ORRSTOWN FINANCIAL SERVICES INC
Form DEF 14A
March 24, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **CONFIDENTIAL, FOR USE OF THE COMMISSION ONLY (AS PERMITTED BY RULE 14(a)-6(e)(2))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material under Section 240.14a-12

ORRSTOWN FINANCIAL SERVICES, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

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

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

¨ Fee paid previously with preliminary materials.

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

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

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Orrstown Financial Services, Inc.

77 East King Street

Shippensburg, Pennsylvania 17257

April 1, 2011

Notice of Annual Meeting of Shareholders

The Annual Meeting of Shareholders of Orrstown Financial Services, Inc. will be held on Tuesday, May 3, 2011, at 9:00 a.m., at the H. Ric Luhrs Performing Arts Center, 1871 Old Main Drive, Shippensburg, Pennsylvania, to consider and take action on the following matters:

1. Elect three (3) directors to Class A for three (3) year terms expiring in 2014;
2. Provide a non-binding advisory vote approving the compensation paid to our named executive officers (Say-On-Pay);
3. Provide a non-binding advisory vote on the frequency of the Say-On-Pay vote (Say-On-Frequency);
4. Consider the approval of the 2011 Orrstown Financial Services, Inc. Stock Incentive Plan;
5. Ratify the Audit Committee s selection of Smith Elliott Kearns & Company, LLC as the Company s independent registered public accounting firm for 2011; and
6. Transact such other business as may properly come before the meeting.

Your Board of Directors recommends a vote FOR the election as directors to Class A of the three nominees listed in the enclosed Proxy Statement; FOR approval of the compensation paid to our named executive officers; FOR holding annual Say-On-Pay votes; FOR approval of the 2011 Orrstown Financial Services, Inc. Stock Incentive Plan; and FOR ratification of the Audit Committee s selection of Smith Elliott Kearns & Company, LLC as the Company s independent registered public accounting firm for 2011.

This Notice of Annual Meeting of Shareholders, the Proxy Statement and the enclosed Proxy card are being sent on April 1, 2011 to shareholders of record at the close of business on March 14, 2011. A copy of the Annual Report on Form 10-K for the year ended December 31, 2010 also is enclosed.

/s/ Kenneth R. Shoemaker
Kenneth R. Shoemaker, Secretary

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ORRSTOWN FINANCIAL SERVICES, INC.

77 East King Street

Shippensburg, Pennsylvania 17257

PROXY STATEMENT

Annual Meeting Information

This proxy statement contains information about the Annual Meeting of Shareholders of Orrstown Financial Services, Inc. to be held Tuesday, May 3, 2011, beginning at 9:00 a.m., at the H. Ric Luhrs Performing Arts Center, 1871 Old Main Drive, Shippensburg, Pennsylvania, and at any adjournments or postponements of the meeting. This proxy statement was prepared at the direction of the Company s Board of Directors to solicit your proxy for use at the Annual Meeting. It will be mailed to shareholders on or about April 1, 2011.

Who is entitled to vote?

Shareholders owning Company common stock on March 14, 2011 are entitled to vote at the Annual Meeting or any adjournment or postponement of the meeting. Each shareholder has one vote per share on all matters to be voted on. On March 1, 2011 there were 7,989,556 shares of common stock outstanding.

On what am I voting?

You will be asked to:

(i) elect three (3) directors to Class A for three (3) year terms expiring in 2014;

(ii) provide a non-binding advisory vote approving the compensation paid to our named executive officers as disclosed in this proxy statement (Say-On-Pay);

(iii) provide a non-binding advisory vote on the frequency of holding the Say-On-Pay vote (Say-On-Frequency);

(iv) approve the 2011 Orrstown Financial Services, Inc. Stock Incentive Plan; and

(v) ratify the Audit Committee s selection of Smith Elliott Kearns & Company, LLC as the Company s independent registered public accounting firm for 2011.

The Board of Directors is not aware of any other matters to be presented for action at the meeting. If any other matter requiring a vote of the shareholders would be presented at the meeting, the proxies will vote according to the directions of the Board of Directors.

How does the Board of Directors recommend I vote?

The Board of Directors recommends that shareholders vote:

(i) FOR the election of each of the three nominees as directors to Class A named in this proxy statement;

(ii) FOR approval of the compensation paid to our named executive officers as disclosed in this proxy statement;

(iii) FOR holding the Say-On-Pay vote on an annual basis;

(iv) FOR approval of the 2011 Stock Incentive Plan; and

(v) FOR ratification of the Audit Committee s selection of Smith Elliott Kearns & Company, LLC as the Company s independent registered public accounting firm for 2011.

