; rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies and other factors that would affect the public trading values of the companies or company to which they are being compared.

Contribution Analysis. Boenning analyzed the contribution that First National and Orrstown would have made to the combined company's assets, loans, deposits and equity as of September 30, 2005. In addition, Boenning analyzed the contribution First National and Orrstown would have

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made to the combined company's estimated net income for the projected first full year of combined operations. This analysis was conducted in order to compare the amount of these categories First National is contributing to the pro forma entity versus the proportionate amount of value its shareholders are receiving. Boenning has not expressed any opinion as to the actual value of Orrstown common stock when issued in the merger or the price at which Orrstown common stock

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will trade after the merger. The analysis indicated the following information as September 30, 2005 and the first full projected year of combined operations:

	<u>Orrstown</u>	<u>First National</u>
Contribution of:		
Assets	83%	17%
Common Equity	80%	20%
Loans	86%	14%
Deposits	81%	19%
Net Income ¹	88%	12%
Market Value ²	86%	14%

¹ Reflects estimated results prior to any potential synergies.

² Market value consists of total cash consideration and the implied value of stock consideration to be received by First National based on Orrstown's closing price on November 17, 2005.

Hurdle Rate Analysis. Using a range of discount rates and a range of terminal price to earnings per common share multiples, Boenning estimated a range of compound annual earnings per common share growth rates required over a five year period for First National to obtain an implied per common share standalone market price comparable to the value implied by the merger consideration offered by Orrstown on a present value basis. This analysis was performed in order to examine the required earnings per common share growth rates that would be required to offer shareholders similar value to that implied by the merger consideration. Boenning calculated a range of future values of the per common share implied value of the Orrstown transaction over a five-year period based on a range of discount rates from 5.0% to 15.0%. The range of discount rates reflected the expected rate of return required by holders or prospective buyers of First National common stock. Using a range of price to earnings per common share multiples of 12.5x to 17.5x to reflect the growth and profitability prospects of First National as well as general market valuations for comparable banking companies, Boenning calculated First National's potential earnings per common share at the end of five years by dividing the price to

common earnings per share multiples into the range of future values. The annual growth rate was

calculated based on the potential earnings per common share values at the end of five years and First National's fully diluted earnings per common share value of \$4.03 for the twelve months ended September 30, 2005. Boenning then compared the resulting earnings growth rates with First National's historical and estimated future earnings per common share growth rates.

In connection with the hurdle rate analysis performed, Boenning considered and discussed with First National's board how the analysis would be affected by changes in the underlying assumptions, including variations with respect to the range of discount rates and price per common share earnings multiples used. The table below summarizes the results under different assumption scenarios.

<u>Terminal Multiple</u>	<u>Discount Rate</u>		
	<u>5.0%</u>	<u>12.2%</u>	<u>15.0%</u>
12.5x	18.3%	25.9%	28.8%
13.5x	16.5%	23.9%	26.9%
15.0x	14.1%	21.4%	24.2%
16.5x	11.9%	19.1%	21.9%
17.5x	10.6%	17.7%	20.4%

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In connection with rendering its November Opinion and Proxy Opinion, Boenning performed what it deemed were the material financial analyses. Although the evaluation of the fairness, from a financial point of view, of the merger consideration in the Merger was to some extent a subjective one based on the experience and judgment of Boenning and not merely the result of mathematical analysis of financial data, Boenning principally relied on the previously discussed financial valuation methodologies in its determinations. Boenning believes its

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analyses must be considered as a whole and that selecting portions of such analyses and factors considered by Boenning without considering all such analyses and factors could create an incomplete view of the process underlying Boenning's opinion. In its analyses, Boenning made numerous assumptions with respect to business, market, monetary and economic conditions, industry performance and other matters, many of which are beyond First National's and Orrstown's control. Any estimates contained in Boenning's analyses are not necessarily indicative of future results or values, which may be significantly more or less favorable than such estimates.

In reaching its opinion as to fairness, none of the analyses or factors considered by Boenning was assigned any particular weighting by Boenning. As a result of its consideration of the aggregate of all factors present and analyses performed, Boenning reached the conclusion, and opined, that the merger consideration pursuant to the merger agreement was fair to the shareholders of First National from a financial point of view.

Boenning's Proxy Opinion was based solely upon the information available to it and the economic, market and other circumstances as they existed as of the date its Proxy Opinion was delivered; events occurring after the date of its Proxy Opinion could materially affect the assumptions used in preparing its Proxy Opinion. Boenning has not undertaken to reaffirm and revise its Proxy Opinion or otherwise comment upon any events occurring after the date of the Proxy Opinion.

The full text of the Boenning Proxy Opinion, dated as of _____, 2006 which sets forth assumptions made and matters considered, is attached as Annex B to this document. First National's shareholders are urged to read the Proxy Opinion in its entirety. Boenning's Proxy Opinion is directed only to the merger consideration pursuant to the reorganization agreement from a financial point of view, is for the information of the board of directors of First National, and does not address any other aspect of the merger nor does it constitute a recommendation to any holder of First National common stock as to how such holder should vote at the First National special shareholders' meeting.

The foregoing provides only a summary of the analyses performed in the Proxy Opinion of Boenning and is qualified in its entirety by reference to the full text of that opinion, which is set forth in Annex B to this document.

Compensation of Boenning & Scattergood

First National and Boenning entered into an agreement relating to the services to be provided by Boenning in connection with the merger. First National agreed to pay Boenning a fee of \$5,000 upon execution of the engagement agreement. In addition, First National agreed to pay Boenning a fee equal to \$45,000 for rendering its November Opinion and Proxy Opinion. Pursuant to the Boenning engagement agreement, as amended, First National also agreed to reimburse Boenning for reasonable out-of-pocket expenses incurred in connection with its retention and to indemnify it against certain liabilities.

Reasons For The Transaction: Orrstown's Board of Directors

Orrstown's acquisition strategy consists of identifying financial institutions with business philosophies similar to those of Orrstown, which operate in markets that are geographically compatible with Orrstown's operations and which can be acquired at an acceptable cost.

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In connection with its approval of the transaction with First National, Orrstown's board of directors reviewed the terms of the proposed reorganization agreement and its potential impact on Orrstown. In reaching its decision to approve the reorganization agreement, Orrstown's board of directors, with the assistance of management and Orrstown's advisors, considered the following factors:

The acquisition of First National represents an attractive opportunity for Orrstown to expand the geographic market area currently served by Orrstown Bank in Cumberland and Franklin Counties, Pennsylvania, into the contiguous market of Perry County.

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Its familiarity with First National's management team and employees, particularly its President, Peter C. Zimmerman, who have the leadership and talent to ensure the continuation of Orrstown's tradition of strong performance community offices.

First National's customer service-oriented emphasis with local decision-making ability and a clear focus on the community, which are consistent with Orrstown's business approach.

Its understanding of the business, operations, financial condition, earnings and prospects of each of Orrstown and First National.

Its understanding of the historical and current pro forma financial performance and condition, business operations, capital levels and asset quality of First National.

A review of comparable transactions, including a comparison of the price being paid in the transaction with the prices paid in other comparable financial institution acquisitions, expressed as, among other things, multiples of book value and earnings.

Its understanding that the transaction should be accretive to Orrstown's earnings within a year.

Perceived opportunities to increase the combined company's commercial lending, and to reduce the combined company's operating expenses, following the transaction.

The structure of the merger consideration and the financial and other terms of the transaction, including the fixed stock and fixed cash components.

Its understanding of the likelihood that the regulatory approvals needed to complete the transaction would be obtained.

Its review of the terms of the reorganization agreement with Orrstown's legal advisors.

This discussion of factors considered by Orrstown's board of directors is not intended to be exhaustive, but includes all material factors considered. In approving the reorganization agreement and related transactions, Orrstown's board did not specifically identify any one factor or group of factors as being more significant than any other factor in the decision making process. Rather, Orrstown's board of directors based its decision on the totality of information presented to it. In addition, individual members of the Orrstown board may have given differing weight or priority to different factors.

Orrstown's board of directors also considered potential risks associated with the transaction, including (1) the challenges of integrating First National's businesses, operations and workforce with those of Orrstown, (2) the conversion of First National's systems into Orrstown's systems, (3) the need to obtain First National shareholder and regulatory approval in order to complete the transaction, (4) the risks associated with achieving anticipated cost savings, potential revenue enhancements and other potential financial benefits as well as with maintaining reorganization, integration and restructuring expenses at anticipated levels, and (5) the risk that the final purchase price allocation based on the fair value of acquired assets at acquisition date and related adjustments to yield and/or amortization schedules of acquired assets and liabilities may be materially different than those assumed.

The foregoing discussion contains a number of forward-looking statements that reflect the current views of Orrstown with respect to future events that may have an effect on its future financial performance. Forward-looking statements are subject to risks and uncertainties. Actual

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results and outcomes may differ materially from the results and outcomes discussed in the forward-looking statements. Cautionary statements that identify important factors that could cause or contribute to differences in results and outcomes include those discussed under the section entitled "A Caution About Forward-Looking Information" on page 17 of this document. For more information on the factors that could affect actual results, see "Risk Factors" beginning on page 14.

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Effects Of The Merger

Upon completion of the transaction, First National will be merged with and into an interim national bank organized by Orrstown in order to facilitate the acquisition of First National and the separate legal existence of First National will cease. All property, rights, powers, duties, obligations, debts and liabilities of First National will automatically be deemed transferred to the interim bank, as the surviving institution in the merger. The interim bank will change its name to The First National Bank of Newport and will operate as a separate wholly-owned bank subsidiary of Orrstown, managed under the direction of the current First National board of directors, with the addition of Kenneth R. Shoemaker, President of Orrstown.

What You Will Receive

Each share of First National common stock that you hold at the time of the merger will automatically be converted into the right to receive 1.75 shares of Orrstown common stock and \$22.20 in cash. The reorganization agreement does not provide for any adjustment in the common stock exchange ratio or the cash consideration. Cash will also be paid in lieu of issuing any Orrstown fractional shares in an amount equal to the product of the fractional share amount multiplied by the average daily high bid and low offer quotations for Orrstown common stock over the 60 trading days ending on and including the fifth trading day prior to completion of the merger. First National shareholders who have properly exercised dissenters' rights under the National Bank Act will have the right to receive the consideration provided by law.

Effective Date

The merger transaction will take effect when all conditions, including obtaining shareholder and regulatory approval, have been satisfied or waived, or as soon as practicable thereafter as Orrstown and First National may mutually select. Regulatory approval cannot be waived. We presently expect closing on the transaction to occur during the second quarter of 2006. See The Transaction Conditions to the Merger and The Transaction Regulatory Approvals, beginning on pages 40 and 41, respectively.

Rights of Dissenting Shareholders

Under Section 215a of the National Bank Act in Title 12 of the United States Code, any First National shareholder has the right to dissent from the merger and to receive payment for the fair value of all of his, her or its shares, determined as provided below, if the merger is completed.

The discussion below describes the steps that you must take if you want to exercise your dissenters' rights. You must take each step in the indicated order and in strict compliance with Section 215a in order to keep your dissenters' rights. If you fail to follow these steps, you will lose your dissenters' rights and you will receive the same consideration for each of your shares of First National common stock as the First National shareholders who do not exercise dissenters' rights. **Therefore, if you are contemplating exercising your dissenters' rights, we urge you to read carefully the provisions of Section 215a, a copy of which is attached to this document and prospectus as Annex C. This summary is qualified in its entirety by the full text of Annex C.**

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If you wish to dissent, you must:

vote all of your shares of First National common stock against the merger; OR deliver to First National, prior to or at the meeting at which the vote on the reorganization agreement is taken, a written notice that you dissent from the merger; and

if the merger is completed, deliver to Orrstown, at any time prior to 30 days after the completion of the merger, a written request for the payment of the fair value of your shares, accompanied by the surrender of your stock certificate(s).

In order to be entitled to exercise dissenters' rights, you must vote AGAINST the merger or give notice in writing at or prior to the special meeting that you dissent. Thus, if you execute and return a proxy card you must

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specify that your shares are to be voted **AGAINST** the merger. If you return a signed proxy card without voting instructions or with instructions to vote **FOR** approval of the reorganization agreement and the merger, your shares will automatically be voted in favor of the reorganization agreement and the merger and you will lose any dissenters' rights, unless you revoke your proxy as described elsewhere in this document. Failure to vote against the merger will not constitute a waiver of dissenters' rights if you give notice in writing at or prior to the special meeting that you dissent. Finally, if you wish to dissent, you must dissent as to all of the shares of First National common stock that you own.

Any filing of a written notice of intent to dissent with respect to the proposed merger should be sent to: Jane L. Timothy, Secretary, The First National Bank of Newport, Center Square, Newport, PA 17074. Any written request for payment of the value of your shares should be sent to: Bradley S. Everly, Chief Financial Officer, Orrstown Financial Services, Inc., 77 East King Street, Shippensburg, PA 17257.

A vote against the reorganization agreement and the merger or written notice of your dissent prior to the merger will not, by itself, satisfy the requirements of Section 215a. If you wish to dissent from the proposed merger, you must separately comply with each of the applicable steps listed above.

If the merger is completed, Orrstown will provide to each shareholder who timely submitted a written notice of dissent, or who voted against the merger at the annual meeting, a dissenters' notice that states the date of the completion of the merger, together with a letter of transmittal for use in submitting stock certificates to Orrstown for payment.

For the purpose of determining the amount to be received in connection with the exercise of dissenters' rights, Section 215a provides that the value of a dissenting First National shareholder's common stock must be determined as of the effective date of the merger by an appraisal made by a committee of three persons. The members of this committee will consist of:

one person selected by the holders of a majority of the shares of First National common stock held by the dissenting shareholders;

one person selected by the board of directors of Orrstown; and

one person selected by the other two appraisers.

The valuation agreed upon by two of the three appraisers will govern. If the appraised value presented by the committee of appraisers is not satisfactory to any dissenting shareholder who has requested payment, that shareholder may appeal the appraisal to the Office of the Comptroller of the Currency within five days after notification of the appraised value. The Office of the Comptroller of the Currency will then conduct a reappraisal, and that reappraisal will be final and binding as to that shareholder. If, within ninety days after completion of the merger, for any reason, one or more of the appraisers are not selected or the appraisers fail to determine the value of the shares, the Office of the Comptroller of the Currency will, upon the written request of any interested party, cause an appraisal to be made which will be the final appraisal and binding on all parties. The expenses of the Office of the Comptroller of the Currency in conducting an appraisal will be paid by Orrstown.

The value of the shares of First National common stock, as so determined, will be paid promptly to the dissenting shareholders.

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The shares of Orrstown stock that would have been delivered to the dissenting shareholder will be sold at an advertised public auction. If the shares are sold for a price greater than the amount paid to the dissenting shareholder, the excess of such sale price shall be paid to the dissenting shareholder.

Any First National shareholder wishing to exercise dissenters' rights is urged to consult legal counsel before attempting to exercise such rights. Failure to comply strictly with all of the procedures set forth in Section 215a may result in the loss of statutory dissenters' rights.

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Representations and Warranties

The reorganization agreement contains customary representations and warranties relating to, among other things:

Organization of Orrstown and First National.

Capital structures of Orrstown and First National.

Due authorization, execution, delivery, performance and enforceability of the reorganization agreement.

Consents or approvals of regulatory authorities or third parties necessary to complete the merger.

Consistency of financial statements with accounting principles generally accepted in the United States.

Absence of material adverse changes, since September 30, 2005, in the assets, financial condition, results of operations, or prospects of First National and Orrstown.

Filing of tax returns and payment of taxes.

Absence of undisclosed material pending or threatened litigation.

Compliance with applicable laws and regulations.

Retirement and other employee plans and matters relating to the Employee Retirement Income Security Act of 1974.

Quality of title to assets and properties.

Maintenance of adequate insurance.

Absence of undisclosed brokers or finders fees.

Absence of material environmental violations, actions or liabilities.

Accuracy of information supplied by Orrstown and First National for inclusion in the registration statement, filed under the Securities Act of 1933, in connection with the issuance of Orrstown common stock in the merger, this document, and all applications filed with

regulatory authorities for approval of the merger.

Documents filed by Orrstown with the Securities and Exchange Commission and the accuracy of information contained therein.

Validity and binding nature of loans reflected as assets in the financial statements of First National.

Conduct of Business Pending the Merger Transaction

In the reorganization agreement, we each agreed to use our reasonable good faith efforts to preserve our business organizations intact, to maintain good relationships with employees, and to preserve the goodwill of customers and others with whom we do business.

In addition, First National agreed to conduct its business and to engage in transactions only in the ordinary course of business, consistent with past practice, except as otherwise required or permitted by the reorganization agreement or consented to by Orrstown. First National also agreed in the reorganization agreement that it will not, without the written consent of Orrstown:

Change its articles of association or bylaws.

Change the number of authorized or issued shares of its capital stock; repurchase any shares of its capital stock; redeem or otherwise acquire any shares of its capital stock; or issue or grant options or similar rights with respect to its capital stock or any securities convertible into its capital stock.

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Declare, set aside or pay any dividend or other distribution in respect of its capital stock except as otherwise specifically set forth in the reorganization agreement (See The Transaction Dividends on page 40).

Grant any severance or termination pay, except in accordance with policies or agreements in effect on November 21, 2005; or enter into or amend any employment, consulting, severance, change-in-control or termination contract or arrangement.

Grant any job promotions except in accordance with past practice.

Grant any pay increase or pay any bonus except for: (1) routine periodic increases, merit pay increases and pay raises in connection with promotions, all in accordance with past practice, provided that the pay increases and raises shall not exceed 4.5% of the total First National salary expense for 2005; (2) annual bonuses and discretionary cash awards in the ordinary course, determined consistently with past practice and not to exceed \$75,700; and (3) other discretionary bonuses and discretionary contributions to First National benefit plans as mutually agreed by Orrstown and First National.

