

ORRSTOWN FINANCIAL SERVICES INC
Form S-4/A
February 09, 2006
Table of Contents

As filed with the Securities and Exchange Commission on February 9, 2006

Registration Statement No. 333-131176

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Pre-Effective Amendment No. 1 to

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.

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. "

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.

Table of Contents

Dear Shareholder:

We cordially invite you to attend a special meeting of shareholders of The First National Bank of Newport to be held at 10:00 a.m., local time on Wednesday, March 29, 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 February 6, 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 February 10, 2006, and first mailed to shareholders on or about February 13, 2006.

Table of Contents

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 March 20, 2006.

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

Table of Contents

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 Wednesday, March 29, 2006 at 10:00 a.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 February 1, 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

February 10, 2006

Table of Contents

Table of Contents

	Page
	<u> </u>
<u>QUESTIONS AND ANSWERS ABOUT THE TRANSACTION</u>	1
<u>SUMMARY</u>	3
<u>The Special Meeting</u>	3
<u>The Merger</u>	4
<u>The Companies</u>	7
<u>Market Price and Dividend Information</u>	7
<u>Market Value of Securities</u>	8
<u>Selected Historical and Pro Forma Financial Data</u>	9
<u>Comparative Unaudited Per Share Data</u>	12
<u>Recent Developments</u>	12
<u>RISK FACTORS</u>	14
<u>A CAUTION ABOUT FORWARD-LOOKING INFORMATION</u>	17
<u>THE SPECIAL MEETING</u>	18
<u>Date, Time and Place</u>	18
<u>Matters To Be Considered At The Special Meeting</u>	18
<u>Recommendation Of First National Board Of Directors</u>	18
<u>Shareholders Entitled To Vote</u>	18
<u>Quorum</u>	18
<u>Required Vote; Voting Agreements</u>	18
<u>Voting By Proxy</u>	19
<u>Abstentions; Broker Non-Votes</u>	19
<u>Broker-Held Shares</u>	19
<u>Changing Your Vote</u>	19
<u>Adjournment</u>	19
<u>Solicitation Of Proxies</u>	20
<u>Dissenter s Rights</u>	20
<u>THE TRANSACTION</u>	20
<u>General</u>	20
<u>Background of the Merger</u>	20
<u>Reasons for the Merger: First National s Board of Directors</u>	23
<u>Recommendation of First National s Board of Directors</u>	24
<u>Opinion of First National s Financial Advisor</u>	24
<u>Compensation of Boenning & Scattergood</u>	33
<u>Reasons for the Transaction: Orrstown s Board of Directors</u>	33
<u>Effects of the Merger</u>	35
<u>What You Will Receive</u>	35
<u>Effective Date</u>	35
<u>Rights of Dissenting Shareholders</u>	35
<u>Representations and Warranties</u>	37
<u>Conduct of Business Pending the Merger Transaction</u>	37
<u>No Solicitation of Other Transactions</u>	39
<u>Dividends</u>	40
<u>Conditions to the Merger</u>	40
<u>Regulatory Approvals</u>	41
<u>Amendment: Waiver</u>	42
<u>Termination</u>	42
<u>Termination Fee</u>	43

Table of Contents

	Page
<u>Expenses</u>	43
<u>Management and Operations After the Transaction</u>	43
<u>Interests of Management and Others in the Transaction</u>	44
<u>Voting Agreements</u>	46
<u>Accounting Treatment</u>	46
<u>Material Federal Income Tax Consequences</u>	47
<u>Resale of Orrstown Common Stock</u>	49
<u>Exchange of First National Certificates</u>	50
<u>Material Contracts</u>	51
<u>UNAUDITED PRO FORMA FINANCIAL INFORMATION</u>	51
<u>INFORMATION ABOUT ORRSTOWN</u>	59
<u>General</u>	59
<u>Indemnification</u>	59
<u>Description of Orrstown Capital Stock</u>	59
<u>Anti-Takeover Provisions</u>	60
<u>New Orrstown Director</u>	62
<u>INFORMATION ABOUT FIRST NATIONAL</u>	62
<u>Business</u>	62
<u>Properties</u>	62
<u>Legal Proceedings</u>	62
<u>Security Ownership by Certain Beneficial Owners and Management of First National</u>	63
<u>COMPARISON OF SHAREHOLDERS RIGHTS</u>	64
<u>OTHER MATTERS</u>	67
<u>LEGAL MATTERS</u>	67
<u>EXPERTS</u>	68
<u>SHAREHOLDER PROPOSALS</u>	68
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	68
<u>INCORPORATION OF CERTAIN INFORMATION BY REFERENCE</u>	69
<u>INDEX TO FIRST NATIONAL S FINANCIAL STATEMENTS</u>	F-1
ANNEXES	
Annex A	<u>Agreement and Plan of Merger</u> A-1
Exhibit 1	<u>Form of Bank Plan of Merger</u> A1-1
Exhibit 2	<u>Form of Affiliates Letter</u> A2-1
Exhibit 3	<u>Form of Tax Opinion</u> A3-1
Exhibit 4	<u>Form of Opinion of FNB Counsel</u> A4-1
Exhibit 5	<u>Form of Employment Agreement Peter C. Zimmerman</u> A5-1
Exhibit 6	<u>Form of Employment Agreement Michael D. Amsler</u> A6-1
Annex B	<u>Fairness Opinion of Boenning & Scattergood, Inc.</u> B-1
Annex C	<u>Section 215a of the National Bank Act</u> C-1