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How do I vote?

Sign and date each proxy form you receive and return it in the postage-paid envelope provided. If you sign your proxy form but do not mark your choices, your proxies will vote:

(i) FOR the three persons nominated for election as directors to Class A named in this proxy statement;

(ii) FOR approval of the compensation paid to our named executive officers as disclosed in this proxy statement;

(iii) FOR holding the Say-On-Pay vote on an annual basis;

(iv) FOR approval of the 2011 Stock Incentive Plan; and

(v) FOR ratification of the Audit Committee s selection of Smith Elliott Kearns & Company, LLC as the Company s independent registered public accounting firm for 2011.

You may revoke your proxy at any time before it is exercised. To do so, you must give written notice of revocation to the Secretary, Orrstown Financial Services, Inc., 77 East King Street, Shippensburg, Pennsylvania 17257, submit another properly signed proxy with a more recent date or vote in person at the meeting.

What is a quorum?

A quorum is the presence at the meeting, in person or by proxy, of the holders of a majority of the outstanding shares. There must be a quorum for the meeting to be held. Abstentions are counted for purposes of determining the presence or absence of a quorum, but are not considered a vote cast under Pennsylvania law. Brokers holding shares in street name for their customers generally are not entitled to vote on certain matters unless they receive voting instructions from their customers. Such shares for which brokers have not received voting instructions from their customers are called broker non-votes. Under Pennsylvania law broker non-votes will be counted to determine if a quorum is present with respect to any matter to be voted upon by shareholders at the meeting only if such shares have been voted at the meeting on another matter other than a procedural motion.

What vote is required to elect directors?

The three nominees for election as directors to Class A receiving the highest number of votes will be elected to the Board of Directors. Votes withheld and broker non-votes will have no effect on the election of directors.

What vote is required to approve the frequency of holding the Say-On-Pay vote?

The option of holding Say-On-Pay votes annually, every two years or every three years that receives the highest number of votes cast will be the frequency for holding the Say-On-Pay vote that will have been approved by the shareholders. Abstentions and broker non-votes, if any, are not counted as votes cast and, therefore, will have no effect on which option is approved.

What vote is required to approve the other proposals?

A majority of the votes cast by shareholders present in person or by proxy at the Annual Meeting, assuming a quorum is present, is required to approve each of the other proposals. Abstentions and broker non-votes, if any, are not treated as votes cast and, therefore, will have no effect on whether or not a proposal is approved.

Who will count the vote?

The Judges of Election appointed by the Board of Directors will count the votes cast in person or by proxy at the Annual Meeting.

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What is the deadline for shareholder proposals for next year s Annual Meeting?

Shareholders may submit proposals on matters appropriate for shareholder action at future annual meetings by following the rules of the Securities and Exchange Commission and the Company s By-laws. Proposals intended for inclusion in next year s proxy statement and proxy card must be received by the Company not later than December 1, 2011. All proposals should be addressed to the Secretary of the Company.

How are proxies being solicited?

In addition to solicitation by mail, the officers, directors and employees of the Company may, without additional compensation, solicit proxies by telephone or personal interview. Brokers and other custodians, nominees and fiduciaries will be requested to forward soliciting material to the beneficial owners of Common Stock held by such persons and will be reimbursed by the Company for their expenses. The cost of soliciting proxies for the Annual Meeting will be born by the Company.

Important Notice Regarding Availability of Proxy Materials for the Shareholders Meeting to be held on May 3, 2011.

The Notice of Annual Meeting, this Proxy Statement, the form of Proxy and the Company s Annual Report on Form 10-K are available at:

http://www.cfpproxy.com/5772

Share Ownership of Certain Beneficial Owners

The Company does not know of any person who beneficially owned more than 5% of the Company s Common Stock on March 1, 2011, except as shown in the following table:

Name and address of Beneficial Owner	Common Stock Beneficially Owned	Percent of Class
Orrstown Bank 77 East King Street Shippensburg, PA 17257	775,340(1)	9.70%
BlackRock, Inc. 40 East 52nd Street New York, NY 10022	412,275(2)	5.16%