Sell or lease all or any substantial portion of the assets or business of First National, enter into any acquisition, purchase and assumption transaction or any similar transaction.

Dispose of or encumber any assets or incur any debt having a book or market value (whichever is greater) in excess of \$50,000, unless permitted by the reorganization agreement.

Take any action that would result in any condition to closing not being satisfied, except as may be required by applicable law.

Waive, release, grant or transfer any rights of material value, or modify or change in any material respect any existing material agreement to which First National is a party, other than in the ordinary course of business, consistent with past practice.

Change any accounting methods, principles or practices, except as may be required by accounting principles generally accepted in the United States.

Implement any new employee benefit or welfare plan, or amend any plans, except as required by law.

Amend or otherwise modify its underwriting and other lending guidelines and policies or otherwise fail to conduct its lending activities in the ordinary course of business consistent with past practice.

Enter into, renew, extend or modify any transaction with any affiliate of First National, other than deposit and loan transactions in the ordinary course of business and which comply with applicable laws and regulations.

Enter into any interest rate swap, floor or cap or similar arrangement.

Take any action that would give rise to a right of payment to any person under any employment agreement, except for contractually required compensation.

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Purchase any security for its investment portfolio not rated A or higher by either Standard & Poor's Corporation or Moody's Investor Services, Inc.

Make any new loan or credit facility commitment to any borrower in excess of \$1,000,000 in the aggregate, or compromise, extend, renew or modify any such loan or commitment outstanding in excess of \$1,000,000.

Except as already disclosed to Orrstown, make any capital expenditure of \$25,000 or more or undertake or enter into any lease, contract or other commitment, involving a payment by First National of more than \$50,000 annually.

Agree to do any of the foregoing.

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First National also agreed in the reorganization agreement, among other things:

To permit Orrstown, if Orrstown elects to do so at its own expense, to cause a phase I environmental audit to be performed at any physical site owned or occupied by First National.

To submit the reorganization agreement and merger to its shareholders for approval at a meeting to be held as soon as practicable, with an approval recommendation by its board of directors.

To permit a representative of Orrstown reasonably acceptable to First National to attend committee meetings of the management of First National.

To modify or change its accrual and reserve policies and practices as may be necessary to conform the accounting reserve practices and methods of First National to those of Orrstown.

We jointly agreed, among other things:

To prepare all applications, registration statements and other documents necessary to obtain all required regulatory approvals.

Subject to the terms of the reorganization agreement, to take all actions necessary to complete the transactions contemplated by the reorganization agreement.

To maintain adequate insurance.

To maintain accurate books and records.

To file all tax returns and pay all taxes when due.

To deliver to each other monthly and quarterly financial statements.

To deliver to each other all documents that may be filed with the SEC under the Securities Exchange Act of 1934 or with banking or regulatory authorities.

To agree upon the form and substance of any press release or public disclosure related to the proposed merger.

No Solicitation of Other Transactions

First National has agreed that it will not, and will not allow others under its control to, directly or indirectly:

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Initiate, solicit, encourage or take any other action to facilitate, any inquiries relating to, or the making of any acquisition proposal by a third party that relates to a merger, consolidation or acquisition of First National, acquisition of all or substantially all of the assets of First National or acquisition of ownership or voting power over 5% or more of the outstanding common stock of First National or any of its subsidiaries;

Enter into or maintain or continue discussions or negotiate with a third party regarding any acquisition proposal or inquiry described above; or

Agree to or endorse any acquisition proposal or inquiry described above;

provided that the First National board is not be prohibited from reviewing and considering any unsolicited proposal or discussing the terms and negotiating with the person making an unsolicited proposal if it has determined in its good faith judgment, after receipt of written advice from its legal counsel, that failure to do so would violate the First National directors' fiduciary duties. First National has also agreed to notify Orrstown promptly if any acquisition proposal or inquiry described above is received by First National from any third party.

For a discussion of circumstances under which certain actions relating to a possible change in control involving First National could result in First National being required to pay to Orrstown a termination fee of \$1,500,000, see "The Transaction Termination Fee," on page 43.

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Dividends

The reorganization agreement permits First National to pay a regular quarterly cash dividend in an amount not to exceed \$.45 per share of First National common stock outstanding in the ordinary course of business and consistent with past practice. Orrstown expects that after completion of the merger, subject to approval and declaration by its board, it will continue to declare regular quarterly cash dividends on the shares of its common stock consistent with past practices. Orrstown has also agreed that, subject to future earnings, financial condition and capital needs of Orrstown and its subsidiaries and applicable regulatory restrictions, it shall, on or before March 31, 2006, amend Orrstown's dividend payout policy to increase the annual cash dividend rate from \$.60 per share to \$.80 per share of Orrstown common stock.

Conditions to the Merger

Our obligations to complete the transaction are subject to various conditions, including the following:

The reorganization agreement and merger shall have been duly approved by the First National shareholders.

All necessary governmental approvals for the merger transaction shall have been obtained, and all waiting periods required by law or imposed by any governmental authority with respect to the merger shall have expired. See The Transaction Regulatory Approvals, at page 41.

There shall not be any order, decree, or injunction in effect preventing the completion of the transactions contemplated by the reorganization agreement.

We shall each have received the opinion of Rhoads & Sinon LLP that, among other things, the merger will be treated for federal income tax purposes as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986 and any gain realized in the merger will be recognized only to the extent of cash or other property (other than Orrstown common stock) received, including cash received in lieu of fractional share interests. See The Transaction Material Federal Income Tax Consequences, at page 47.

No materially adverse change shall have occurred in the assets, in business, financial condition or results of operation of First National or Orrstown.

In addition to the foregoing, our obligations to complete the transaction are each conditioned on:

The accuracy in all material respects, as of November 21, 2005, and as of the effective date of the merger, of the representations and warranties of the other party, except as to any representation or warranty that specially relates to an earlier date and except as otherwise contemplated by the reorganization agreement.

The other party's performance in all material respects of all covenants and obligations required to be performed by it at or prior to the effective date of the merger.

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The execution of employment agreements by Orrstown and the surviving bank subsidiary with each of Peter C. Zimmerman and Michael D. Amsler. See [The Transaction Interest of Management and Others in the Merger-Executive Employment Agreements](#) at page 45.

Other conditions that are customary for transactions of the type contemplated by the reorganization agreement. See [The Transaction Representations and Warranties](#) at page 37 and [The Transaction Conduct of Business Pending the Merger Transaction](#) at page 37.

Except for the requirements of First National shareholder approval, regulatory approvals and the absence of any order, decree, or injunction preventing the transactions contemplated by the reorganization agreement, we each may waive each of the conditions described above in the manner and to the extent described in [The Transaction Amendment; Waiver](#), at page 42.

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Regulatory Approvals

Completion of the merger and reorganization transactions is subject to the prior receipt of all consents or approvals of, and the provision of all notices to federal and state authorities required to complete the acquisition of First National by Orrstown, and the expiration of all applicable waiting periods.

Orrstown and First National have agreed to use their reasonable best efforts to obtain all regulatory approvals required to complete the transaction. These approvals include approval from the Board of Governors of the Federal Reserve System (the Federal Reserve Board), the Office of the Comptroller of the Currency (the OCC) and the Pennsylvania Department of Banking. The transaction cannot proceed in the absence of these required regulatory approvals.

Federal Reserve Board. The acquisition of a bank by a bank holding company requires the prior approval of the Federal Reserve Board under the Bank Holding Company Act, or receipt from the Federal Reserve Board of a waiver of this approval. Under the Bank Holding Company Act, the Federal Reserve Board generally may not approve any proposed transaction:

That would result in a monopoly or that would further a combination or conspiracy to monopolize banking in the United States; or

That could substantially lessen competition in any section of the country, that would tend to create a monopoly in any section of the country, or that would be in restraint of trade, unless the Federal Reserve Board finds that the public interest in meeting the convenience and needs of the communities served outweighs the anti-competitive effects of the proposed transaction.

The Federal Reserve Board is also required to consider the financial and managerial resources and future prospects of Orrstown and its subsidiary bank and First National and the convenience and needs of the communities to be served. Under the Community Reinvestment Act of 1977, the Federal Reserve Board also must take into account the record of performance of Orrstown and First National in meeting the credit needs of their communities, including low and moderate-income neighborhoods. In addition, the Federal Reserve Board must take into account the effectiveness of Orrstown and First National in combating money laundering activities.

Applicable regulations require publication of notice of an application for approval of the merger and an opportunity for the public to comment on the application in writing and to request a hearing. Any transaction approved by the Federal Reserve Board generally may not be completed until 30 days after such approval, during which time the U.S. Department of Justice may challenge such transaction on antitrust grounds and seek divestiture of certain assets and liabilities. With the approval of the Federal Reserve Board and the U.S. Department of Justice, the waiting period may be reduced to 15 days.

Comptroller of the Currency. Orrstown must file an application with the OCC to approve the establishment by Orrstown of a wholly-owned interim bank subsidiary and the merger of First National into the interim bank subsidiary pursuant to the Bank Merger Act. In evaluating an application under the Bank Merger Act, the OCC will review the merger of First National according to standards and criteria as the Federal Reserve Board as described above.

Pennsylvania Department of Banking. The transaction also is subject to the prior approval of the Pennsylvania Department of Banking under Section 115 of the Pennsylvania Banking Code. In determining whether to approve the transaction, the Pennsylvania Department of Banking

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will consider, among other things, whether the purposes and probable effects of the transaction would be consistent with the purposes of the Pennsylvania Banking Code and whether the transaction would be prejudicial to the interests of the depositors, creditors, beneficiaries of fiduciary accounts or shareholders of the institutions involved.

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Applications. Orrstown and First National have filed the necessary applications with the Federal Reserve Board, the OCC and the Pennsylvania Department of Banking, requesting approval of the transaction. The applications describe the terms of the transaction, the parties involved, and the activities to be conducted by the combined companies as a result of the transaction, and contain certain related financial and managerial information. Copies of the applications will be provided to the U.S. Department of Justice and other governmental agencies.

We are not aware of any material governmental approvals or actions that are required to complete the merger, except as described above. If any other approval or action is required, we will use our best efforts to obtain such approval or action.

Amendment; Waiver

Subject to applicable law, at any time prior to completion of the transaction, we may:

Amend the reorganization agreement, except that after approval by First National shareholders at the special meeting, the consideration you will receive in the merger cannot be decreased.

Extend the time for the performance of any of the obligations or other acts of the other party required in the reorganization agreement.

Waive any inaccuracies in the representations and warranties of the other party contained in the reorganization agreement.

Waive compliance by the other party with any of the agreements or conditions contained in the reorganization agreement, except for the requirements of First National shareholder approval, regulatory approvals and the absence of any order, decree, or injunction preventing the transactions contemplated by the reorganization agreement.

Termination

The reorganization agreement may be terminated at any time prior to the effective date of the merger by our mutual consent. The reorganization agreement may also be terminated by either party if:

The other party, in any material respect, breaches any representation, warranty, covenant or other obligation contained in the reorganization agreement, and the breach remains uncured 30 days after written notice of the breach is given to the breaching party;

The closing of the merger does not occur by September 30, 2006, unless this is due to the failure of the party seeking to terminate the reorganization agreement to perform or observe any agreements required to be performed by it before closing;

Any regulatory authority whose approval or consent is required for completion of the merger issues a definitive written denial of the approval or consent and the time period for appeals or requests for reconsideration has expired; or

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First National shareholders do not approve the reorganization agreement at the special meeting.

Orrstown may terminate the reorganization agreement if First National enters into a term sheet, letter of intent or agreement to merge with someone else. However, First National may terminate the reorganization agreement if it enters into a term sheet, letter of intent or agreement to merge after receiving written advice of counsel that failure to do so would breach the fiduciary duty of the First National board of directors.

Orrstown may also terminate the reorganization agreement if First National withdraws, changes or modifies its recommendation to its shareholders to approve the reorganization agreement and the merger.

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Termination Fee

First National has agreed to pay a fee of \$1,500,000 to Orrstown if First National fails to complete the merger and Orrstown is not in material breach of the reorganization agreement after the occurrence of any one of the following events:

A group or person acquires beneficial ownership of 10% or more of the outstanding common stock of First National; or

First National enters into a written agreement or understanding to merge or consolidate, to have 10% or more of its ownership or voting power acquired in the future, or to have all or substantially all of its assets or liabilities acquired; or

First National authorizes, recommends or publicly proposes, or announces an intention to authorize, any of the foregoing transactions; or

First National shareholders fail to approve the merger or the special meeting is canceled after:

The First National board of directors has withdrawn or modified its recommendation to shareholders to approve the merger and the reorganization agreement;

Another group or person has announced an offer or proposal to acquire 10% or more of the outstanding common stock of First National or to merge or consolidate with First National or to acquire all or substantially all of First National's assets and within 24 months thereafter enters into an agreement with the group or person for such a transaction;

Any one or more directors or officers of First National or other persons who have signed a voting agreement with Orrstown relating to the ownership of First National common stock over which the director, officer or other person has voting power fails to maintain continued ownership of all the shares, in accordance with the voting agreement; or

Any director or officer of First National or other person, who has signed a voting agreement with Orrstown relating to voting of First National common stock over which the director, officer or other person has voting power, fails to vote all the shares subject to the voting agreement for the merger. See "The Transaction" Voting Agreements, beginning at page 46.

Expenses

Orrstown and First National will each pay its respective costs and expenses incurred in connection with the transactions contemplated by the reorganization agreement, including fees and expenses of financial consultants, accountants and legal counsel.

Management and Operations After the Transaction

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As a result of the transaction, First National will be merged into an interim bank organized by Orrstown to facilitate the acquisition. The surviving bank will change its name to The First National Bank of Newport and operate as a wholly-owned national bank subsidiary of Orrstown. Orrstown has agreed that the surviving bank will continue to operate as a separate subsidiary under the name The First National Bank of Newport name for not less than three years. Following the merger, First National's board of directors will consist of the current members of the board of First National with the addition of Kenneth R. Shoemaker, the current President and Chief Executive Officer of Orrstown. Further, following the merger, Peter C. Zimmerman, First National's current President and Chief Executive Officer, will continue as the President and Chief Executive Officer of First National. Michael D. Amsler, currently Senior Vice President and Senior Lending Officer of First National, will continue to serve in this position following completion of the merger. See The Transaction Interests of Management and Others in the Merger Executive Employment Agreements, on page 45 and the employment agreements, attached to this document as Exhibit 5 and Exhibit 6 to the reorganization agreement, included as Annex A. Upon completion of the transaction, Orrstown has also agreed that Peter C. Zimmerman will serve as an Orrstown holding company director.

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Employment; Severance

Following the transaction, Orrstown is not obligated to continue the employment of any First National employee (other than those with employment agreements with Orrstown or First National). As a result of the transaction, some First National positions, primarily back office, support, processing and other operational activities and services, may be eliminated. Each First National employee who is involuntarily terminated within one year following the effective date of the merger, other than for cause, or who voluntarily terminates his or her employment after being offered a position that is not a position of substantially similar job description or responsibility at substantially the same salary level that is within 60 miles of the employee's then current work location with First National, will be eligible to receive severance payments equal to 2 weeks pay for each full year of continuous service, with a minimum severance benefit of 4 weeks pay and a maximum of 26 weeks pay. No First National employee who will receive any payments or benefits pursuant to any agreement, employment agreement or similar plan or right will be eligible to receive severance benefits.

Employee Benefits

The reorganization agreement provides that each First National employee who becomes an employee of Orrstown or any Orrstown subsidiary at the effective date of the merger is entitled to full credit for each year of service with First National for purposes of determining eligibility for participation and vesting, but not for benefit accrual, in the Orrstown or Orrstown subsidiary's employee benefit plans, programs and policies. After the effective date of the merger, Orrstown may, at its discretion, maintain, discontinue or amend any First National benefit plan, subject to the plan's provisions and applicable law.

Interests of Management and Others in the Transaction

Share Ownership

As of _____, 2006, the record date for the special meeting of First National shareholders, the directors and executive officers of First National may be deemed to be the beneficial owners of _____ shares, representing _____ % of the outstanding shares of First National common stock. See Information About First National Security Ownership by Certain Beneficial Owners and Management of First National, on page 63.

Indemnification and Insurance

Orrstown has agreed for six years after the merger's effective date to indemnify the directors and officers of First National against all costs, expenses (including reasonable attorneys' fees), judgments, fines, losses, claims, damages or liabilities arising out of actions or omissions occurring prior to the merger's effective date, including the transactions contemplated by the reorganization agreement prior to, at or after the merger's effective date, to the fullest extent permitted under First National's articles of association, bylaws, and applicable law.

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Orrstown has also agreed that for six years after the merger's effective date, Orrstown will, at its expense, maintain directors' and officers' liability insurance for the former directors and officers of First National with respect to matters occurring at or prior to the merger's effective date. The insurance coverage is to be at least equal to the coverage currently maintained by First National and is to contain terms and conditions that are no less favorable to the beneficiaries. Orrstown is not obligated to make annual premium payments that exceed (for the portion related to First National's directors and officers) 150% of the initial annual premiums for First National's policy maintained prior to the merger. If the annual premium payments exceed this amount, Orrstown will use its reasonable best efforts to obtain the most advantageous policy available up to this maximum amount.