Table of Contents

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 February 6, 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.

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.

Table of Contents

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 1, 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

Table of Contents

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 March 29, 2006 (page 18)

A special meeting of First National's shareholders will be held on March 29, 2006 at First National's main office at Center Square, Newport, Pennsylvania at 10:00 a.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 February 1, 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 February 1, 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 February 1, 2006, a total of 400,000 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 26.8% of the shares entitled to vote at the special meeting.

Table of Contents

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 February 10, 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 \$32,500 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

Table of Contents

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.

Table of Contents

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.**

Table of Contents

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 February 1, 2006, there were 5,439,226 shares of Orrstown common stock outstanding, which were held by approximately 2,740 holders of record, and outstanding options that were exercisable on that date (or within 60 days of that date) for 244,108 additional shares of Orrstown common stock.

Table of Contents

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 February 6)	\$ 79.00	\$ 79.00	\$ 0.45	\$ 35.70	\$ 34.50	\$.18

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 January 20, 2006, the most recent date 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			January 20, 2006		
	High	Low	Closing	High	Low	Closing
First National Common Stock	\$ 60.00	\$ 60.00	\$ 60.00	\$ 79.00	\$ 79.00	\$ 79.00

On November 21, 2005, the last full trading day before the public announcement of execution of the reorganization agreement, and on February 3, 2006, the latest practicable trading day before the printing of this document on which a trade in Orrstown common stock is reported on the OTC Bulletin Board, the high, low and closing sales prices for Orrstown shares were as follows.

	November 21, 2005			February 3, 2006		
	High	Low	Closing	High	Low	Closing
Orrstown Common Stock	\$ 35.50	\$ 35.00	\$ 35.50	\$ 35.50	\$ 35.00	\$ 35.00

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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.

Table of Contents

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 February 6, 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.

	<u>First National</u>		
	<u>Orrstown</u> <u>Historical(1)</u>	<u>Historical(2)</u>	<u>Equivalent</u> <u>Market Value</u>
November 21, 2005	\$ 35.50	\$ 60.00	\$ 84.33
February 6, 2006	\$ 35.00	\$ 79.00	\$ 83.45

- (1) There were no trades in Orrstown common stock reported on the OTC Bulletin Board for February 6, 2006. The price shown for that date is the closing sales price on February 3, 2006, the latest practicable trading day before printing this document on which trades in Orrstown common stock are reported.
- (2) 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 February 6, 2006. The price shown is the last trade before printing this document, which occurred on January 20, 2006.

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

First National's management reported net income (unaudited) for First National of \$1,451,000 or \$3.63 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.

Table of Contents

For the three months ended December 31, 2005, First National realized net income (unaudited) of \$215,000, or \$0.54 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 \$149,801 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.

Table of Contents

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

Table of Contents

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

Table of Contents

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

Table of Contents

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.

Table of Contents

THE SPECIAL MEETING

Date, Time And Place

First National will hold a special meeting of shareholders on March 29, 2006 at 10:00 a.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 February 1, 2006, the record date established by the First National board of directors for the special meeting. As of the record date, there were 400,000 shares of First National common stock issued and outstanding, held by approximately 260 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

Table of Contents

reorganization agreement and the merger. As of February 1, 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 107,058 shares of First National common stock. This number amounts to approximately 26.8% 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

Table of Contents

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.

Table of Contents

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

Table of Contents

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.

Table of Contents

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.

Table of Contents

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 10, 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 10, 2006 as the "Proxy Opinion."

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

Table of Contents

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.

Table of Contents

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;

Table of Contents

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