(1) Shares held directly by the Bank, or by way of its nominees, in its trust department as fiduciary for certain trusts, estates and agency accounts that beneficially own the shares. The Bank shares voting power as to 568,160 of these shares but, as a matter of policy, votes such shares solely in accordance with the directions, if any, of the persons with whom it shares voting power. The Bank has sole voting power as to 5,713 of these shares and, subject to the provisions of governing instruments and/or in accordance with applicable provisions of fiduciary law, may vote such shares in what it reasonably believes to be the best interest of the respective trust, estate or agency account for which it holds such shares. As a matter of policy, however, the Bank does not vote shares for which it has sole voting power. The Bank does not have the right to vote with respect to the remaining 201,467 shares and disclaims beneficial ownership of such shares. The Bank has investment discretion with respect to 573,873 of the shares but, as a matter of policy, does not exercise that discretion and acts with respect to such shares solely upon the written direction of the client. The Bank does not have investment discretion with respect to the remaining 201,467 shares.

(2) Holds sole voting and investment power as to all shares.

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Share Ownership of Management

The following table shows the number of shares of Company Common Stock beneficially owned by each incumbent director, each nominee and each executive officer named in the 2010 Summary Compensation Table appearing on page 22, and by all of the incumbent directors, nominees and executive officers of the Company as a group, as of March 1, 2011, based on information furnished by the persons named and the Company s records. Except as otherwise indicated, sole voting power and sole investment power with respect to the shares shown in the table are held either by the individual alone or by the individual together with his or her spouse.

Name	Common Stock[(1)]	Exercisable Stock Options[(1)(2)]
Barbara E. Brobst	3,274	23,793
Anthony F. Ceddia	4,445	5,161
Jeffrey W. Coy	36,152[(3)]	5,161
Jeffrey W. Embly	6,752[(4)]	38,171
Bradley S. Everly	16,346[(5)]	31,673
Philip E. Fague	11,721	39,581
Mark K. Keller	1,724	349
Andrea Pugh	20,149	5,161
Thomas R. Quinn, Jr.	4,300	6,000
Gregory Rosenberry	40,635[(6)]	4,761
Kenneth R. Shoemaker	31,929[(7)]	46,366
Glenn W. Snoke	12,753[(8)]	5,161
John S. Ward	4,531	5,161
Joel R. Zullinger	30,599[(9)]	5,161
Directors, nominees and executive officers as a group (18 persons including those named above)	234,296	264,040

(1) On March 1, 2011, none of the individuals named in the above table may be deemed to beneficially own more than 1% of the outstanding shares of Company Common Stock. On that date, all of the incumbent directors, nominees, and executive officers as a group beneficially owned approximately 6.03% of the outstanding shares of Company Common Stock. Fractional shares beneficially owned by such individuals have been rounded down to the number of whole shares beneficially owned.

(2) The amounts shown reflect the number of shares of Common Stock that the indicated individuals and group have the right to acquire within 60 days of March 1, 2011 through the exercise of stock options granted pursuant to the Company s stock option plans.

(3) Includes 6,172 shares held by Mr. Coy s spouse in her IRA.

(4) Includes 259 shares Mr. Embly holds as custodian for his daughter.

(5) Includes 727 shares pledged to secure a line of credit loan obtained by Mr. Everly from a non-correspondent bank and 1,683 shares held by Mr. Everly s spouse.

(6) Includes 27,093 shares held by a family limited partnership with respect to which Mr. Rosenberry is the President and general partner.

(7) Includes 6,696 shares pledged to secure a loan obtained by Mr. Shoemaker from a non-correspondent bank.

(8) Includes 146 shares held by Mr. Snoke s spouse as custodian for her son.

(9) Includes 220 shares held by Mr. Zullinger s spouse.

Section 16(a) Beneficial Ownership Reporting Compliance.

Based solely upon a review of Forms 3, 4 and 5 furnished to the Company, we believe that during 2010 our directors, executive officers and beneficial owners of more than 10 percent of our common stock who are subject to the reporting requirements of Section 16(a) of the Securities Exchange Act of 1934 complied with all SEC filing requirements applicable to them.

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PROPOSAL 1 ELECTION OF DIRECTORS

The bylaws of the Company provide that the directors will serve in three classes, as nearly equal in number as possible, with each class of directors serving a staggered, three year term of office. At each annual meeting of shareholders, a class consisting of approximately one third of all of the Company s directors is elected to hold office for a term expiring at the annual meeting held in the third year following the year of their election and until their successors have been elected. At the Annual Meeting, the shareholders will be asked to elect three directors to Class A to serve until the annual meeting of shareholders in 2014 or until their successor is elected.