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Executive Employment Agreements

Peter C. Zimmerman

Peter C. Zimmerman is presently employed by First National as its President and Chief Executive Officer. Such employment is not governed by any employment agreement and it is therefore currently at-will. Under the reorganization agreement, it is a condition to closing of the merger transaction that Mr. Zimmerman enter into an employment agreement with Orrstown and First National, as the re-named surviving bank, substantially in the form attached as Exhibit 5 to the reorganization agreement. Under the proposed form of employment agreement, Mr. Zimmerman will serve as President and Chief Executive Officer of First National for a term of one (1) year beginning on the effective date of the merger for a base salary of \$115,000. Mr. Zimmerman shall also be entitled to a stay bonus of \$10,000 if he continues to be employed by the bank on the date that is one year after the effective date of the merger. Mr. Zimmerman will also be entitled to participate in all benefit plans of First National applicable to officers of similar rank, including those providing retirement benefits, medical insurance, life insurance or disability insurance. Mr. Zimmerman shall also be entitled to other benefits and perquisites in accordance with bank policy, including paid time off and reimbursement of certain business expenses.

If Mr. Zimmerman's employment under the proposed agreement is terminated by the bank other than for cause, the bank shall pay to Mr. Zimmerman the stay bonus and the balance of the base salary and benefits he would have received during the one-year term if his employment had not been terminated. The employment agreement also provides that for a period of one year after Mr. Zimmerman's termination, he will not solicit customers or employees of the bank or any other Orrstown affiliate.

Michael D. Amsler

Michael D. Amsler is presently employed by First National as Senior Vice President and Senior Lending Officer. As with Mr. Zimmerman, Mr. Amsler's employment is not governed by any employment agreement and is therefore currently at-will. Also as with Mr. Zimmerman, it is a condition to closing of the merger transaction that Mr. Amsler enter into an employment agreement with Orrstown and First National, as the re-named surviving bank, substantially in the form attached as Exhibit 6 to the reorganization agreement. Under the proposed form of employment agreement, Mr. Amsler will serve as Senior Vice President and Senior Lending Officer of First National for a term of one (1) year beginning on the effective date of the merger, for a base salary of \$70,000. Mr. Amsler shall also be entitled to a stay bonus of \$7,500 if he continues to be employed by the bank on the date which is one year after the effective date of the merger. Mr. Amsler will also be entitled to participate in all benefit plans of First National applicable to officers of similar rank, including those providing retirement benefits, medical insurance, life insurance or disability insurance. Mr. Amsler shall also be entitled to other benefits and perquisites in accordance with bank policy, including paid time off and reimbursement of certain business expenses.

If Mr. Amsler's employment under the proposed agreement is terminated by the bank other than for cause, the bank shall pay to Mr. Amsler the stay bonus and the balance of the base salary and benefits he would have received during the one-year term if his employment had not been terminated. The employment agreement also provides that for a period of one year after his termination, he will not solicit customers or employees of the bank or any other Orrstown affiliate.

Board Positions and Compensation

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Upon completion of the merger, Peter C. Zimmerman, currently the President and Chief Executive Officer of First National, will be appointed as an Orrstown holding company director, but will not be entitled to compensation in such capacity separate from his compensation as President of the surviving bank.

In addition, following the merger, Orrstown has agreed that the current directors of First National shall continue as directors of the surviving bank for a period of not less than three years (subject to the individual s

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continuing qualification under First National's bylaws, including age limitations) and shall be entitled to receive as compensation for such service an annual fee of \$9,000, plus \$250 for each regular board meeting attended.

Voting Agreements

General

As a condition to Orrstown entering into the reorganization agreement, each of the directors and executive officers of First National entered into an agreement with Orrstown, dated as of November 21, 2005, pursuant to which each director and executive officer agreed to vote all shares of First National common stock which they own or over which they exercise voting control in favor of the reorganization agreement. As of the record date of _____, the director and executive officers of First National owned or exercised voting control over _____ shares of First National common stock, representing approximately _____ % of the shares of First National common stock outstanding on that date. A form of voting agreement, which is also called an affiliate letter, is Exhibit 1 to the reorganization agreement, which is attached to this document as Annex A.

Effect of Voting Agreements

The voting agreements, together with First National's agreement not to initiate, solicit or respond to inquiries relating to an acquisition transaction, may have the effect of discouraging persons from making a proposal for an acquisition transaction involving First National.

Terms of Voting Agreements

The following is a brief summary of the material provisions of the voting agreements.

Each director and executive officer of First National agreed, among other things, that at the special meeting, he will:

appear at such meeting or otherwise cause all shares of First National common stock he owns to be counted as present for purposes of determining a quorum; and

vote (or cause to be voted), in person or by proxy, all shares of First National common stock he owns or as to which he has, directly or indirectly, the right to direct the voting in favor of adoption and approval of the reorganization agreement and the merger transaction and against the approval or adoption of any other acquisition transaction with a party other than Orrstown.

Each director and executive officer also agreed not to, directly or indirectly, transfer or dispose of any of the shares of First National common stock he owns prior to the special meeting.

The voting agreements will remain in effect until the earlier of the effective time of the transaction or the termination of the reorganization agreement in accordance with its terms.

Each director and executive officer also agreed to certain restrictions on the offer, sale, transfer or disposition of shares of Orrstown common stock acquired in the transaction, which restrictions are intended to ensure compliance with applicable federal securities laws.

Accounting Treatment

Orrstown will account for the merger under the purchase method of accounting. Orrstown will record, at fair value, the acquired tangible and identifiable intangible assets and assumed liabilities of First National. To the extent that the total purchase price exceeds the fair value of the assets acquired and liabilities assumed, Orrstown will record the excess as goodwill. Under generally accepted accounting principles, goodwill is not amortized, but is assessed annually for impairment with any resulting impairment losses included in net income. Orrstown will include in its results of operations the results of First National's operations only after completion of the merger.

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Material Federal Income Tax Consequences

In the opinion of Rhoads & Sinon LLP, Orrstown's legal tax counsel, the following discussion addresses the material United States federal income tax consequences of the merger to a First National shareholder who holds shares of First National common stock as a capital asset. This discussion is based upon the Internal Revenue Code of 1986, as amended, which is referred to in this document as the Code, Treasury regulations promulgated under the Code, judicial authorities, published positions of the Internal Revenue Service and other applicable authorities, all as in effect on the date of this discussion and all of which are subject to change (possibly with retroactive effect) and to differing interpretations. This discussion does not address all aspects of United States federal income taxation that may be relevant to First National shareholders in light of their particular circumstances and does not address aspects of United States federal income taxation that may be applicable to First National shareholders subject to special treatment under the Code (including banks, tax-exempt organizations, insurance companies, dealers in securities, traders in securities that elect to use a mark-to-market method of accounting, investors in pass-through entities, First National shareholders who hold their shares of First National common stock as part of a hedge, straddle or conversion transaction, First National shareholders who acquired their shares as compensation, and First National shareholders who are not United States persons as defined in section 7701(a)(30) of the Code). In addition, this discussion does not address any aspect of state, local or foreign taxation. No assurance can be given that the IRS would not assert, or that a court would not sustain, a position contrary to any of the tax aspects set forth below.

First National shareholders are urged to consult their tax advisors with respect to the particular United States federal, state, local and foreign tax consequences of the merger to them.

The closing of the merger is conditioned upon the receipt by Orrstown and First National of the opinion of Rhoads & Sinon LLP, counsel to Orrstown, dated as of the effective date of the merger, substantially to the effect that, on the basis of facts, representations and assumptions set forth or referred to in that opinion (including factual representations contained in certificates of officers of First National and Orrstown) which are consistent with the state of facts existing as of the effective date of the merger:

The merger constitutes a reorganization under Section 368(a) of the Code; and

Any gain realized in the merger will be recognized as capital gain or ordinary income only to the extent of cash or other property (other than Orrstown common stock) received in the merger, including cash received in lieu of fractional share interests.

The tax opinion to be delivered in connection with the merger is not binding on the IRS or the courts, and neither First National nor Orrstown intends to request a ruling from the IRS with respect to the United States federal income tax consequences of the merger. Consequently, no assurance can be given that the IRS will not assert, or that a court would not sustain, a position contrary to any of those set forth below. In addition, if any of the facts, representations or assumptions upon which the opinion is based is inconsistent with the actual facts, the United States federal income tax consequences of the merger could be adversely affected.

Assuming that the merger will be treated as a reorganization within the meaning of Section 368(a) of the Code, the discussion below reflects the conclusions of Rhoads & Sinon LLP, in its opinion as to the material United States federal income tax consequences of the merger to First National shareholders.

A shareholder generally will recognize gain as capital gain or ordinary income (but not loss) in an amount equal to the lesser of (1) the amount of gain realized (i.e., the excess of the sum of the amount of cash and the fair market value of the Orrstown common stock received pursuant to the merger over such shareholder's adjusted tax basis in the shares of First National common stock surrendered) and (2) the amount of cash

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received pursuant to the merger. For this purpose, gain or loss must be calculated separately for each identifiable block of shares surrendered in the exchange, and loss realized on one block of shares may not be used to offset gain realized on another block of shares. Any recognized gain generally will be long-term capital gain if the First National shareholder's holding period with respect to the First National common stock surrendered is more than one year. If, however, the cash

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received has the effect of the distribution of a dividend, the cash received will be treated as a dividend to the extent of the First National shareholder's ratable share of accumulated earnings and profits as calculated for United States federal income tax purposes. See Possible treatment of cash as a dividend, below.

The aggregate tax basis of Orrstown common stock received by a First National shareholder pursuant to the transaction will be equal to the aggregate adjusted tax basis of the shares of First National common stock surrendered for Orrstown common stock, reduced by the amount of cash received by the First National shareholder pursuant to the merger, and increased by the amount of gain (including any portion of the gain that is treated as a dividend as described below), if any, recognized by the First National shareholder on the exchange. The holding period of the Orrstown common stock will include the holding period of the shares of First National common stock surrendered. If a First National shareholder has differing bases or holding periods in respect of his or her shares of First National common stock, such shareholder should consult his or her tax advisor prior to the exchange with regard to identifying the bases or holding periods of the particular shares of Orrstown common stock received in the exchange.

Possible treatment of cash as a dividend. In general, the determination of whether the gain recognized in the exchange will be treated as capital gain or has the effect of a distribution of a dividend depends upon whether and to what extent the exchange reduces the First National shareholder's deemed percentage stock ownership of Orrstown. For purposes of this determination, First National shareholders will be treated as if they first exchanged all of their shares of First National common stock solely for Orrstown common stock and then Orrstown immediately redeemed (the deemed redemption) a portion of the Orrstown common stock in exchange for the cash actually received. The gain recognized in the exchange followed by a deemed redemption will be treated as capital gain if (1) the deemed redemption is substantially disproportionate with respect to the First National shareholder (and the shareholder actually or constructively owns after the deemed redemption less than 50% of voting power of the outstanding Orrstown common stock) or (2) the deemed redemption is not essentially equivalent to a dividend. Gain recognized will also be capital gain to the extent the recognized gain exceeds the shareholder's ratable share of First National accumulated earnings and profits.

The deemed redemption generally will be substantially disproportionate with respect to a First National shareholder if the percentage described in (2) below is less than 80% of the percentage described in (1) below. Whether the deemed redemption is not essentially equivalent to a dividend with respect to a First National shareholder will depend upon the shareholder's particular circumstances. In order for the deemed redemption to be not essentially equivalent to a dividend, the deemed redemption must generally result in a meaningful reduction in the shareholder's deemed percentage stock ownership of Orrstown. In general, the determination requires a comparison of (1) the percentage of the outstanding stock of Orrstown that the shareholder is deemed actually and constructively to have owned immediately before the deemed redemption and (2) the percentage of the outstanding stock of Orrstown that is actually and constructively owned by the shareholder immediately after the deemed redemption. In applying the above tests, a First National shareholder may, under the constructive ownership rules, be deemed to own stock that is owned by other persons or otherwise in addition to the stock actually owned by the shareholder. As these rules are complex and dependent upon a First National shareholder's specific circumstances, each shareholder that may be subject to these rules should consult his or her tax advisor. The IRS has ruled that a minority shareholder in a publicly held corporation whose relative stock interest is minimal and who exercises no control with respect to corporate affairs is considered to have a meaningful reduction if the shareholder has a relatively minor reduction in such shareholder's percentage stock ownership under the above analysis.

Cash received in lieu of a fractional share. Cash received by a First National shareholder in lieu of a fractional share of Orrstown common stock generally will be treated as received in redemption of the fractional share, and gain generally will be recognized based on the difference between the amount of cash received in lieu of the fractional share and the portion of the shareholder's aggregate adjusted tax basis of the shares of First National common stock surrendered that is allocable to the fractional share. The gain generally will be long-term capital gain if the holding period for the shares of First National common stock is more than one year.

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Backup Withholding. To the extent that a First National shareholder receives cash in exchange for surrendering shares of First National common stock, the shareholder may be subject to backup withholding at a rate of 28% if the shareholder is a non-corporate United States person and (1) fails to provide an accurate taxpayer identification number; (2) is notified by the IRS that it has failed to report all interest or dividends required to be shown on its federal income tax returns, or (3) in certain circumstances, fails to comply with applicable certification requirements. Amounts withheld under the backup withholding rules will be allowed as a refund or credit against a shareholder's United States federal income tax liability provided that the shareholder furnishes the required information to the IRS.

The foregoing discussion is not intended to be a complete analysis or description of all potential United States federal income tax consequences of the merger transaction. In addition, this discussion does not address tax consequences that may vary with, or are contingent on, a First National shareholder's individual circumstances. It also does not address any federal estate tax or state, local or foreign tax consequences of the merger. Tax matters are very complicated, and the tax consequences of the transaction to a First National shareholder will depend upon the facts of his or her particular situation. Accordingly, we strongly urge you to consult with a tax advisor to determine the particular tax consequences to you of the transaction, as well as to any later sale of shares of Orrstown common stock received by you in the merger.

Resale of Orrstown Common Stock

You may freely transfer the Orrstown common stock issued in the merger transaction under the Securities Act, unless you are deemed to be:

An affiliate of First National for purposes of Rule 145 under the Securities Act; or

An affiliate of Orrstown for purposes of Rule 144 under the Securities Act.

Affiliates will include persons (generally executive officers, directors and 10% or more shareholders) who control, are controlled by, or are under common control with (1) Orrstown or First National at the time of the First National special meeting, or (2) Orrstown at or after the effective date of the merger.

Rules 144 and 145 will restrict the sale of shares of Orrstown common stock received in the merger by affiliates and certain of their family members and related interests.

First National affiliates:

Generally, during the year following the effective date of the merger, those persons who are affiliates of First National at the time of the First National special meeting, provided they are not affiliates of Orrstown at or following the merger's effective date, may publicly resell any shares of Orrstown common stock received by them in the merger, subject to certain limitations and requirements. These include the amount of Orrstown common stock that may be sold by them in any three-month period, the manner of sale, and the adequacy of current public information about Orrstown.

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After the one-year period, these affiliates may resell their shares without the restrictions, so long as there is adequate current public information with respect to Orrstown as required by Rule 144.

Orrstown affiliates:

Persons who are affiliates of Orrstown after the effective date of the merger may publicly resell the shares of Orrstown common stock received by them in the merger subject to the same limitations and requirements as apply to First National affiliates in the first year and subject to certain filing requirements specified in Rule 144.

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The ability of affiliates to resell shares of Orrstown common stock received in the merger under Rule 144 or Rule 145, as summarized herein, generally will be subject to Orrstown's having satisfied its public reporting requirements under the Securities Exchange Act of 1934 for specified periods prior to the time of sale.

Affiliates also would be permitted to resell shares of Orrstown common stock received in the merger pursuant to an effective registration statement under the Securities Act or another available exemption from the Securities Act registration requirements.

This document does not cover any resales of shares of Orrstown common stock received by persons who may be deemed to be affiliates of Orrstown or First National.

Each First National director, as an affiliate of First National, has agreed with Orrstown not to transfer any shares of Orrstown common stock received in the merger except in compliance with the Securities Act. See *The Transaction Voting Agreements* at page 46.

Exchange Of First National Certificates

Promptly after the effective time, Orrstown will deposit with its exchange agent, Registrar and Transfer Company, Cranford, New Jersey, certificates representing the shares of Orrstown common stock that are issuable in connection with the merger for shares of First National common stock. Orrstown will also deposit with the exchange agent the amount of cash required for the cash consideration and an estimated amount of cash payable instead of fractional shares. Promptly after the effective time, Orrstown will cause the exchange agent to send to each holder of record of shares of First National common stock at the effective time of the merger transmittal materials for use in the exchange of the merger consideration for certificates representing First National common stock. The exchange agent will deliver to each holder of First National common stock who surrenders his or her certificates to the exchange agent, together with properly executed transmittal materials and any other required documentation, a certificate representing the number of shares of Orrstown common stock to which such holder is entitled, and a check in an amount equal to the cash such holder is entitled to receive as consideration for shares of First National common stock. Orrstown will not issue any fractional shares. Instead, Orrstown also will pay each holder of First National common stock who would otherwise be entitled to a fractional share of Orrstown common stock an amount in cash, without interest, calculated by multiplying such fraction by the average of the closing bid price and the closing ask price per share for Orrstown common stock as reported on the OTC Bulletin Board for each of the 60 consecutive trading days ending on and including the fifth trading day before the effective time of the merger.

Until properly surrendering their certificates, holders of unexchanged shares of First National common stock will not be entitled to receive any dividends or distributions with respect to Orrstown common stock. After surrender of the certificates representing First National common stock, the record holder of such shares will be entitled to receive any such dividends or other distributions, without interest, which had previously become payable with respect to shares of Orrstown common stock represented by such certificate.

If any certificates for First National common stock have not been surrendered by the second anniversary of the merger, Orrstown has the right, without notice to the holders of record of such shares, to sell the shares for the account of the holders and, thereafter, the holders of record of the sold shares shall have only the right to receive the net proceeds of the sale, without interest, plus any unpaid dividends. In the event that any unsurrendered certificates or net proceeds of sale become the property of any governmental unit or agency under laws of escheat or other unclaimed property laws, Orrstown shall have no liability for any property delivered to a public official pursuant to such laws.

Holders of First National common stock should not send in certificates representing First National common stock until they receive transmittal materials from the exchange agent.

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Material Contracts

There have been no material contracts or other transactions between First National and Orrstown since signing the reorganization agreement, nor have there been any material contracts, arrangements, relationships or transactions between First National and Orrstown during the past five years, other than in connection with the reorganization agreement and as described in this document.

UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following unaudited pro forma combined financial information and explanatory notes present how the combined financial statements of Orrstown and First National may have appeared had the businesses actually been combined as of the date indicated. The unaudited pro forma combined balance sheet at September 30, 2005 and at December 31, 2004 assumes the merger was completed on the given date. The unaudited pro forma combined income statement for the nine months ended September 30, 2005 and year ended December 31, 2004 gives effect to the merger as if the merger had been completed on January 1, 2005 and January 1, 2004, respectively. The unaudited pro forma combined financial information shows the impact of the merger on Orrstown's and First National's combined financial position and results of operations under the purchase method of accounting with Orrstown treated as the acquiror. Under this method of accounting, Orrstown will be required to record the assets and liabilities of First National at their estimated fair market values as of the date the merger is completed.

The unaudited pro forma combined financial information has been derived from and should be read in conjunction with the historical consolidated financial statements and the related notes of Orrstown that are incorporated into this document by reference and of First National that are included as a part of this document. See "Where You Can Find More Information" on page 68 and "Index to First National's Financial Statements" on page F-1.

The unaudited pro forma combined financial information is presented for illustrative purposes only and does not indicate the financial results of the combined company had the companies actually been combined at the beginning of the period presented. Furthermore, the information does not include the impact of possible revenue enhancements, expense efficiencies, asset dispositions and share repurchases, among other factors. In addition, as explained in more detail in the accompanying notes to the unaudited pro forma combined financial information, the allocation of the purchase price reflected in the unaudited pro forma combined financial information is subject to adjustment and will vary from the actual purchase price allocation that will be recorded upon completion of the merger based upon changes in the balance sheet including fair value estimates.

Table of Contents**Unaudited Pro Forma Combined Balance Sheets As of September 30, 2005****(In Thousands)**

	As Reported		Pro Forma Adjustments	Pro Forma Combined
	Orrstown	First National		
ASSETS				
Cash and due from banks	\$ 16,136	\$ 3,167	\$ 0	\$ 16,223
Federal Funds Sold	21,185	1,986	(3,080)(4)	23,171
Cash and cash equivalents	37,321	5,153	(3,080)	39,394
Interest bearing deposits with banks	2,143	122	0	2,265
Securities available for sale	76,460	41,359	0	117,819
Federal Home Loan Bank, Federal Reserve and Atlantic Central Bankers Bank Stock, at cost which approximates market value	2,487	506	0	2,993
Loans	439,206	71,233	547(10)(11)	510,986
Allowance for loan and lease losses	(4,364)	(930)	268(11)	(5,026)
Net Loans	434,842	70,303	815	505,960
Premises and equipment, net	13,158	1,206	1,529(8)	15,893
Accrued interest receivable	1,975	631	0	2,606
Cash surrender value of life insurance	7,693	2,666	0	10,359
Goodwill	1,198	0	17,649(1)	18,847
Intangible assets with finite lives	760	0	1,753(1)	2,513
Other assets	3,143	1,209	(5)(5)	4,347
Total assets	\$ 581,180	\$ 123,155	\$ 18,661	\$ 722,996
LIABILITIES AND CAPITAL				
Deposits:				
Non-interest bearing	\$ 72,654	\$ 9,215	\$ 0	\$ 81,869
Interest-bearing	379,634	96,715	(352)(3)	475,997
Total Deposits	452,288	105,930	(352)	557,866
Short-term borrowings	34,571	0	0	34,571
FHLB Borrowings	0	3,000	0	3,000
Long-term debt	33,718	0	5,800(4)	39,518
Other liabilities	5,384	636	1,959(2)(5)	7,979
Total liabilities	525,961	109,566	7,407	642,934
EQUITY CAPITAL				
Common stock	269	400	(364)(6)(7)	305
Additional paid-in-capital	35,595	400	(400)(7)	60,402

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			24,807(6)	
Retained earnings	18,909	13,007	(13,007)(7)	18,909
Accumulated other comprehensive income	446	(218)	218(7)	446
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total equity capital	55,219	13,589	11,254	80,062
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and capital	\$ 581,180	\$ 123,155	\$ 18,661	\$ 722,996
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Shares Outstanding	5,418,060	400,000	300,000	6,118,060
Book Value Per Share	\$ 10.19	\$ 33.97		\$ 13.09
Tangible Book Value Per Share	\$ 9.83	\$ 33.97		\$ 9.59

Table of Contents**Unaudited Pro Forma Combined Balance Sheets As of December 31, 2004****(In Thousands)**

	As Reported		Pro Forma	Pro Forma
	Orrstown	First National	Adjustments	Combined
ASSETS				
Cash and due from banks	\$ 11,456	\$ 3,084	\$ (3,080)(4)	\$ 11,460
Federal Funds Sold	8,393	1,640	0	10,033
Cash and cash equivalents	19,849	4,724	(3,080)	21,493
Interest bearing deposits with banks	1,124	0	0	1,124
Securities available for sale	79,829	46,301	0	126,130
Federal Home Loan Bank, Federal Reserve and Atlantic Central Bankers Bank Stock, at cost which approximates market value	2,972	600	0	3,572
Loans	389,268	68,555	547(10)(11)	458,370
Allowance for loan and lease losses	(4,318)	(948)	268(11)	(4,998)
Net Loans	384,950	67,607	815	453,372
Premises and equipment, net	13,222	1,294	1,529(8)	16,045
Accrued interest receivable	1,775	555	0	2,330
Cash surrender value of life insurance	7,516	2,595	0	10,111
Goodwill	748	0	18,104(1)	18,852
Intangible assets with finite lives	670	0	1,753(1)	2,423
Other assets	1,996	1,100	(5)(5)	3,091
Total assets	\$ 514,651	\$ 124,776	\$ 19,116	\$ 658,543
LIABILITIES AND CAPITAL				
Deposits:				
Non-interest bearing	\$ 66,784	\$ 8,700	\$ 0	\$ 75,484
Interest-bearing	338,579	99,491	(352)(3)	437,718
Total Deposits	405,363	108,191	(352)	513,202
Short-term borrowings	19,493	0	0	19,493
FHLB Borrowings	0	3,000	0	3,000
Long-term debt	35,569	0	5,800(4)	41,369
Accrued Interest and Other liabilities	4,976	451	1,959(2)(5)	7,386
Total liabilities	465,401	111,642	7,407	584,450
EQUITY CAPITAL				
Common stock	267	400	(364)(6)(7)	303
Additional paid-in-capital	34,434	400	(400)(7)	59,241
Retained earnings	13,723	12,300	24,807(6) (12,300)(7)	13,723

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Accumulated other comprehensive income	826	34	(34)(7)	826
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total equity capital	49,250	13,134	11,709	74,093
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and capital	\$ 514,651	\$ 124,776	\$ 19,116	\$ 658,543
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Shares Outstanding	5,382,515	400,000	300,000	6,082,515
Book Value Per Share	\$ 9.15	\$ 32.83		\$ 12.18
Tangible Book Value Per Share	\$ 8.89	\$ 32.83		\$ 8.68

Table of Contents**Unaudited Pro Forma Combined Income Statement for the Nine Months Ended September 30, 2005****(In Thousands, except per share data)**

	<u>Orrstown</u>	<u>FNB</u>	<u>Pro forma Adjustments</u>	<u>Pro forma Combined</u>
Interest Income				
Interest & fees on loans	\$ 20,515	\$ 3,494	\$ (76)(10)	\$ 23,933
Interest and dividends on investment securities	2,558	1,199	62(9)	3,819
Interest on short term investments	376	70	0	446
	<u>23,449</u>	<u>4,763</u>	<u>(14)</u>	<u>28,198</u>
Interest Expense				
Interest on deposits	5,154	1,491	90(3)	6,735
Interest on short-term borrowings	491	50	0	541
Interest on long-term debt	1,088	0	261(4)	1,349
	<u>6,733</u>	<u>1,541</u>	<u>351</u>	<u>8,625</u>
Net interest income	16,716	3,222	(365)	19,573
Provision for loan losses	72	0	0	72
	<u>16,644</u>	<u>3,222</u>	<u>(365)</u>	<u>19,501</u>
Other Income				
Service charges on deposit accounts	2,824	534	0	3,358
Other service charges	1,446	79	0	1,525
Trust department income	1,655	0	0	1,655
Brokerage income	726	102	0	828
Other income	286	89	0	375
Securities gains/ (losses)	11	6	0	17
	<u>6,948</u>	<u>810</u>	<u>0</u>	<u>7,758</u>
Other Expense				
Salaries and employee benefits	6,955	1,320	0	8,275
Net occupancy and equipment expenses	2,477	593	38(8)	3,108
Other operating expenses	3,366	533	132(1)	4,031
	<u>12,798</u>	<u>2,446</u>	<u>170</u>	<u>15,414</u>
Income before income taxes	10,794	1,586	(535)	11,845
Income tax expenses	3,301	350	(182)(2)	3,469
	<u>\$ 7,493</u>	<u>\$ 1,236</u>	<u>\$ (353)</u>	<u>\$ 8,376</u>

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Earnings per share:				
Basic Earnings per share	\$ 1.39	\$ 3.09		\$ 1.37
Weighted average number of shares outstanding	5,400,966	400,000	300,000	6,100,966
Diluted Earnings per share	\$ 1.33	\$ 3.09		\$ 1.32
Weighted average number of shares outstanding	5,624,219	400,000	300,000	6,324,219

Table of Contents**Unaudited Pro Forma Combined Income Statement for the Twelve Months Ended December 31, 2004**

(In Thousands, except per share data)

	<u>Orrstown</u>	<u>FNB</u>	<u>Pro forma Adjustments</u>	<u>Pro forma Combined</u>
Interest Income				
Interest & fees on loans	\$ 22,231	\$ 4,590	\$ (102)(10)	\$ 26,719
Interest and dividends on investment securities	3,289	1,733	83(9)	5,104
Interest on short term investments	372	33	0	405
	<u>25,892</u>	<u>6,355</u>	<u>(19)</u>	<u>32,228</u>
Interest Expense				
Interest on deposits	5,201	1,953	119(3)	7,273
Interest on short-term borrowings	1,785	123	0	1,908
Interest on long-term debt	0	0	348(4)	348
	<u>6,986</u>	<u>2,076</u>	<u>467</u>	<u>9,529</u>
Net interest income	18,906	4,279	(486)	22,699
Provision for loan losses	210	0	0	210
	<u>18,696</u>	<u>4,279</u>	<u>(486)</u>	<u>22,489</u>
Other Income				
Service charges on deposit accounts	3,066	736	0	3,802
Other service charges	1,016	100	0	1,116
Trust department income	1,863	0	0	1,863
Brokerage income	608	110	0	718
Other income	88	47	0	135
Securities gains/ (losses)	328	27	0	355
	<u>6,969</u>	<u>1,020</u>	<u>0</u>	<u>7,989</u>
Other Expense				
Salaries and employee benefits	7,909	1,748	0	9,657
Net occupancy and equipment expenses	2,398	762	51(8)	3,211
Other operating expenses	4,411	852	175(1)	5,438
	<u>14,718</u>	<u>3,362</u>	<u>226</u>	<u>18,306</u>
Income before income taxes	10,947	1,937	(712)	12,172
Income tax expenses	3,177	361	(242)(2)	3,296
	<u>\$ 7,770</u>	<u>\$ 1,576</u>	<u>\$ (470)</u>	<u>\$ 8,876</u>
Earnings per share:				
Basic Earnings per share	\$ 1.45	\$ 3.94		\$ 1.46

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Weighted average number of shares outstanding	5,362,017	400,000	300,000	6,062,017
Diluted Earnings per share	\$ 1.40	\$ 3.94		\$ 1.42
Weighted average number of shares outstanding	5,558,873	400,000	300,000	6,258,873

Table of Contents**NOTES TO UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION****Note 1 Basis of Pro Forma Presentation**

The unaudited pro forma combined financial information relating to the merger is presented as of and for the nine months ended September 30, 2005 and as of and for the year ended December 31, 2004. Orrstown and First National are in the process of analyzing and reviewing their accounting and financial reporting policies and procedures and, as a result of this review, may reflect changes in one or the other of Orrstown's or First National's policies or procedures in future presentations of combined results in order to conform to the accounting policies that will be determined to be most appropriate for the combined company. However, in the presentation provided herein, no significant reclassifications were required.

The pro forma adjustments consist of the expected purchase price adjustments necessary to combine Orrstown and First National, including the conversion of each First National common stock into 1.75 shares of Orrstown common stock and \$22.20 in cash applied to 400,000 First National common shares multiplied by the average share price of \$35.49 per share of Orrstown common stock. The average share price was computed using the average closing price of Orrstown common stock for the period commencing two trading days prior to and ending two trading days after the merger was announced on November 21, 2005. First National had no employee stock options outstanding, warrants or any other stock based obligations at September 30, 2005 that will need to be converted into Orrstown common stock upon consummation of the merger. The unaudited pro forma combined financial information reflects the issuance of 700,000 shares of Orrstown common stock with an aggregate value of \$24.8 million, Orrstown plans to fund the cash portion of the purchase price by increasing its long-term debt by \$5.8 million and by liquidating existing short term investments by approximately \$3.1 million.

Consideration has been given to providing an estimate of the anticipated transaction costs to be incurred in connection with the merger. Such costs are expected to approximate \$491,000 on a pre-tax basis and have been reflected in the pro forma adjustments to the unaudited pro forma combined balance sheet. Under current accounting rules, certain other costs will not be accruable at the closing of the merger and will be recognized in periods both before and after the date of the merger. The detailed plans for all of the restructuring initiatives have not been fully formulated and, as such, no consideration was given to recognition of these expenses in the unaudited pro forma combined balance sheet or in the unaudited pro forma combined income statement.

The total estimated purchase price for the purpose of this pro forma financial information is \$34.2 million.

	September 30, 2005
	(\$ in thousands except per share data)
Purchase Price: First National common stock outstanding	400,000
Orrstown shares exchanged for each First National share	
Exchange ratio	1.75
	<hr/>
Orrstown common stock to be issued	700,000
Average purchase price per Orrstown common share	\$ 35.49
	<hr/>
Purchase price assigned to shares exchanged for stock	\$ 24,843

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Cash exchanged for each First National share		
Cash price per share	\$ 22.20	
Purchase price to shares exchanged for cash		\$ 8,880
Transaction costs		491
Total Purchase Price		\$ 34,214

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	September 30, 2005
	(\$ in thousands except per share data)
Net Assets Acquired:	
First National shareholders' equity	13,589
Estimated adjustments to reflect assets acquired at fair value:	
Loans	815
Core deposit intangible	1,753
Bank Premises & Furniture, Fixtures and Equipment	1,529
Deferred tax assets	(1,473)
Estimated adjustments to reflect liabilities acquired at fair value:	
Time deposits	352
	<u>16,565</u>
Goodwill resulting from merger	\$ 17,649

The merger will be accounted for using the purchase method of accounting for business combinations which requires that the assets and liabilities of First National be adjusted to fair value as of the date of the acquisition.

The unaudited pro forma combined financial information has been prepared to include the estimated adjustments necessary to record the assets and liabilities of First National at their respective fair values and represents management's best estimates based upon the information available at this time. These pro forma adjustments are expected to be revised as additional information becomes available and additional detailed analysis is performed. Furthermore, the final allocation of the purchase price will be determined after the merger is completed and after completion of a final analysis to determine the fair values of First National's tangible and identifiable intangible assets and liabilities as of the closing date of the transaction. The final purchase accounting adjustments may be materially different from the pro forma adjustments presented herein. Increases or decreases in the fair value of certain balance sheet amounts including loans, securities, deposits and related intangibles and debt will result in adjustments to both the balance sheet and income statement. Such adjustments, when compared to the information shown in this document, may change the amount of the purchase price allocated to goodwill while changes to other assets and liabilities may impact the statement of income due to adjustments in the yield and/or amortization/accretion of the adjusted assets and liabilities.

The unaudited pro forma combined financial information presented herein does not necessarily provide an indication of the combined results of operations or the combined financial position that would have resulted had the merger actually been completed as of the assumed consummation date, nor is it indicative of the results of operations in future periods or the future financial position of the combined company.

Note 2 Pro Forma Adjustments

- (1) Adjustment to record the following: (a) goodwill arising from the excess of purchase price over the fair value of net assets, including identifiable intangible assets \$17.6 million and (b) the recognition of core deposit intangible of \$1.7 million. The nature, amount, and amortization method of possible intangibles are being analyzed by management. The adjustments related thereto and recorded herein are based on current assumptions and valuations which are subject to change. The core deposit intangible has been amortized using a straight-line amortization method over a ten year period.

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- (2) Adjustment to reflect the net deferred tax assets arising from both the recognition of the tax effects of expenses incurred to complete the transaction and the tax effects associated with the adjustments necessary to reflect the acquisition of net assets on a fair value basis. Deferred taxes were recorded using the federal tax rate of 34%.