The Board of Directors has nominated the following persons for election as directors to Class A:

Jeffrey W. Coy

John S. Ward

Joel R. Zullinger

All of the named nominees are presently serving as directors of the Company and of Orrstown Bank.

If you return a properly signed and dated proxy your shares of Company Common Stock represented by your proxy will be voted FOR the election of the three named nominees unless you mark the proxy form to withhold authority to vote for one or more of the nominees. If one or more of the named nominees is unable or unwilling to serve as a director, the persons named in the proxy will vote for the election of such substitute nominee, if any, as will be named by the Board of Directors. The Company has no reason to believe that any of the named nominees will be unable or unwilling to serve as a director. Each named nominee has expressed a willingness to serve if elected.

The three named nominees for election of directors to Class A receiving the highest number of votes will be elected to the Board of Directors.

The Board of Directors recommends that you vote FOR the election of all three named nominees as directors to Class A.

Nomination of Directors

In connection with the Annual Meeting, the Nominating and Governance Committee of the Company s Board of Directors has reviewed the qualifications of and made recommendations regarding potential candidates to be nominated by the Board of Directors for election to the Board. The three nominees named above were recommended by the Nominating and Governance Committee, then submitted to and approved by the Board of Directors as the three nominees for election as directors to Class A.

Although there are no stated minimum criteria for nominees, the Nominating and Governance Committee has considered a variety of factors including each candidate s integrity, independence, qualifications, skills, experience, including experience in finance and banking and diversity of experience in relation to other members of the Board of Directors, compatibility with other members of the Board of Directors, the strategic direction of the Company and the Bank, involvement in the communities served by the Bank and such other factors as it has deemed to be in the best interest of the Company, Orrstown Bank and its shareholders, which factors may change from time to time.

The Nominating and Governance Committee will consider the incumbent directors whose terms are expiring at the forthcoming annual meeting, other candidates, if any, recommended to it by shareholders, other directors and other sources within the community, including the Bank s regional advisory boards, and any candidates nominated by shareholders in accordance with the procedures set forth in the Company s bylaws. No recommendations were received by the Nominating and Governance Committee in connection with this Annual Meeting from shareholders or others, nor, as of the date of this Proxy Statement, had any candidates been nominated by shareholders in accordance with the procedures set forth in the bylaws.

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Recommendations should be submitted in writing addressed to Orrstown Financial Services, Inc., 77 East King Street, Shippensburg, Pennsylvania 17257, Attn: Nominating and Governance Committee.

Shareholder nominations in accordance with the procedures set forth in the Company s bylaws must be submitted not less than 30 days and not more than 50 days before the Annual Meeting of shareholders is scheduled to be held and include a statement setting forth the background, education and business experiences of the nominee.

A copy of the Nominating and Governance Committee Charter is posted on the Company s website at www.orrstown.com.

Biographical Summaries of Nominees and Directors

The Board of Directors believes that each of the nominees and directors has such professional experience, recognized achievement in his or her respective field, involvement in the communities served by Orrstown Bank, ability to contribute to some aspect of the Company s business and a willingness to make the commitment of time and effort required of a Company director. Information about the nominees for election as directors to Class A at the Annual Meeting and information about the directors in Class B and Class C demonstrating these characteristics is set forth below.

CLASS A DIRECTORS TERM EXPIRES 2011

Jeffrey W. Coy 59, is Vice Chairman of the Boards of Directors of the Company and of Orrstown Bank. Mr. Coy has served as a Director since 1984. From 2005 to February 2011, Mr. Coy served as a Commissioner on the Pennsylvania Gaming Control Board. From 1983 through 2004, Mr. Coy served as a Representative to the Pennsylvania General Assembly, representing the 89th Legislative District. The Board of Directors values the knowledge, experience and perspective Mr. Coy has attained through his long tenure as a Director of the Company and the Bank and the substantial knowledge of the Bank s Franklin and Cumberland Counties, Pennsylvania market areas he attained through his representation of those areas in the General Assembly.