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- (3) Adjustment to reflect the fair values of certain interest-bearing deposit liabilities based on current interest rates for similar instruments. The adjustment will be recognized over the next 6 years using a level yield amortization method based upon the maturities of the deposit liabilities. This adjustment is expected to increase pro forma pre-tax interest expense by \$119,000 in the first year following consummation.
- (4) Adjustment to long-term debt consists of increased debt by Orrstown of \$5.8 million to fund approximately 65% of the cash portion of the purchase price and illustrated at an assumed rate of 6.00%. Orrstown plans to fund the remaining cash portion of the purchase price of approximately \$3.1 million by liquidating existing short term investments. No fair value adjustments were needed for First National's FHLB borrowings as they were all short term and book value approximated fair value.
- (5) Adjustment to record the pre-tax estimate of transaction expenses expected to be incurred in connection with the merger. Such expense includes fees related to professional services provided in connection with the merger as well as an estimate of the associated severance, contract cancellations and third party data processing conversion expenses.
- (6) Adjustment to reflect Orrstown common stock expected to be issued in exchange for issued and outstanding shares of First National assuming the exchange ratio of 1.75 Orrstown common shares for each share of First National common shares.
- (7) Adjustment to eliminate First National's historical shareholders' equity.
- (8) Adjustment to reflect the fair value of owned buildings to estimated current market values. Estimated adjustment also reflects a reduction of capitalized computer software that will not be utilized by the combined company in the future. Annual depreciation expense will increase approximately \$51,000 annually for this adjustment.
- (9) Adjustment to reflect the fair values of investments based on current market valuations. Under FASB No. 115, such adjustments are reflected in historical amounts but have been included on a net of tax basis as an adjustment to equity. Such amounts were eliminated in item (7) and therefore will require prospective accretion of the discount to properly record earnings under the purchase method of accounting. The adjustment will be substantially recognized over the next 4 years using the straight-line amortization method based upon the expected life of the investments. This investment adjustment is expected to increase pro forma pre-tax interest income by \$83,000 in the first year following consummation.
- (10) Adjustment to reflect the fair values of loans based on current interest rates, pricing characteristics, expected cash flows and other factors intrinsic to the computation of the fair value of the loan portfolio. The adjustment will be substantially recognized over the next 8 years using the straight-line amortization method based upon the expected life of the loans. This adjustment is expected to reduce pro forma pre-tax interest income by \$102,000 in the first year following consummation.
- (11) Management reviewed the First National loan portfolio to reflect the impact of adoption of Statement of Position 03-03, Accounting for Certain Loans or Debt Securities Acquired in a Transfer. This guidance addresses the accounting for the difference between the contractual cash flows and cash flows expected to be collected from an investor's initial investment in loans, including those acquired in a business combination, if those differences are attributable, at least in part, to credit quality considerations. Based on management's analysis, \$268,000 of the allowance for loan and lease losses was reclassified to the loan account relating to specific loans for specific expected losses.

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INFORMATION ABOUT ORRSTOWN

General

Orrstown Financial Services, Inc. is a registered financial holding company based in Shippensburg, Pennsylvania. Its wholly-owned banking subsidiary, Orrstown Bank, is a Pennsylvania bank and trust company operating 14 community bank offices and four remote service offices in Cumberland and Franklin Counties, Pennsylvania.

At September 30, 2005, Orrstown had total consolidated assets of approximately \$581.2 million and total shareholders' equity of approximately \$55.2 million. For the nine months ended September 30, 2005, Orrstown's return on average assets was 1.84% and return on average common shareholders' equity was 19.11%.

As permitted by the rules and regulations of the SEC, this document incorporates important business and financial information about Orrstown that is not included in or delivered with this document. See "Where You Can Find More Information" at page 68 and "Incorporation of Certain Information by Reference" at page 69.

Indemnification

The bylaws of Orrstown provide for indemnification of its directors, officers, employees and agents to the fullest extent permitted under the laws of the Commonwealth of Pennsylvania, provided that the person seeking indemnification acted in good faith, in a manner he or she reasonably believed to be in the best interests of Orrstown, and without willful misconduct or recklessness. Orrstown has purchased insurance to indemnify its directors, officers, employees and agents under certain circumstances.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling Orrstown pursuant to the foregoing provisions of Orrstown's bylaws, Orrstown has been informed that, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Description Of Orrstown Capital Stock

Authorized Capital Stock

Orrstown's current authorized stock consists of 50,000,000 shares of common stock, no par value per share, and 500,000 shares of preferred stock, \$1.25 par value per share. The Orrstown board is authorized to issue, without further shareholder approval, preferred stock from time to time in one or more series, and to determine the provisions applicable to each series, including the number of shares, dividend rights, dividend rate, conversion rights, voting rights, rights and terms of redemption, sinking fund provisions, redemption price or prices and liquidation

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preferences. As of January 13, 2006, 5,439,227 shares of Orrstown common stock were issued and outstanding, and no shares of Orrstown preferred stock were outstanding.

Common Stock

Shareholder Liability. Under the Pennsylvania Business Corporation Law, shareholders generally are not personally liable for a corporation's acts or debts.

Dividends; Liquidation; Dissolution. Subject to the preferential rights of any other shares or series of capital stock, holders of shares of Orrstown common stock are entitled to receive dividends on shares of common stock if, as and when authorized and declared by the Orrstown board out of funds legally available for dividends and to share ratably in the assets of Orrstown legally available for distribution to its shareholders in the event of its liquidation, dissolution or winding-up after payment of, or adequate provision for, all known debts and liabilities of Orrstown.

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Voting Rights. Each outstanding share of Orrstown common stock entitles the holder to one vote on all matters submitted to a vote of shareholders, including the election of directors. Unless a larger vote is required by law, the Orrstown articles of incorporation or the Orrstown bylaws, when a quorum is present at a meeting of shareholders, a majority of the votes properly cast upon any question other than the election of directors shall decide the question. A plurality of the votes properly cast for the election of a person to serve as a director shall elect such person. Except as otherwise required by law or except as provided with respect to any other class or series of capital stock, the holders of Orrstown common stock possess the exclusive voting power. There is no cumulative voting in the election of directors. The Orrstown board is classified into three categories with each category as nearly equal in number as possible. This means, in general, that one-third of the members of the Orrstown board are subject to reelection at each annual meeting of shareholders.

Preemptive Rights; Redemption. Holders of Orrstown common stock have no conversion, sinking fund or redemption rights or preemptive rights to subscribe for any of Orrstown's classes of stock.

Preferred Stock

The Orrstown board is authorized, without any further vote or action by the Orrstown shareholders, to issue shares of preferred stock in one or more series, to establish the number of shares in each series and to fix the designation, powers, preferences and rights of each such series and the qualifications, limitations or restrictions of the series, in each case, if any, as are permitted by Pennsylvania law. Because the Orrstown board has the power to establish the preferences and rights of each class or series of preferred stock, it may afford the shareholders of any series or class of preferred stock preferences, powers and rights, voting or otherwise, senior to the rights of holders of shares of Orrstown common stock. The issuance of shares of preferred stock could have the effect of delaying, deferring or preventing a change in control of Orrstown.

Registrar And Transfer Agent

Orrstown's registrar and transfer agent is Registrar and Transfer Company, 10 Commerce Drive, Cranford, New Jersey 07016, (800) 368-5948.

Anti-Takeover Provisions

Orrstown's articles of incorporation and bylaws contain certain provisions that may have the effect of deterring or discouraging an attempt to take control of Orrstown. Among other things, these provisions:

Empower Orrstown's board of directors, without shareholder approval, to issue shares of Orrstown preferred stock the terms of which, including voting power, are set by Orrstown's board;

Divide Orrstown's board of directors into three classes serving staggered three-year terms;

Restrict the ability of shareholders to remove directors;

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Require that shares with at least 75%, or in certain circumstances, a majority of voting power, approve certain transactions with significant beneficial owners of Orrstown common stock;

Require that shares with at least 75%, or, in certain instances, a majority of total voting power, approve the repeal or amendment of certain provisions of Orrstown's articles of incorporation;

Require that, following any acquisition by any person or group of 10% of Orrstown's voting power, the remaining shareholders have the right to receive for their shares, at least the highest price paid by such person for any of the shares then directly or indirectly owned by such person;

Eliminate cumulative voting in the election of directors; and

Require advance notice of nominations for the election of directors and the presentation of shareholder proposals at meetings of shareholders.

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The Pennsylvania Business Corporation Law of 1988, as amended, also contains certain provisions applicable to Orrstown that may have the effect of deterring or discouraging an attempt to take control of Orrstown. These provisions, among other things:

Require that, following any acquisition by any person or group of 20% of a public corporation's voting power, the remaining shareholders have the right to receive payment for their shares, in cash, from such person or group in an amount equal to the fair value of the shares, including an increment representing a proportion of any value payable for control of the corporation (Subchapter 25E of the Business Corporation Law);

Prohibit for five years, subject to certain exceptions, a business combination (which includes a merger or consolidation of the corporation or a sale, lease or exchange of assets) with a person or group beneficially owning 20% or more of a public corporation's voting power (Subchapter 25F of the Business Corporation Law);

Prevent a person or group acquiring different levels of voting power (20%, 33% and 50%) from voting any shares over the applicable threshold, unless disinterested shareholders approve such voting rights (Subchapter 25G of the Business Corporation Law);

Require any person or group that publicly announces that it may acquire control of a corporation, or that acquires or publicly discloses an intent to acquire 20% or more of the voting power of a corporation, to disgorge to the corporation any profits that it receives from sales of the corporation's equity securities purchased over the prior 18 months (Subchapter 25H of the Business Corporation Law);

Expand the factors and groups (including shareholders) which a corporation's board of directors can consider in determining whether an action is in the best interests of the corporation;

Provide that a corporation's board of directors need not consider the interests of any particular group as dominant or controlling;

Provide that a corporation's directors, in order to satisfy the presumption that they have acted in the best interests of the corporation, need not satisfy any greater obligation or higher burden of proof with respect to actions relating to an acquisition or potential acquisition of control;

Provide that actions relating to acquisitions of control that are approved by a majority of disinterested directors are presumed to satisfy the directors' fiduciary duty, unless it is proven by clear and convincing evidence that the directors did not assent to such action in good faith after reasonable investigation; and

Provide that the fiduciary duty of a corporation's directors is solely to the corporation and may be enforced by the corporation or by a shareholder in a derivative action, but not by a shareholder directly.

The Pennsylvania Business Corporation Law also explicitly provides that the fiduciary duty of directors does not require them to:

Redeem any rights under, or to modify or render inapplicable, any shareholder rights plan;

Render inapplicable, or make determinations under, provisions of the Pennsylvania Business Corporation Law relating to control transactions, business combinations, control-share acquisitions or disgorgement by certain controlling shareholders following attempts to acquire control; or

Act as the board of directors, a committee of the board or an individual director, solely because of the effect the action might have on an acquisition or potential acquisition of control of the corporation or the consideration that might be offered or paid to shareholders in such an acquisition.

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New Orrstown Director

If the transaction is completed, Peter C. Zimmerman, currently President, Chief Executive Officer and a director of First National, will serve as a Class B director of the Orrstown holding company, with an initial term expiring at Orrstown's 2007 annual meeting. Mr. Zimmerman is 59 years old and has served as President and Chief Executive Officer of First National and as a director of First National since November 2001. Previously, Mr. Zimmerman was President and Chief Executive Officer of Susquehanna Trust & Investment Co., a subsidiary of Susquehanna Bancshares, Inc. In 2004, Mr. Zimmerman received total compensation from First National of \$116,108, which includes base salary, bonus, and contributions to Mr. Zimmerman's 401(k) profit sharing plan account. Mr. Zimmerman did not receive any additional compensation for services as a director of First National.

INFORMATION ABOUT FIRST NATIONAL

Business

First National was organized under federal law as a national bank on May 23, 1893. As a national bank it is subject to supervision and regulation by the Office of the Comptroller of the Currency. First National's headquarters is located at Center Square, Newport, Pennsylvania 17001. Its website is www.perrycounty.com

First National engages in a full service commercial banking business, including deposit services, mortgage lending and commercial and consumer loans. Its deposits are insured by the FDIC to the extent provided by law.

Financial planning and brokerage services are made available through Financial Network Investment Corporation. These services are offered in separate office facilities for which First National receives a percentage of retail commissions as rent.

As of September 30, 2005, First National had assets, deposits and shareholders' equity of approximately \$123.2 million, \$105.9 million and \$13.6 million, respectively.

Properties

First National owns its main office located at Center Square, Newport, Pennsylvania, and branch offices located at 403 North Market Street, Duncannon, Pennsylvania and 1 South Carlisle Street, New Bloomfield, Pennsylvania. Additionally, First National leases facilities for a branch office at 18 Newport Plaza, Newport (Red Hill), Pennsylvania, and a drive-in facility located at Barnett Woods Road and McClure Street, New Bloomfield, Pennsylvania.

Legal Proceedings

First National is not a party to any material pending legal proceedings other than routine legal proceedings incidental to its business.

Table of Contents**Security Ownership By Certain Beneficial Owners And Management Of First National**

As of January 13, 2006, a total of 400,000 shares of First National common stock were issued and outstanding.

The following table sets forth, as of January 13, 2006, the amount and percentage of the common stock of First National beneficially owned by each director who and all executive officers and directors of First National as a group. Other than the two directors identified below, there are no known beneficial owners of more than 5% of First National's outstanding common stock.

Name of Individual or Identity of Group	Beneficial Ownership (1)	Percent of Class
John J. Amsler, Jr.	13,240(2)	3.31%
Laurence W. Brodisch	13,553(3)	3.39%
Susan M. Connell	2,800(4)	0.63%
Lenus A. Haines	24,000(5)	6.00%
Kermit B. Harry, Jr.	5,400(6)	1.35%
Allen E. Hench	33,016(7)	8.25%
David H. McGinley	10,229	2.56%
Robert W. Morris, II	2,800	0.70%
Peter C. Zimmerman	1,100	0.28%
Executive Officers and Directors as a Group (11)	107,158	26.79%

- (1) The securities beneficially owned by an individual are determined in accordance with the definitions of beneficial ownership set forth by the Securities and Exchange Commission and may include securities owned by or for the individual's spouse and minor children and any other relative who has the same home, as well as securities to which the individual has or shares voting or investment power or has the right to acquire beneficial ownership within 60 days after January 13, 2006. Individuals have the right to disclaim beneficial ownership of certain securities.
- (2) Includes 500 shares held individually and 12,740 share held jointly with his spouse.
- (3) Includes 2,050 shares held individually, 6,000 shares held jointly with his spouse, 2,050 shares held individually by his spouse; 600 shares in his individual retirement account, and 675 shares held in his spouse's individual retirement account. Also included are 2,168 shares held in a decedent's trust of which his spouse is a co-trustee with her mother and of which she is a contingent beneficiary.
- (4) Includes 2,220 shares held individually and 480 shares held by her spouse.
- (5) Includes 12,000 shares held individually and 12,000 shares held individually by his spouse.
- (6) Includes 5,000 shares held individually and 400 shares held by his spouse.
- (7) Includes 16,950 shares held individually, 8,647 shares held jointly with his spouse, 525 shares held in trust for his children, 6,694 shares held in his individual retirement account and 200 shares held in his spouse's individual retirement account.

Table of Contents**COMPARISON OF SHAREHOLDERS RIGHTS**

Upon completion of the transaction, the shareholders of First National will become shareholders of Orrstown. There are certain differences in the rights of shareholders of these two companies. The rights of First National shareholders are presently governed by the National Bank Act, the First National articles of association and the First National bylaws. As shareholders of Orrstown following the merger, the rights of former First National shareholders will be governed by Pennsylvania law, the Orrstown articles of incorporation and the Orrstown bylaws. The following chart summarizes the material differences between the rights of holders of First National common stock and of Orrstown common stock. You can obtain copies of the governing corporate instruments of Orrstown and First National, without charge, by following the instructions listed under [Where You Can Find More Information](#) on page 68.

This summary is not complete and we qualify it in its entirety by reference to the First National articles of association, the First National bylaws, the Orrstown certificate of incorporation and the Orrstown bylaws and the relevant provisions of the National Bank Act and Pennsylvania law. Share data is as of January 13, 2006.

	First National	Orrstown
Common Stock Authorized	2,000,000 shares, \$1.00 par value per share	50,000,000 shares, no par value
Shares of Common Stock Issued and Outstanding	400,000 shares	5,439,227 shares
Preemptive Rights	No	No
Preferred Stock Authorized	None	500,000 shares, \$1.25 par value per share; none issued
Special Meeting of Shareholders	A special meeting of shareholders may be called at any time by the board of directors, chairman of the board, the president or by shareholders owning, in the aggregate, not less than forty percent (40%) of the voting stock of the bank.	A special meeting of shareholders may be called at any time by the board of directors, or by the chairman of the board or by the holders of at least 50% of all shares entitled to vote at the meeting.
Classification of Board of Directors	First National's bylaws do not provide for a classified board of directors. Directors are elected annually for a one year term.	Orrstown's bylaws provide that the board of directors shall be divided into three classes as nearly equal as possible with each class serving a three year term, so that approximately one-third of the directors are elected at each annual meeting of shareholders.
Voting: Election and Removal of Directors	First National shareholders have cumulative voting rights with respect to the election of directors. This means that each shareholder has the right, in person or by proxy, to multiply the number of votes to which he or she is entitled, by the number of directors to be elected and to cast the whole number of such votes for one candidate or to distribute them among two or more candidates. The National Bank Act does not specifically provide for	Orrstown's bylaws provide that a plurality of all the votes cast at a meeting of shareholders at which a quorum is present is sufficient to elect a director. There is no cumulative voting. Orrstown's bylaws provide that a director may be removed by shareholder vote without cause, by at least two-thirds of the votes which all shareholders would be entitled to vote at any annual election of directors.

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	First National	Orrstown
	the removal of a bank director by shareholders; however, it provides certain qualifications that directors must fulfill to be eligible to serve. The OCC has taken the position that a director can be removed for cause by the shareholders for failure to satisfy the statutory qualifications.	
Voting: Approval of Mergers and Other Fundamental Transactions	The National Bank Act requires the affirmative vote of 2/3 of the outstanding voting shares to authorize a merger, consolidation or liquidation of the association.	The affirmative vote of a majority of all votes entitled to be cast at a meeting of shareholders, provided a quorum is present.
Voting: Amendment of Articles of Incorporation	The affirmative vote of a majority of the outstanding shares required to amend the articles of association, unless the vote of the holders of a greater amount is specifically required by the National Bank Act.	The affirmative vote of shareholders entitled to cast at least 3/4 of the votes which all shareholders are entitled to cast unless approved by 3/4 of the directors, in which case a majority of the votes which all shareholders are entitled to cast shall be sufficient.
Voting: Other Matters	One vote for each share owned of record. First National's bylaws provide that a majority of all the votes cast at a meeting at which a quorum is present is sufficient to approve any other matter which properly comes before the meeting.	One vote for each share owned of record. Orrstown's bylaws provide that a majority of all the votes cast at a meeting at which a quorum is present is sufficient to approve any other matter which properly comes before the meeting.
Approval Required for Restricted Transactions with Significant Beneficial Owners	None	Approval of a fundamental transaction with or involving a shareholder who, directly or indirectly has voting control over 10% or more of Orrstown stock or an affiliate or associate of such an interested shareholder requires the affirmative vote of holders of not less than 3/4 of the votes which shareholders are entitled to cast, except that if such transaction is approved by at least 3/4 of the directors, then approval by a majority of the votes to which all shareholders are entitled to cast is sufficient.
Market	Over-the-counter trades in First National common stock are quoted on the Pink Sheets under the symbol FNBT.	Over-the-counter trades in Orrstown common stock are quoted on the OTC Bulletin Board under the symbol ORRF.
Registered under 1934 Act	No	Yes
Limitation of Liability of Directors for Monetary Damages	First National's bylaws provide for the elimination of personal liability for directors except: (i) to the extent the director has breached or failed to perform	Orrstown's articles and bylaws provide for the elimination of personal liability for directors and officers to the fullest extent possible under applicable law.

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	First National	Orrstown
	<p>the duties of his office and (ii) the breach or failure to perform constitutes self-dealing, willful misconduct or recklessness. These provisions do not exempt a director from: (a) the responsibility or liability of a director pursuant to any criminal statute; or (b) the liability of a director for the payment of taxes pursuant to local, state or federal law.</p>	<p>Under applicable law, by virtue of such charter provision, a director or officer of Orrstown will have no personal liability to Orrstown or its shareholders for monetary damages except: (i) to the extent the director has breached or failed to perform the duties of his office under Section 8363 of the Pennsylvania Directors Liability Act, and (ii) the breach or failure to perform constitutes self-dealing, willful misconduct or recklessness. These provisions do not exempt a director from: (a) the responsibility or liability of a director pursuant to any criminal statute; or (b) the liability of a director for the payment of taxes pursuant to local, state or federal law.</p>
Indemnification of Directors, Officers and Employees	<p>First National's bylaws provide that First National will indemnify any director who was or is a party to or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding whether civil, criminal, administrative or investigative, by reason of the fact that he is or was serving in his capacity as a director if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the association and with respect to any criminal proceedings, had no reasonable cause to believe his conduct was unlawful.</p>	<p>Orrstown's bylaws provide that Orrstown will indemnify its officers and directors to the fullest extent permitted by applicable law. The applicable provisions of the BCL allow corporations to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or proceedings, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was a representative of the corporation, if (i) he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the corporation and, (ii) with respect to any criminal proceedings, had no reasonable cause to believe his conduct was unlawful.</p>
Qualification of Directors	<p>First National's articles of association require that each director own shares of common stock with a minimum of \$1,000 par value. First National's bylaws prohibit a person who has reached the age of 72 at the time nominations for directors are made prior to the annual meeting of shareholders from having his or her name placed on the ballot.</p>	<p>Orrstown's bylaws set forth no age requirements for directors, nor do the bylaws require that a person own shares of stock of Orrstown to be qualified as a director.</p>
Vacancies on the Board of Directors	<p>The remaining directors may fill vacancies, including vacancies resulting from an increase in the number of directors, by a majority vote of the directors then in office.</p>	<p>The remaining directors may fill vacancies by a majority vote of the directors then in office unless there are no remaining directors, in which case vacancies may be filled by the shareholders entitled to cast a majority of the votes thereon.</p>

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	First National	Orrstown
Anti-Takeover Provisions	Other than the requirement of the National Bank Act that a merger transaction be approved by two-thirds of the shares of First National common stock, the First National articles of association and bylaws do not contain any provisions that may make takeover attempts and other acquisition of interest in First National more difficult when not approved by the board of directors.	Orrstown is subject to those provisions of the BCL that are applicable to a corporation that has a class of equity securities registered under the Securities and Exchange Act of 1934, unless the corporation opts out of such provisions in its articles of incorporation. These provisions are contained in Subchapters 25E through 25J of the BCL. Orrstown has not opted out of any of these provisions. All of these provisions apply to Orrstown. Orrstown's articles of incorporation and bylaws also include certain additional provisions that may be considered anti-takeover in nature. See Information about Orrstown Anti-Takeover Provisions on page 60.
Appraisal/Dissenters Rights	Under the National Bank Act, First National shareholders would generally have dissenters' rights to be paid in cash the fair value of their shares of First National common stock as a result of a business combination such as the merger.	Under the BCL, Orrstown shareholders generally have dissenters' rights of appraisal. However, if Orrstown common stock would be listed as a national market security, Orrstown shareholders would generally not have appraisal rights in a business combination such as the merger.

OTHER MATTERS

As of the date of this document, the First National board knows of no matters that will be presented for consideration at the First National meeting other than as described in this document. If any other matters shall properly come before the meeting and be voted upon, your properly executed proxy card will be deemed to confer discretionary authority on the individuals named as proxies therein to vote the shares represented by such proxies as to any such matters in accordance with their own judgment.

LEGAL MATTERS

Rhoads & Sinon LLP will deliver to Orrstown and First National an opinion regarding the validity of the Orrstown common stock to be issued in the transaction, as well as certain federal income tax consequences of the transaction.

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EXPERTS

The consolidated financial statements of Orrstown included in Orrstown's annual report on Form 10-K dated March 15, 2005, for each of the years in the three-year period ended December 31, 2004 have been audited by Smith Elliott Kearns & Co., independent registered public accounting firm, as set forth in their report therein included in Orrstown's annual report and incorporated by reference into this document. Such consolidated financial statements are incorporated by reference into this document in reliance upon such report given upon the authority of said firm as experts in accounting and auditing.

The financial statements of First National for each of the years in the three-year period ended December 31, 2004, have been audited by Smith Elliott Kearns & Co., independent registered public accounting firm, set forth in their report therein included in First National's financial statements included in this document. Such financial statements are included in this document in reliance upon such report given upon the authority of said firm as experts in accounting and auditing.

SHAREHOLDER PROPOSALS

Because Orrstown and First National anticipate that the transaction will be completed during the second quarter of 2006, First National does not intend to hold a 2006 annual meeting of First National shareholders. In the event the transaction is not completed and such a meeting is held, to be eligible for inclusion in First National's proxy statement related to such a meeting, shareholder proposals must be received by First National within a reasonable time after First National publicly announces the date of the meeting and within a reasonable time before First National mails its proxy statement to shareholders.

WHERE YOU CAN FIND MORE INFORMATION

Orrstown filed a registration statement on Form S-4 on January 20, 2006 to register with the Securities and Exchange Commission its shares of common stock to be issued to First National shareholders in the transaction. This document is part of that registration statement and constitutes a prospectus of Orrstown in addition to being a proxy statement of First National for the special meeting. As permitted by SEC rules, this document does not contain all of the information you can find in the registration statement or the exhibits to the registration statement.

Orrstown files annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy any reports, statements or other information filed by Orrstown at the Securities and Exchange Commission's public reference room at the following location:

Public Reference Room

450 Fifth Street, N.W.

Room 1024

Washington, DC 20549

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Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the operation of the public reference room. Securities and Exchange Commission filings by Orrstown are also available to the public from commercial document retrieval services and at the web site maintained by the Securities and Exchange Commission at <http://www.sec.gov>. Orrstown's internet address is www.orrstown.com.

Additional information and documents about First National, including First National's articles of association, bylaws and reports to shareholders, may be obtained by following the instructions under "How To Obtain More Information" on the inside front cover of this document.

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INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

The Securities and Exchange Commission allows Orrstown to incorporate by reference information into this document, which means that we can disclose important information to you by referring you to other information that has been filed with the Securities and Exchange Commission. The information incorporated by reference is considered to be part of this document, except for any information superseded by information contained in subsequent incorporated filings or by information in this document.

This document incorporates by reference the Orrstown documents set forth below that Orrstown previously filed with the Securities and Exchange Commission. These documents contain important information about Orrstown. You should read this document together with the information incorporated by reference.

Documents filed by Orrstown (SEC File No. 033-18888):

Annual Report on Form 10-K for the year ended December 31, 2004;

Quarterly Reports on Form 10-Q for the quarters ended March 31, 2005, June 30, 2005 and September 30, 2005;

Current Reports on Form 8-K, filed with the SEC February 1, 2005, April 14, 2005, May 3, 2005, June 10, 2005, June 28, 2005, July 21, 2005, August 2, 2005, October 19, 2005, November 22, 2005 (as amended by Form 8-K filed December 13, 2005), January 13, 2006 and January 18, 2006; and

The description of Orrstown's common stock set forth in Orrstown's registration statement filed under the Exchange Act, including any amendment or report filed for the purposes of updating such description.

Orrstown is also incorporating by reference additional documents that it files with the Securities and Exchange Commission pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act from the date of this document and adjournment of the First National special meeting. Any statement contained in a document that is incorporated by reference will be deemed to be modified or superseded for all purposes to the extent that a statement contained in this document (or in any other document that is subsequently filed with the SEC and incorporated by reference) modifies or is contrary to that previous statement.

These documents may be obtained as explained above; see "Where You Can Find More Information" at page 68, or you may request a free copy of any or all of these documents, including exhibits that are specifically incorporated by reference into these documents, by writing to or calling Orrstown at the following address or telephone number:

Orrstown Financial Services, Inc.

77 East King Street

Shippensburg, PA 17257

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Attention: Bradley S. Everly, Sr. Vice President and

Chief Financial Officer

Phone Number: (717) 532-6114

If you would like to request documents, please do so by _____, 2006 to receive the documents before the First National special meeting.

All information contained or incorporated by reference in this document relating to Orrstown and its subsidiaries has been supplied by Orrstown. First National supplied all of the information contained or referenced in this document relating to First National.

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INDEPENDENT AUDITOR S REPORT

Board of Directors

The First National Bank of Newport

Newport, Pennsylvania

We have audited the accompanying balance sheets of The First National Bank of Newport as of December 31, 2004 and 2003, and the related statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The First National Bank of Newport as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/Smith Elliott Kearns & Company, LLC

Smith Elliott Kearns & Company, LLC

Chambersburg, Pennsylvania

January 28, 2005, except for Note 19, as to which the date is November 22, 2005.

Table of Contents**THE FIRST NATIONAL BANK OF NEWPORT****BALANCE SHEETS**

(In Thousands)	September 30, 2005	December 31, 2004	December 31, 2003
	(Unaudited)	(Audited)	(Audited)
ASSETS			
Cash and due from banks	\$ 3,289	\$ 3,084	\$ 3,301
Federal funds sold	1,986	1,640	2,896
Total cash and cash equivalents	5,275	4,724	6,197
Investment securities available for sale	41,359	46,301	45,813
Federal Reserve, Federal Home Loan Bank and Atlantic Central Bankers Bank Stock, at cost	506	600	625
Loans, net of allowance for loan losses	70,303	67,607	66,714
Premises and equipment, net	1,206	1,294	1,325
Accrued interest receivable	631	555	616
Other real estate owned	0	75	0
Cash surrender value of life insurance	2,666	2,595	0
Other assets	1,209	1,025	829
Total assets	\$ 123,155	\$ 124,776	\$ 122,119
LIABILITIES			
Demand deposits, noninterest bearing	\$ 9,215	\$ 8,700	\$ 8,417
Demand deposits, interest bearing	27,835	29,207	25,757
Savings deposits	21,392	22,689	22,313
Time deposits	47,488	47,595	48,745
Total deposits	105,930	108,191	105,232
Federal Home Loan Bank advances	3,000	3,000	4,000
Accrued interest payable	206	149	161
Other liabilities	429	302	186
Total liabilities	109,565	111,642	109,579
SHAREHOLDERS EQUITY			
Common stock, \$1 par value; 2,000,000 shares authorized, 400,000 shares issued and outstanding	400	400	400
Additional paid-in capital	400	400	400
Retained earnings	13,008	12,300	11,379
Accumulated other comprehensive income (loss)	(218)	34	361
Total shareholders equity	13,590	13,134	12,540
Total liabilities and shareholders equity	\$ 123,155	\$ 124,776	\$ 122,119

The Notes to Financial Statements are an integral part of these statements.

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Table of Contents**THE FIRST NATIONAL BANK OF NEWPORT****STATEMENTS OF INCOME**

(In Thousands)	Nine Months Ended September 30,		Years Ended December 31,	
	2005	2004	2004	2003
	(Unaudited)		(Audited)	
Interest and Dividend Income				
Interest and fees on loans	\$ 3,494	\$ 3,445	\$ 4,589	\$ 4,972
Interest and dividends on investment securities:				
Taxable	917	937	1,259	1,351
Tax exempt	293	362	474	502
Interest on federal funds sold	58	20	33	25
	<u>4,762</u>	<u>4,764</u>	<u>6,355</u>	<u>6,850</u>
Interest Expense				
Interest on federal funds purchased and other borrowed funds	50	93	123	134
Interest on deposits	1,491	1,464	1,953	2,329
	<u>1,541</u>	<u>1,557</u>	<u>2,076</u>	<u>2,463</u>
Net interest income	3,221	3,207	4,279	4,387
Provision for Loan Losses	0	0	0	90
Net interest income after provision for loan losses	<u>3,221</u>	<u>3,207</u>	<u>4,279</u>	<u>4,297</u>
Other Income				
Service charges on deposit accounts	534	544	736	633
Other service charges, collection and exchange charges, commission and fees	79	76	100	79
Brokerage service income	102	78	110	84
Income on bank owned life insurance	71	69	95	0
Income (loss) on sale of other real estate owned	34	0	0	0
Income (loss) on limited partnership	(16)	(27)	(48)	(36)
Gain (loss) on investment securities	6	21	27	(13)
	<u>810</u>	<u>761</u>	<u>1,020</u>	<u>747</u>
Other Expenses				
Salaries and wages	1,016	1,012	1,352	1,261
Pension and other employee benefits	304	278	396	397
Net occupancy expense of bank premises	181	180	239	243
Furniture and equipment expenses	412	378	523	546
Other operating expenses	533	637	852	705
	<u>2,446</u>	<u>2,485</u>	<u>3,362</u>	<u>3,152</u>

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Income before income taxes	1,585	1,483	1,937	1,892
Applicable income taxes	349	282	361	398
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net income	\$ 1,236	\$ 1,201	\$ 1,576	\$ 1,494
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Earnings per share	\$ 3.09	\$ 3.00	\$ 3.94	\$ 3.73
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The Notes to Financial Statements are an integral part of these statements.

Table of Contents**THE FIRST NATIONAL BANK OF NEWPORT****STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

<u>(In Thousands)</u>	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Shareholders Equity</u>
Balance December 31, 2002 (Audited)	\$ 400	\$ 400	\$ 10,509	\$ 509	\$ 11,818
Comprehensive income:					
Net income	0	0	1,494	0	1,494
Unrealized (loss) on investment securities available for sale (net of tax effect of \$77)				(148)	(148)
Total comprehensive income					1,346
Cash dividends declared on common stock (\$1.56 per share)	0	0	(624)	0	(624)
Balance December 31, 2003 (Audited)	400	400	11,379	361	12,540
Comprehensive income:					
Net income	0	0	1,576	0	1,576
Unrealized (loss) on investment securities available for sale (net of tax effect of \$168)				(327)	(327)
Total comprehensive income					1,249
Cash dividends declared on common stock (\$1.64 per share)	0	0	(655)	0	(655)
Balance December 31, 2004 (Audited)	400	400	12,300	34	13,134
Comprehensive income:					
Net income	0	0	1,236	0	1,236
Unrealized (loss) on investment securities available for sale (net of tax effect of \$130)				(252)	(252)
Total comprehensive income					984
Cash dividends declared on common stock (\$1.32 per share)	0	0	(528)	0	(528)
Balance September 30, 2005 (Unaudited)	\$ 400	\$ 400	\$ 13,008	(\$ 218)	\$ 13,590

The Notes to Financial Statements are an integral part of these statements.