John S. Ward 73, has been a member of the Board of Directors of the Company and of Orrstown Bank since 1999. Mr. Ward s wife is a first cousin of Gregory A. Rosenberry, a Director of the Company and Orrstown Bank. Mr. Ward served as President of Modern Transit Partnership, a non-profit organization created to support bringing commuter rail service to central Pennsylvania, from 2002 to 2010. Prior thereto, Mr. Ward had a career as a mechanical engineer with Carlisle Syntec, Inc. and Carlisle Tire and Wheel and served as Chief Clerk of Cumberland County, Pennsylvania from 1995 to 2002. The Board of Directors values the senior executive level experience and perspective that Mr. Ward possesses as a result of his careers in industry, local government and public works.

Joel R. Zullinger 62, is Chairman of the Boards of Directors of the Company and of Orrstown Bank. Mr. Zullinger has served as a Director since 1981. Mr. Zullinger is an attorney at law with Zullinger Davis, P.C., in Chambersburg, Pennsylvania. The Board of Directors values the knowledge, experience and perspective Mr. Zullinger has attained through his long tenure as a Director of the Company and the Bank. The Board of Directors also values the leadership and communication skills manifested by Mr. Zullinger s service as Chairman.

CLASS B DIRECTORS TERM EXPIRES 2013

Mark K. Keller 57, was appointed to the Company s Board of Directors to fill the vacancy created by the retirement of Peter C. Zimmerman immediately following the 2009 Annual Meeting of Shareholders. Mr. Keller has served as a member of the Orrstown Bank Board of Directors since 2008. Mr. Keller has served as a Representative to the Pennsylvania General Assembly, representing the 86th Legislative District, since 2004. The Board of Directors values Mr. Keller s knowledge of the Bank s Perry County, Pennsylvania market area attained through his representation of that area in the General Assembly.

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Thomas R. Quinn, Jr. 51, was appointed as President and Chief Executive Officer and Director of the Company and of Orrstown Bank in May 2009 immediately following the 2009 Annual Meeting of Shareholders. Mr. Quinn joined the Bank in March 2009 as President-elect and served in that capacity until he was appointed President and Chief Executive Officer. He served as President and Chief Executive Officer of Fifth Third Bancorp s South Florida Affiliate from 2005 to July 2008, and in a variety of executive positions with Citigroup and its affiliates from 1992 to 2005. The Pennsylvania Banking Code requires that a bank president be a member of the bank s board of directors. The Board of Directors believes that it is important that the President, who also is the Chief Executive Officer, be a member of the Board of Directors of the Company and the Bank so that the President may interact on a peer to peer basis with his fellow directors. In addition, the Board of Directors believes that the knowledge, experience and perspective Mr. Quinn possesses as a result of his service as a senior executive with Fifth Third Bancorp and Citigroup will be valuable to the Company as it makes the transition from a smaller community banking institution to a multi-billion dollar regional institution.

Gregory A. Rosenberry 56, has been a member of the Board of Directors of the Company and of Orrstown Bank since 1997. He is President and General Partner of Rosenberry Family Limited Partnership, a timber harvesting and wholesale, real estate and securities investment business, President and owner of Tri-Valley Forestry, Inc. and a Director, Secretary and shareholder of Rosenberry Brothers Lumber, Inc. Mr. Rosenberry and Mr. Ward s wife are first cousins. The Board of Directors values Mr. Rosenberry s knowledge, experience and perspective as an entrepreneur and small business owner and the insight it provides him into the financial services needs of and business issues facing many of the Bank s small business customers.

Glenn W. Snoke 62, has been a member of the Board of Directors of the Company and of Orrstown Bank since 1999. Mr. Snoke is President of Snokes Excavating & Paving, Inc. The Board of Directors values Mr. Snoke s knowledge, experience and perspective as an entrepreneur and owner of a small business involved in the construction industry and the insight it provides him into the financial services needs and business issues facing many of the Bank s construction industry customers.

CLASS C DIRECTOR NOMINEES TERM EXPIRES 2012

Anthony F. Ceddia 67, has been a member of the Board of Directors of the Company and of Orrstown Bank since 1996. Mr. Ceddia is President Emeritus of Shippensburg University, where he was President from 1981 to 2005. Since his retirement as President of Shippensburg University, Mr. Ceddia has been a Visiting Professor at various institutions. Mr. Ceddia also acts as a leadership and management consultant. The Board of Directors values Mr. Ceddia s executive level experience and perspective and his leadership skills.