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Table of Contents**THE FIRST NATIONAL BANK OF NEWPORT****STATEMENTS OF CASH FLOWS**

(In Thousands)	Nine Months Ended September 30,		Years Ended December 31,	
	2005	2004	2004	2003
	(Unaudited)		(Audited)	
Cash flows from operating activities:				
Net income	\$ 1,236	\$ 1,201	\$ 1,576	\$ 1,494
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	115	115	149	157
Provision for loan losses	0	0	0	90
Loss on limited partnership	16	27	48	36
Realized (gain) loss on investment securities	(6)	(21)	(27)	13
(Gain) on sale of other real estate owned	(34)	0	0	0
Deferred income taxes	(11)	(9)	(2)	(6)
Decrease (increase) in:				
Cash surrender value of life insurance	(71)	(69)	(95)	0
Accrued interest receivable	(76)	(41)	61	147
Other assets	(59)	54	26	(180)
Increase (decrease) in:				
Accrued interest payable	57	(4)	(12)	(85)
Other liabilities	127	78	117	65
Net cash provided by operating activities	1,294	1,331	1,841	1,731
Cash flows from investing activities:				
(Purchase) sale of FHLB stock	94	13	25	(208)
Proceeds from sales and maturities of available for sale securities	6,171	19,292	25,047	26,200
Purchases of available for sale securities	(1,606)	(21,020)	(26,003)	(26,117)
Net decrease in interest bearing deposits in banks	0	0	0	245
Investment in limited partnership	0	(100)	(100)	0
Purchase of bank owned life insurance	0	(2,500)	(2,500)	0
Net (increase) in loans	(2,696)	(270)	(968)	(1,715)
Proceeds from sale of other real estate owned	109	0	0	80
Purchases of premises and equipment	(27)	(41)	(118)	(79)
Net cash (used) in investing activities	2,045	(4,626)	(4,617)	(1,594)
Cash flows from financing activities:				
Net increase in deposits	(2,260)	3,507	2,958	3,034
Federal Home Loan Bank advances	2,000	1,000	1,000	2,000
Federal Home Loan Bank repayments	(2,000)	(1,000)	(2,000)	(1,962)
Cash dividends paid	(528)	(488)	(655)	(624)
Net cash provided by financing activities	(2,788)	3,019	1,303	2,448

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Net increase (decrease) in cash and cash equivalents	551	(276)	(1,473)	2,585
Cash and cash equivalents, beginning balance	4,724	6,197	6,197	3,612
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Cash and cash equivalents, ending balance	\$ 5,275	\$ 5,921	\$ 4,724	\$ 6,197
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Supplemental Disclosure of Cash Flows Information:

Cash paid during the year for:

Interest			\$ 2,089	\$ 2,549
Income taxes			\$ 351	\$ 379

Supplemental Schedule of Noncash Investing and Financing Activities:

Net unrealized gain (loss) on investment securities available for sale (net of tax effects)			(\$327)	(\$148)
Other real estate acquired in settlement of loans			\$ 75	\$ 0

The Notes to Financial Statements are an integral part of these statements.

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NOTES TO FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies

Nature of Operations

The First National Bank of Newport provides loan, deposit and other related financial services through four full service banking offices in Perry County. The Bank competes with several other financial institutions to provide its services to individuals, businesses, municipalities and other organizations.

The accounting and reporting policies of the Bank conform to U. S. generally accepted accounting principles and to general practices within the banking industry. The following paragraphs briefly describe significant accounting policies.

The accompanying unaudited interim balance sheet as of September 30, 2005, the statements of income and cash flows for the nine months ended September 30, 2005 and 2004 and the statement of shareholders' equity for the nine months ended September 30, 2005 are unaudited. These unaudited interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States. In the opinion of the Company's management, the unaudited interim financial statements have been prepared on the same basis as the audited financial statements and include all adjustments necessary for the fair presentation of the Company's statement of financial position, results of operations and its cash flows for the nine months ended September 30, 2005 and 2004. The results for the nine months ended September 30, 2005 are not necessarily indicative of the results to be expected for the year ending December 31, 2005. All references to September 30, 2005 or to the nine months ended September 30, 2005 and 2004 in the notes to the financial statements are unaudited.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowances for losses on loans and foreclosed real estate, management obtains independent appraisals for significant properties.

While management uses available information to recognize losses on loans and foreclosed real estate, future additions to the allowances may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowances for losses on loans and foreclosed real estate. Such agencies may require the Bank to recognize additions to the allowances based on their judgments about information available to them at the time of their examination. Because of these factors, management's estimate of credit losses inherent in the loan portfolio and the related allowance may change in the near term. However,

the amount of the change that is reasonably possible cannot be estimated.

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, the Bank has defined cash and cash equivalents as those amounts included in the balance sheet captions cash and due from banks and federal funds sold. As permitted by generally accepted accounting principles, the Bank has elected to present the net increase or decrease in deposits in banks, loans and deposits in the Statements of Cash Flows.

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NOTES TO FINANCIAL STATEMENTS (Continued)

Investment Securities

In accordance with generally accepted accounting principles, the Bank may segregate its investment portfolio into three specific categories: securities held to maturity, trading securities and securities available for sale. Securities held to maturity are to be accounted for at their amortized cost; securities classified as trading securities are to be accounted for at their current market value with unrealized gains and losses on such securities included in current period earnings; and securities classified as available for sale are to be accounted for at their current market value with unrealized gains and losses on such securities to be excluded from earnings and reported as a net amount in other comprehensive income.

Management determines the appropriate classification of securities at the time of purchase. If management has the intent and the Bank has the ability at the time of purchase to hold securities until maturity, they are classified as held-to-maturity and carried at amortized historical cost. Securities to be held for indefinite periods of time and not intended to be held to maturity are classified as available for sale and carried at fair value. Securities held for indefinite periods of time include securities that management intends to use as part of its asset and liability management strategy and that may be sold in response to changes in interest rates, resultant prepayment risk and other factors related to interest rate and resultant prepayment risk changes.

The Bank had no investment securities classified as Held to Maturity or Trading Securities during 2004 and 2003.

Realized gains and losses on dispositions are based on the net proceeds and the adjusted book value of the securities sold, using the specific identification method, and flow through the Bank's annual operations. Unrealized gains and losses, net of tax, on investment securities available for sale are reported as a net amount in a separate component (accumulated other comprehensive income) of shareholders' equity until realized.

Federal Reserve, Federal Home Loan Bank, and Atlantic Central Bankers Bank Stock

These investments are carried at cost. The Bank is required to maintain minimum investment balances in these organizations. These stocks are not actively traded and therefore have no readily determinable market value.

Loans and Allowance for Possible Loan Losses

Loans are stated at the amount of unpaid principal, reduced by unearned interest and an allowance for loan losses. Unearned interest on installment loans is recognized as income over the terms of the loans by the interest method. Interest on other loans is calculated by using the simple interest method on daily balances of the principal amount outstanding. The allowance for loan losses is established through a provision for loan losses charged to expenses. Loans are charged against the allowance for loan losses when management believes that the collectibility of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible, based on evaluations of the collectibility of loans and prior loan loss experience. The evaluations take into

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consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrowers' ability to pay.

Nonaccrual/Impaired Loans

The accrual of interest income on loans ceases when principal or interest is past due 90 days or more and collateral is inadequate to cover principal and interest or immediately if, in the opinion of management, full collection is unlikely. Interest accrued but not collected as of the date of placement on nonaccrual status is reversed and charged against current income unless fully collateralized. Subsequent payments received either are

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Table of Contents**NOTES TO FINANCIAL STATEMENTS (Continued)**

applied to the outstanding principal balance or recorded as interest income, depending on management's assessment of the ultimate collectibility of principal. Interest income generally is not recognized on specific impaired loans unless the likelihood of further loss is remote. Interest income on such loans is recognized only to the extent of interest payments received.

Other Real Estate Owned

Real estate properties acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at the lower of carrying value or fair market value less estimated selling cost of the underlying collateral. After foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of carrying amount or fair value less estimated cost to sell. Legal fees and other costs related to foreclosure proceedings are expensed as they are incurred.

Bank Building, Equipment, Furniture and Fixtures and Depreciation

Bank building, equipment, furniture and fixtures are carried at cost less accumulated depreciation. Expenditures for replacements are capitalized and the replaced items are retired. Maintenance and repairs are charged to operations. Depreciation is computed based on the straight-line method over the estimated useful lives of the related assets as follows:

	Years
	<u> </u>
Buildings and Improvements	15 - 40
Equipment, furniture and fixtures	3 - 10

Earnings Per Share

Earnings per common share were computed based upon weighted average shares of common stock outstanding of 400,000 for 2004 and 2003.

Federal Income Taxes

As a result of certain timing differences between financial statement and federal income tax reporting, deferred income taxes are provided in the financial statements. See Note 12 for further details.

Advertising

The Bank follows the policy of charging costs of advertising to expense as incurred. Advertising expense was \$51,377 and \$62,941 for the years ended December 31, 2004 and 2003, respectively.

Fair Values of Financial Instruments

Generally Accepted Accounting Principles (GAAP) require disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. GAAP excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Bank.

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NOTES TO FINANCIAL STATEMENTS (Continued)

The following methods and assumptions were used by the Bank in estimating fair values of financial instruments as disclosed herein:

Cash and Cash Equivalents. The carrying amounts of cash and short-term instruments approximate their fair value.

Securities to be Held to Maturity and Securities Available for Sale. Fair values for investment securities are based on quoted market prices.

Loans Receivable. For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. Fair values for fixed rate loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for impaired loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Deposit Liabilities. The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable-rate certificates of deposit and fixed-term money market accounts approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposits and IRAs are estimated using a discounted cash flow calculation that applies interest rates currently being offered to a schedule of aggregated expected monthly maturities on time deposits.

Long-Term Borrowings. The fair value of the Bank's long-term debt is estimated using a discounted cash flow analysis based on its current incremental borrowing rate for similar types of borrowing arrangements.

Accrued Interest. The carrying amounts of accrued interest approximate their fair values.

Off-Balance-Sheet Instruments. The Bank generally does not charge commitment fees. Fees for standby letters of credit and their off-balance-sheet instruments are not significant.

Comprehensive Income

Comprehensive income is defined as the change in equity from transactions and other events from nonowner sources. It includes all changes in equity except those resulting from investments by shareholders and distributions to shareholders. Comprehensive income includes net income and certain elements of other comprehensive income such as foreign currency transactions; accounting for futures contracts; employers accounting for pensions; and accounting for certain investments in debt and equity securities.

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The Bank has elected to report its comprehensive income in the statement of changes in shareholders' equity. The only element of other comprehensive income that the Bank has is the unrealized gains or losses on available for sale securities.

The components of other comprehensive income and related tax effects are as follows:

<u>(In thousands)</u>	Nine Months Ended		Year Ended	
	September 30,		December 31,	
	2005	2004	2004	2003
	(Unaudited)			
Unrealized holding gains (losses) on available-for-sale securities	(\$374,901)	(\$232,544)	(\$467,801)	(\$238,530)
Reclassification adjustment for losses (gains) realized in income	(6,590)	(21,162)	(26,888)	12,868
Net unrealized gains (losses)	(381,491)	(253,706)	(494,689)	(225,662)
Tax effect	129,707	86,260	168,195	76,725
Net-of-tax amount	(\$251,784)	(\$167,446)	(\$326,494)	(\$148,937)

Table of Contents**NOTES TO FINANCIAL STATEMENTS (Continued)****Note 2. Compensating Balance Arrangements**

The required deposit balances at correspondent banks were \$510,000 at both December 31, 2004 and 2003. These balances were maintained to cover processing costs and service charges.

Note 3. Investment Securities

The amortized cost and fair values of investment securities available for sale at December 31 were:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
2004				
U. S. Treasury securities	\$ 1,012,475	\$ 37,212	\$ 0	\$ 1,049,687
Obligations of other U.S. government agencies and corporations	17,770,920	24,193	164,568	17,630,545
Obligations of state and political subdivisions	11,415,710	244,928	33,685	11,626,953
Corporate bonds	3,395,808	43,490	12,352	3,426,946
Mortgage-backed securities	12,654,836	28,874	116,432	12,567,278
	<u>\$ 46,249,749</u>	<u>\$ 378,697</u>	<u>\$ 327,037</u>	<u>\$ 46,301,409</u>
2003				
U. S. Treasury securities	\$ 1,016,310	\$ 68,925	\$ 0	\$ 1,085,235
Obligations of other U.S. government agencies and corporations	14,335,609	158,548	26,349	14,467,808
Obligations of state and political subdivisions	12,582,509	321,986	36,118	12,868,377
Corporate bonds	3,396,295	140,451	0	3,536,746
Mortgage-backed securities	13,935,698	23,424	104,517	13,854,605
	<u>\$ 45,266,421</u>	<u>\$ 713,334</u>	<u>\$ 166,984</u>	<u>\$ 45,812,771</u>

The amortized cost and fair values of investment securities at December 31, 2004 by contractual maturity are shown below. Contractual maturities will differ from expected maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Available for Sale Securities

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	<u>Amortized Cost</u>	<u>Fair Value</u>
Due in one year or less	\$ 1,402,168	\$ 1,414,959
Due after one year through five years	23,126,275	23,102,173
Due after five years through ten years	8,640,102	8,777,782
Due after ten years	426,368	439,217
	<u>33,594,913</u>	<u>33,734,131</u>
Mortgage backed securities	12,654,836	12,567,278
	<u>\$ 46,249,749</u>	<u>\$ 46,301,409</u>

Proceeds from the sales and calls of available for sale securities in 2004 were \$1,223,791 resulting in gross realized gains and losses of \$30,918 and \$4,030, respectively. Proceeds from sales and calls of available for sale securities in 2003 were \$1,073,389 resulting in gains and losses of \$795 and \$13,663, respectively.

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Table of Contents**NOTES TO FINANCIAL STATEMENTS (Continued)**

Information pertaining to securities with gross unrealized losses at December 31, 2004, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	<u>Less Than Twelve Months</u>		<u>Over Twelve Months</u>		<u>Total</u>	
	Gross Unrealized		Gross Unrealized		Gross Unrealized	
	<u>Fair Value</u>	<u>Losses</u>	<u>Fair Value</u>	<u>Losses</u>	<u>Fair Value</u>	<u>Losses</u>
Investment Securities Available-for-Sale						
U. S. Treasury Securities	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Obligations of U. S. Government agencies	13,610,844	(155,267)	488,220	(9,301)	14,099,064	(164,568)
Obligations of states and political subdivisions	1,937,220	(20,490)	418,952	(13,195)	2,356,172	(33,685)
Corporate bonds	1,228,097	(12,301)	199,948	(51)	1,428,045	(12,352)
Mortgage-backed securities	4,147,440	(36,802)	4,605,663	(79,630)	8,753,103	(116,432)
Total temporarily impaired securities	\$ 20,923,601	(\$ 224,860)	\$ 5,712,783	(\$ 102,177)	\$ 26,636,384	(\$ 327,037)

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the bank to retain its investment in the issuer for the period of time sufficient to allow for any anticipated recovery in fair value.

Investment securities that are pledged to secure public funds and for other purposes as required or permitted by law are as follows:

	<u>2004</u>	<u>2003</u>
Amortized cost	\$ 6,441,950	\$ 10,495,225
Fair value	\$ 6,481,821	\$ 10,543,787

Note 4. Loans

Loans, primarily at fixed rates, at December 31 consisted of the following:

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	<u>2004</u>	<u>2003</u>
Mortgages		
1 to 4 family properties	\$ 42,259,859	\$ 40,187,968
All other	14,398,021	16,641,064
Credit Lines (Real estate secured)	5,549,742	5,390,839
Personal loans	1,905,035	2,110,072
Business loans	4,442,384	3,389,903
	<u>68,555,041</u>	<u>67,719,846</u>
Less allowance for loan losses	948,328	1,006,121
	<u>\$ 67,606,713</u>	<u>\$ 66,713,725</u>

The Bank has granted loans to officers and directors of the Bank and their associates. Related party loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than normal risk of collectibility. The aggregate amount of loans to officers, directors and their associates was \$391,527 and \$376,353 at December 31, 2004 and 2003, respectively.

Table of Contents**NOTES TO FINANCIAL STATEMENTS (Continued)****Note 5. Delinquent and Nonaccrual Loans**

Loans 90 days or more past due (still accruing interest) and those on nonaccrual status were as follows at December 31 (in thousands):

	90 Days or More Past Due		Nonaccrual Status	
	2004	2003	2004	2003
Business loans	\$ 19	\$ 0	\$ 0	\$ 0
Real estate mortgages	165	24	0	0
Personal loans	5	0	0	0
Total	\$ 189	\$ 24	\$ 0	\$ 0

The amount of foregone interest on nonaccrual loans was \$0 for 2004 and 2003.

There were no impaired loans in 2004 or 2003.

Note 6. Concentration of Credit Risk

The Bank is a multi-faceted financial institution whose primary purpose is to provide entities located within its delineated service community with a variety of credit services. The community it serves consists primarily of Perry County, Pennsylvania. Its main office is located in Newport, Pennsylvania with branches located in Duncannon, Red Hill and New Bloomfield, Pennsylvania. Although the Bank has a diversified loan portfolio, a substantial portion of its loan portfolio is concentrated in mortgages secured by 1-4 family properties as disclosed in Note 4.

The Bank evaluates each customer's creditworthiness on an individual basis. The amount of collateral obtained if deemed necessary by the Bank upon the extension of credit is based on management's credit evaluation of the customer. Collateral held varies but generally includes real estate.

The Bank maintains deposit balances at several correspondent banks, which provide check collection and item processing services to the Bank. The balances with these correspondent banks, at times, exceed federally insured limits, which management considers to be a normal business risk.

Note 7. Allowance for Possible Loan Losses

Activity in the allowance for possible loan losses for each year was as follows:

	<u>2004</u>	<u>2003</u>
Balance, beginning of year	\$ 1,006,121	\$ 975,614
Recoveries credited to allowance	5,550	13,215
Provision for possible loan losses charged to income	0	90,000
	<u> </u>	<u> </u>
Total	1,011,671	1,078,829
Losses charged to allowance	63,343	72,708
	<u> </u>	<u> </u>
Balance, end of year	<u>\$ 948,328</u>	<u>\$ 1,006,121</u>

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Table of Contents**NOTES TO FINANCIAL STATEMENTS (Continued)****Note 8. Premises and Equipment**

Premises and equipment at December 31 consisted of the following:

	<u>2004</u>	<u>2003</u>
Land	\$ 175,000	\$ 175,000
Buildings and improvements	1,403,803	1,361,809
Furniture and equipment	1,313,869	1,237,832
	<u>2,892,672</u>	<u>2,774,641</u>
Less accumulated depreciation	1,598,967	1,449,610
	<u>\$ 1,293,705</u>	<u>\$ 1,325,031</u>

Note 9. Deposits

Time deposits of \$100,000 and over were \$11,717,920 and \$10,726,229 at December 31, 2004 and 2003, respectively.

Interest expense on time deposits of \$100,000 and over was \$395,900 and \$441,289 for 2004 and 2003, respectively.

At December 31, 2004, the scheduled maturities of time certificates are as follows:

2005	\$ 23,943,922
2006	6,465,654
2007	6,239,834
2008	6,180,900
2009	1,508,957
Thereafter	3,256,038
	<u>\$ 47,595,305</u>

The aggregate amount of demand deposits reclassified as loan balances was \$111,995 and \$38,217 at December 31, 2004 and 2003, respectively.

The Bank accepts deposits of employees, officers and directors of the Bank on the same terms, including interest rates, as those prevailing at the time for comparable transactions with unrelated persons. The aggregate dollar amount of deposits of employees, officers and directors totaled \$1,172,595 and \$1,185,721 at December 31, 2004 and 2003, respectively.

Note 10. Financial Instruments with Off-Balance-Sheet Risk

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financial needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, standby letters of credit, and financial guarantees written is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Table of Contents**NOTES TO FINANCIAL STATEMENTS (Continued)**

Financial instruments whose contract amounts represent credit risk at December 31:

	Contract or Notional Amount	
	2004	2003
Commitments to extend credit	\$ 4,835,547	\$ 4,939,015
Standby letters of credit and financial guarantees written	67,000	37,000
	\$ 4,902,547	\$ 4,976,015

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the customer. Collateral held varies but may include accounts receivable, inventory, real estate, equipment and income-producing commercial properties.

Standby letters of credit and financial guarantees written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The Bank holds collateral supporting those commitments when deemed necessary by management.

Note 11. Benefit Plans***Retirement Plan***

In 2002, the Bank had a qualified profit-sharing plan for all eligible employees who have completed one year of service. Effective October 1, 2003, the plan was amended and restated as a 401(k) profit sharing plan. Under the restated plan, employees are eligible to participate in the plan after completing one year of service and are 100% vested after five years. Participants may elect to defer up to 70% of eligible compensation subject to statutory limitations on deferrals. In addition, the Bank makes a "safe harbor" contribution of 3% of its participants' eligible compensation. Additional contributions are made at the discretion of the Bank's Directors, subject to legal restrictions that apply to defined contribution retirement plans. Bank contributions to the plan were \$120,413 and \$109,292 for 2004 and 2003, respectively.

Directors Deferral Plan

Beginning in 2004, the Bank implemented a nonqualified deferred compensation program for certain directors. The retirement benefit to be provided is fixed based upon the amount of compensation earned and deferred as elected by the individual participating in the program. Deferred compensation expense amounted to \$39,229 for the year ended December 31, 2004.

Bank Owned Life Insurance

Beginning in 2004, the Bank purchased life insurance covering certain officers and directors. The policies were funded with single premium life insurance contracts. The cash surrender value of the policies is an unrestricted asset of the Bank, which totaled \$2,595,004 at December 31, 2004.

Table of Contents**NOTES TO FINANCIAL STATEMENTS (Continued)****Note 12. Federal Income Taxes**

The components of federal income tax expense are summarized as follows:

	<u>2004</u>	<u>2003</u>
Current year provision	\$ 426,768	\$ 467,338
Tax credit	(64,136)	(64,136)
Deferred income taxes resulting from differences between financial statement and tax depreciation charges	12,412	4,960
Deferred income taxes resulting from differences between financial statement and tax loan loss provision	(1,197)	(10,372)
Deferred income taxes resulting from differences for directors deferred compensation plan	(13,338)	0
	<u> </u>	<u> </u>
Applicable income tax	<u>\$ 360,509</u>	<u>\$ 397,790</u>

Federal income taxes were computed after adjusting pretax accounting income for nontaxable income in the amounts of \$581,218 and \$533,774 for 2004 and 2003, respectively.

The Bank uses the flow through method of accounting for tax credits that are available on its investment in a limited partnership. See Note 13 for further details.

A reconciliation of the effective applicable income tax rate to the federal statutory rate is as follows:

	<u>2004</u>	<u>2003</u>
Federal income tax rate	34.0%	34.0%
Reduction resulting from:		
Nontaxable interest income (net of nondeductible interest)	12.1	9.6
Tax credit	3.3	3.4
	<u> </u>	<u> </u>
Effective income tax rate	<u>18.6%</u>	<u>21.0%</u>

Deferred tax liabilities have been provided for taxable temporary differences related to accumulated depreciation and unrealized gains on available for sale securities. Deferred tax assets have been provided for deductible temporary differences related to the allowance for loan losses, deferred compensation, and unrealized losses on available for sale securities. The net deferred taxes included in the accompanying balance

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sheets include the following components:

	<u>2004</u>	<u>2003</u>
Deferred Tax Assets:		
Allowance for loan losses	\$ 285,512	\$ 284,315
Directors deferred comp	13,338	0
	<u>298,850</u>	<u>284,315</u>
Deferred Tax Liabilities		
Net unrealized gain on securities available for sale	17,564	185,759
Depreciation	97,601	85,189
	<u>115,165</u>	<u>270,948</u>
Net deferred tax assets	<u>\$ 183,685</u>	<u>\$ 13,367</u>

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Table of Contents**NOTES TO FINANCIAL STATEMENTS (Continued)****Note 13. Investment in Limited Partnership**

The Bank is a 99.80% limited partner in Butz House Associates, L.P., a Pennsylvania limited partnership. During 1999, the Bank provided temporary construction financing of approximately \$630,000 to the limited partnership. During 2000, the temporary construction financing was increased to \$650,000 and was subsequently converted into its initial \$650,000 capital investment of the limited partnership.

The Bank made a \$64,000 additional capital investment in early 2001, and made an additional \$100,000 capital investment in 2004 for the limited partnership to payoff short term financing initially provided by the general partner.

This limited partnership, which is primarily a low income housing project in Newport's historic district, entitles the Bank to substantial annual tax deductions and credits which are estimated as follows:

<u>Year</u>	<u>Deductions</u>	<u>Credits</u>
2005 through 2009	\$ 45,000	\$ 64,000
2010 through 2014	50,000	0

The Bank's recorded investment (using the equity method) in this Partnership was \$567,181 and \$514,781 at December 31, 2004 and 2003, respectively and is included in other assets in the balance sheet.

Note 14. Federal Home Loan Bank Advances

Borrowings from the Federal Home Loan Bank at December 31 consisted of the following:

<u>Type</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>2004</u>	<u>2003</u>
Mid-term Repo Fixed	December 2004	2.07%	\$ 0	\$ 1,000,000
Mid-term Repo Fixed	December 2005	1.97	1,000,000	1,000,000
Mid-term Repo Fixed	January 2005	1.53	1,000,000	0
Convertible/strike rate	June 2005	6.481	1,000,000	1,000,000
Mid-term Repo Fixed	January 2004	3.440	0	1,000,000
			<u>\$ 3,000,000</u>	<u>\$ 4,000,000</u>

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The Bank has a maximum borrowing capacity through Federal Home Loan Bank of approximately \$61,000,000, which is collateralized by security agreements in certain assets of the Bank totaling \$65,000,000.

Note 15. Operating Lease Obligations

During 1996 the Bank constructed its Red Hill office on land which is leased to the Bank. This land lease is for twenty-five years, with renewal options for three additional five-year periods.

During 2000 the Bank occupied its New Bloomfield drive-through banking facility under the terms of a twenty-five year lease which gives the Bank a right of first refusal to purchase the property.

Minimum future rental payments under these leases are as follows:

<u>Year</u>	<u>Red Hill</u>	<u>New Bloomfield</u>	<u>Total</u>
2005	\$ 25,000	\$ 8,476	\$ 33,476
2006	25,000	8,476	33,476
2007	25,000	8,476	33,476
2008	25,000	8,476	33,476
2009	25,000	8,476	33,476
Thereafter	312,500	161,665	474,165
	<u>\$ 437,500</u>	<u>\$ 204,045</u>	<u>\$ 641,545</u>

Table of Contents**NOTES TO FINANCIAL STATEMENTS (Continued)**

Both of these leases contain various other provisions, including such items as common area charges, including insurance. Lease payments under these leases for 2004 and 2003 totaled \$38,662 and \$40,898, respectively.

Note 16. Fair Value of Financial Instruments

The estimated fair values of the Bank's financial instruments were as follows at December 31:

	2004		2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and due from banks	\$ 3,083,957	\$ 3,083,957	\$ 3,301,445	\$ 3,301,445
Federal funds sold	1,640,000	1,640,000	2,896,000	2,896,000
Securities available for sale	46,301,409	46,301,409	45,812,771	45,812,771
Restricted bank stock	600,000	600,000	625,000	625,000
Loans receivable	68,555,041	67,396,503	67,719,846	68,392,510
Accrued interest receivable	554,984	554,984	616,285	616,285
Financial Liabilities				
Time certificates	47,595,305	47,711,010	48,744,764	49,483,052
Other deposits	60,595,252	60,595,252	56,486,821	56,486,821
Borrowed funds	3,000,000	3,000,000	4,000,000	4,086,419
Accrued interest payable	148,778	148,778	161,000	161,000

Note 17. Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet the minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth below) of total and Tier I capital (as defined in the regulations) to risk weighted assets, and of Tier I capital to average assets. Management believes, as of December 31, 2004, that the Bank meets all capital adequacy requirements to which it is subject.

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As of December 31, 2004, the most recent notification from the Office of the Comptroller of the Currency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category.

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Table of Contents**NOTES TO FINANCIAL STATEMENTS (Continued)**

The Bank's actual and required capital amounts and ratios were as follows (dollar amounts in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under the Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2004:						
Total capital (to risk weighted assets)	\$ 13,954	20.46%	≥ \$5,455	≥ 8.00%	≥ \$ 6,819	≥ 10.00%
Tier I capital (to risk weighted assets)	13,100	19.21	≥ 2,728	≥ 4.00	≥ 4,091	≥ 6.00
Tier I capital (to average assets)	13,100	10.49	≥ 4,997	≥ 4.00	≥ 6,246	≥ 5.00
As of December 31, 2003:						
Total capital (to risk weighted assets)	\$ 13,007	19.70%	≥ \$5,282	≥ 8.00%	≥ \$ 6,603	≥ 10.00%
Tier I capital (to risk weighted assets)	12,179	18.45	≥ 2,641	≥ 4.00	≥ 3,962	≥ 6.00
Tier I capital (to average assets)	12,179	10.03	≥ 4,857	≥ 4.00	≥ 6,072	≥ 5.00

Regulatory approval is required if the total of all dividends declared by a national bank in any calendar year exceeds net profits (as defined) for that year combined with the retained net profits for the two preceding calendar years. At December 31, 2004, approximately \$2,393,000 was available for dividends without prior regulatory approval.

Note 18. Commitments and Contingencies

The Bank is an 8.33% shareholder in Enterprise Technology Alliance, Inc. (ETA) which provides data processing services for the Bank. The Bank is responsible for its share of any debt for capital expenditures incurred by ETA.

During 2003, the Bank contributed \$176,000 in additional capital to ETA based upon ETA's projected capital expenditures for the next two years. The balance of the Bank's investment in ETA, which is included in other assets on the balance sheet, was \$201,000 at December 31, 2004 and 2003.

The Bank is also subject to claims and lawsuits which arise primarily in the ordinary course of business. Based on information presently available and advice received from legal counsel representing the Bank in connection with any such claims and lawsuits, it is the opinion of management that the disposition or ultimate determination of any such claims and lawsuits will not have a material adverse effect on the financial position, results of operations or liquidity of the Bank.

Note 19. Events Occurring Subsequent to the Audit Report Date

Entry into a Material Definitive Agreement

On November 21, 2005, The First National Bank of Newport and Orrstown Financial Services, Inc., the parent company of Orrstown Bank, signed a definitive agreement to combine their companies.

Pursuant to the terms of the agreement, First National shareholders will be entitled to receive 1.75 shares of Orrstown common stock and \$22.20 in cash. The total value of the merger is approximately \$33.73 million, or \$84.33 per share of First National common stock.

The merger is subject to certain conditions, including approval of First National shareholders and customary regulatory approvals.

The merger is expected to close in the second quarter of 2006.

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Table of Contents**THE FIRST NATIONAL BANK OF NEWPORT****NET INTEREST MARGIN ANALYSIS****(ON A FULLY TAXABLE EQUIVALENT BASIS)****(Unaudited)**

(In Thousands)	2004			2003		
	Average Balance	Interest	Rate	Average Balance	Interest	Rate
ASSETS						
Loans: (1)						
Taxable	\$ 64,406	\$ 4,483	6.96%	\$ 64,344	\$ 4,886	7.59%
Nontaxable (2)	3,302	162	4.91%	2,411	130	5.39%
Total loans	67,708	4,645	6.86%	66,755	5,016	7.51%
Federal funds sold	2,484	\$ 33	1.33%	2,170	\$ 25	1.15%
Investment Securities:						
Taxable	34,604	1,259	3.64%	35,296	1,351	3.83%
Nontaxable (2)	12,093	718	5.94%	12,403	761	6.14%
Total investment securities	46,697	1,977	4.23%	47,699	2,112	4.43%
Total earning assets	116,889	\$ 6,655	5.69%	116,624	\$ 7,153	6.13%
Allowance for loan losses	(999)			(996)		
Bank-owned life insurance	2,493			0		
Other assets	6,531			7,014		
Total assets	\$ 124,914			\$ 122,642		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Deposits:						
Interest bearing demand	\$ 28,947	\$ 252	0.87%	\$ 26,127	\$ 268	1.03%
Savings	21,520	228	1.06%	19,626	240	1.22%
Time deposits	48,351	1,474	3.05%	51,751	1,821	3.52%
Total deposits	98,818	1,954	1.98%	97,504	2,329	2.39%
Borrowings	4,019	123	3.06%	3,678	134	3.64%
Total interest-bearing liabilities	102,837	2,077	2.02%	101,182	2,463	2.43%
Non-interest bearing demand deposits	8,837			8,742		
Other liabilities	375			402		
Total liabilities	112,049			110,326		
Stockholders' equity	12,865			12,316		

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Total liabilities and stockholders' equity	\$ 124,914	\$ 122,642
Net interest income	\$ 4,578	\$ 4,690
Net yield on interest earning assets	3.92%	4.02%

- (1) Nonaccrual loans are included in computing average balance.
- (2) An incremental tax rate of 34% was used to calculate the tax equivalent income. The total tax adjustment was \$299,000 and \$303,000 in 2004 and 2003, respectively.

Table of Contents**THE FIRST NATIONAL BANK OF NEWPORT****EFFECT OF RATE-VOLUME CHANGE ON NET INTEREST INCOME****(Unaudited)**

(In Thousands)	2004 Compared to 2003			2003 Compared to 2002		
	Increase/(Decrease)			Increase/(Decrease)		
	Average Volume	Average Rate	Total	Average Volume	Average Rate	Total
Interest Income						
Loans:						
Taxable	\$ 5	(\$408)	(\$403)	\$ 22	(\$413)	(\$391)
Nontaxable	48	(16)	32	66	(10)	56
Total loans	53	(424)	(371)	88	(423)	(335)
Federal funds sold	4	4	8	(24)	(17)	(41)
Investment securities:						
Taxable	(27)	(65)	(92)	407	(619)	(212)
Nontaxable	(19)	(24)	(43)	290	(99)	191
Total investment securities	(46)	(89)	(135)	697	(718)	(21)
Total Earning Assets	\$ 11	(\$509)	(\$498)	\$ 761	(\$ 1,158)	(\$397)
Interest Expense						
Deposits						
Interest-bearing demand	\$ 29	(\$ 45)	(\$ 16)	\$ 63	(\$ 198)	(\$ 135)
Savings	23	(35)	(12)	66	(140)	(74)
Time deposits	(120)	(227)	(347)	98	(491)	(393)
Total deposits	(68)	(307)	(375)	227	(829)	(602)
Borrowings	12	(23)	(11)	27	(21)	6
Total interest-bearing liabilities	(56)	(330)	(386)	254	(850)	(596)
Net interest income	\$ 67	(\$ 179)	(\$ 112)	\$ 507	(\$ 308)	\$ 199

Note: Volume changes have been determined by multiplying the prior years average rate by the change in average balances outstanding. The rate change is the difference between the total change and the volume change.

Table of Contents**THE FIRST NATIONAL BANK OF NEWPORT****MATURITIES OF INVESTMENT SECURITIES****(Unaudited)****December 31, 2004**

The following table shows the maturities of investment securities at amortized cost as of December 31, 2004, and weighted average yields of such securities. Yields are shown on a taxable equivalent basis, assuming a 34% federal income tax rate.

(In Thousands)	Within 1 Year	1-5 Years	5-10 Years	Over 10 Years	Total
U.S. Treasury Securities Amortized Cost					
Amortized cost	\$ 0	\$ 1,012	\$ 0	\$ 0	\$ 1,012
Yield	0.00%	4.67%	0.00%	0.00%	4.67%
Obligations of other U.S. Government agencies and Corporations:					
Amortized cost	0	17,271	500	0	17,771
Yield	0.00%	3.45%	5.77%	0.00%	3.51%
Obligations of state and political subdivisions					
Amortized cost	200	3,447	7,342	427	11,416
Yield	6.55%	5.00%	5.61%	6.07%	5.19%
Corporate bonds					
Amortized cost	1,202	1,395	799	0	