Andrea Pugh 58, has been a member of the Board of Directors of the Company and of Orrstown Bank since 1996. She is President and sole member of PharmCare Consultants LLC, a pharmacy consulting business. The Board of Directors values Ms. Pugh s knowledge, experience and perspective as a woman who is an entrepreneur and small business owner and the insight it provides her into the financial services needs of and business issues facing many of the Bank s small business customers that are owned and operated by women.

Kenneth R. Shoemaker 63, is President of the Orrstown Bank Foundation, President Emeritus of Orrstown Bank and a Director and Secretary of the Company and of Orrstown Bank. He served as President and Chief Executive Officer of the Company and of Orrstown Bank from 1987 until his retirement immediately following the 2009 Annual Meeting of Shareholders, and has served as a Director of the Company and of Orrstown Bank since 1986. The Board of Directors values the knowledge, experience and perspective attained by Mr. Shoemaker during his tenure as President and Chief Executive Officer of the Company and the Bank.

Director Independence

The Board of Directors of the Company has adopted the definition of independent director as set forth in Rule 5605(a)(2) of the NASDAQ Stock Market and determined that each Director, other than Messrs. Quinn and Shoemaker, is an independent director under such definition. In making this determination, the Board of

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Directors was aware of and considered the loan and deposit relationships and other transactions with directors and their related interests, which the Company or Orrstown Bank enters into in the ordinary course of business. Other than loans, deposit, fiduciary and other similar relationships with the Company or Orrstown Bank, no director or any of his or her related interests has engaged in any transaction or series of transactions, or is involved in any relationships, as a result of which the director would not be independent under the NASDAQ Stock Market Rule, except Messrs. Quinn and Shoemaker, who are not independent by reason of their respective service as executive officers of the Company and the Bank.

Shareholder Communications with the Board of Directors

The Company does not have a formal process by which shareholders may send communications to the Board of Directors. As a matter of practice, shareholder communications received by the Company are included under the topic Correspondence with the Board meeting materials routinely furnished by management to Directors in connection with meetings of the Board of Directors. In addition, shareholder communications determined by the Chief Executive Officer, in his discretion, to require immediate attention, also are promptly furnished by him to the Chairman. When and as appropriate, the Company seeks to provide a timely response to shareholder communications it receives.

Board Structure, Committees and Meeting Attendance

During 2010 the Board of Directors of the Company met 18 times and the Board of Directors of Orrstown Bank met 12 times. The Board of Directors of the Company has an Executive Committee, a Compensation Committee, an Audit Committee and a Nominating and Governance Committee. The Board of Directors of Orrstown Bank also has an Executive Committee. During 2010 all of the Directors of the Company attended at least 75% of all meetings of the respective Boards and Committees on which they served. It is Company policy that all Directors will attend the Annual Meeting of Shareholders. All of the Company s Directors attended the Annual Meeting of Shareholders in 2010.

With the exceptions of Messrs. Quinn and Shoemaker, all of the Directors of the Company and Orrstown Bank are independent as defined in Rule 5605(a)(2) of the NASDAQ Stock Market. Leadership of the Boards of Directors of the Company and Orrstown Bank is placed in an independent Chairman and an independent Vice Chairman, who also serves as Chair of the Executive Committees. The Boards of Directors believe that this independent leadership helps to provide an appropriate check and balance on the influence of the executive management team generally and the President and Chief Executive Officer, more specifically, particularly in consideration of the President and Chief Executive Officer s membership on the Boards of Directors and Executive Committees. In addition, the independent directors have two regularly scheduled meetings each year in which they meet in executive session with only independent directors present. The independent directors also may meet in executive session at additional times as necessary. In addition to the Executive, Compensation, Audit and Nominating and Governance Committees discussed in greater detail elsewhere in this Proxy Statement, the Board of Directors of the Company also has an Asset and Liability Committee (ALCO), and the Board of Directors of Orrstown Bank has Credit Administration, Loan, Property, Technology and Trust Committees, through which the Boards of Directors are better able to perform their oversight responsibilities with respect to the various risks faced by the Company and Orrstown Bank. The Company s Board of Directors also has an Enterprise Risk Management Committee to provide additional oversight over seven risk areas: credit, operations and transactions, liquidity, market/interest rate, legal/compliance, strategies and reputation. The Enterprise Risk Management Committee meets quarterly.

Executive Committee. The Executive Committees of the Company s and Orrstown Bank s Boards of Directors meet jointly and act on matters between regular meetings of the Company s and Orrstown Bank s Boards of Directors. The members of the Executive Committees are Jeffrey W. Coy, Chairman, Thomas R. Quinn, Jr., Kenneth R. Shoemaker and Joel R. Zullinger. Although they hold offices of the Company and Orrstown Bank, the Board of Directors has determined that Messrs. Coy and Zullinger are independent as defined in Rule 5605(a)(2) of the NASDAQ Stock Market because they hold such offices in their capacities as

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Directors and because they do not, except as Directors, perform a policy making function and are not otherwise in charge of a principal business unit, division or function of the Company or Orrstown Bank. As President and Chief Executive Officer of the Company and Orrstown Bank, Mr. Quinn is not independent. Mr. Shoemaker is not independent, having served as President and Chief Executive Officer of the Company and the Bank within the past three years. The Executive Committees do not have charters. The Executive Committees met 17 times in 2010.

Compensation Committee. The Compensation Committee discharges the responsibilities of the Board of Directors relating to the compensation of the Company s chief executive officer and other executive officers and of the Board of Directors. The Compensation Committee Charter is posted on the Company s website at www.orrstown.com.

The Compensation Committee Charter provides that the Compensation Committee is to be composed of three or more members, each of whom is to be independent as defined in NASDAQ Rule 5605(a)(2), an outside director within the meaning of Internal Revenue Code Section 162(m) and a non-employee director within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, as amended. The members of the Compensation Committee are to be appointed by the Board of Directors upon the recommendation of the Nominating and Governance Committee.

The members of the Compensation Committee are Jeffrey W. Coy, Chair, John S. Ward and Joel R. Zullinger, each of whom the Board of Directors has determined to be independent, an outside director and a non-employee director.

The Compensation Committee Charter provides that the Compensation Committee is to meet at least two times each year and at such other times as it deems necessary to fulfill its responsibilities. The Compensation Committee met 6 times during 2010.

Nominating and Governance Committee. The Nominating and Governance Committee exercises general oversight with respect to the governance of the Board of Directors. It reviews the qualifications of and recommends to the Board of Directors proposed nominees for election to the Board. It also is responsible for evaluating and recommending to the Board corporate governance practices applicable to the Company and for leading the Board in its self-evaluation process. The Nominating and Governance Committee reviews, at least annually, its Charter and recommends proposed changes for Board approval. The members of the Nominating and Governance Committee are Joel R. Zullinger, Chair, Jeffrey W. Coy, Mark K. Keller and Andrea Pugh. As noted above in the discussion about the Executive Committee, Messrs. Coy and Zullinger are independent, as are Mr. Keller and Ms. Pugh. The Nominating and Governance Committee Charter is posted on the Company s website at www.orrstown.com. The Nominating and Governance Committee met once in 2010.

Audit Committee. The Audit Committee provides oversight of the qualifications, independence and performance of the Company s independent auditors; the performance of the Company s internal audit function; and management s implementation of a system of controls designed to safeguard the Company s assets and income, assure the integrity of the Company s financial statements and maintain compliance with the Company s ethical standards, policies, plans and procedures, and with laws and regulations. The Audit Committee Charter is posted on the Company s website at www.orrstown.com.

The Audit Committee Charter provides that the Audit Committee is to be composed of not less than three members, each of whom is to be independent as defined in NASDAQ Stock Market Rule 5605(a)(2) and SEC Rule 10A-3(b)(1); has not participated in the preparation of the Company s financial statements at any time during the past three years; and able to read and understand fundamental financial statements, including the Company s balance sheet, income statement and cash flow statement. In addition, at least one member of the Audit Committee is to have had past employment experience in finance or accounting, or other comparable experience or background, which results in the member s financial sophistication as contemplated by NASDAQ Stock Market Rules.

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The members of the Audit Committee are Andrea Pugh, Chair, Anthony F. Ceddia and John S. Ward, each of whom the Board of Directors has determined to be independent.

In addition, the Board of Directors has determined that Mr. Ward has the requisite financial sophistication required by the Audit Committee Charter to serve as the Audit Committee financial expert as a result of his experience as Chief Clerk of Cumberland County, Pennsylvania, and as President of Modern Transit Partnership. In these positions Mr. Ward has had ultimate responsibility for overseeing and assessing the performance of the County and the Partnership in the preparation of their respective financial statements which, together with his nine year tenure as a member of the Audit Committee, has provided him with an understanding of and familiarity with generally accepted accounting principles and internal controls over financial reporting.

The Audit Committee Charter provides that the Audit Committee is to meet at least 4 times each year. The Audit Committee met 7 times during 2010.

Audit Committee Report

The Audit Committee has reviewed and discussed with management the Company s audited financial statements for the year ended December 31, 2010. The Audit Committee also has discussed with Smith Elliott Kearns & Company, LLC, the matters required to be discussed by the statement on Auditing Standards No. 61, as amended (AICPA, *Professional Standards*, Vol. 1. AU Section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T; received from Smith Elliott Kearns & Company, LLC, the written disclosures and letter required by applicable requirements of the Public Company Accounting Oversight Board regarding Smith Elliott Kearns & Company, LLC s communications with the Audit Committee concerning independence and has discussed with Smith Elliott Kearns & Company, LLC, that firm s independence. In that regard, the Audit Committee has considered whether the provision by Smith Elliott Kearns & Company, LLC, of certain limited permissible non-audit services in addition to its audit services is compatible with maintaining that firm s independence and has determined that it is. Based on the review and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010, filed with the Securities and Exchange Commission.

Audit Committee:

Andrea Pugh, Chair

Anthony F. Ceddia

John S. Ward

This report shall not be deemed to be incorporated by reference by any general statement incorporating by reference this Proxy Statement into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, and shall not otherwise be deemed filed under such acts.

Compensation Committee Interlocks and Insider Participation

As noted above, the members of the Compensation Committee are Jeffrey W. Coy, Chair, John S. Ward and Joel R. Zullinger, each of whom the Board of Directors has determined to be independent, an outside director and a non-employee director. There are no interlocking relationships, as defined by Securities and Exchange Commission regulations under the Securities Exchange Act of 1934, as amended, involving members of the Compensation Committee.

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Transactions with Directors and Management

During 2010 some of the directors and executive officers of the Company and the Bank, members of their immediate families and some of the companies with which they are associated, had banking transactions in the ordinary course of business with the Bank and may be expected to have similar transactions in the future. These transactions were made on substantially the same terms, including interest rates, collateral requirements and repayment terms, as those prevailing at the time for comparable transactions with non-affiliated persons and did not involve more than the normal risk of collectability or present other unfavorable features.

Any business dealing, including extensions of credit, between the Company or the Bank and a Director of the Company or the Bank, or with any entity controlled by such a Director, other than a deposit, trust service or other product or service provided by a bank in the ordinary course of business, is required to be reviewed and approved by a majority of the disinterested Directors. In considering a proposed insider transaction, the disinterested directors are to reasonably determine whether the transaction would be in the best interest of the Company or the Bank and on terms and conditions, including price, substantially the same as those prevailing at the time for comparable transactions with non-insiders.

Extensions of credit by the Bank to a Director of the Company or of the Bank, or to a related interest of such a Director, are subject to Federal Reserve Board Regulation O. Although Regulation O requires the prior approval of such an extension of credit by the Bank s disinterested Directors if the aggregate amount of all extensions of credit to such Director and the related interests of the Director would exceed $500,000, the Company requires prior approval of all such extensions of credit.

Compensation of Directors

The following table sets forth compensation received by Directors of the Company in 2010, other than Thomas R. Quinn, Jr. Mr. Quinn does not receive compensation in his capacity as a Director.

2010 DIRECTOR COMPENSATION TABLE

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($)(1), (2)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)(3), (4)	All Other Compensation ($)(5)	Total ($)
Anthony F. Ceddia	40,200	-	3,316	-	8,640	-	52,156
Jeffrey W. Coy	53,600	-	3,316	-	12,660	-	69,576
Mark K. Keller	39,100	-	3,316	-	-	-	42,416
Andrea Pugh	38,100	-	3,316	-	12,660	-	54,076
Gregory A. Rosenberry	37,500	-	3,316	-	13,290	-	54,106
Kenneth R. Shoemaker	23,200	-	-	-	12,310	252,326	287,836
Glenn W. Snoke	36,000	-	3,316	-	14,280	-	53,596
John S. Ward	41,000	-	3,316	-	6,570	-	50,886
Joel R. Zullinger	58,100	-	3,316	-	22,396	-	83,812

(1) Option awards are valued based on the Black-Scholes model, used by the Company for financial reporting purposes pursuant to FASB ASC Topic 718. There is no assurance the value realized by a Director will be at or near the value estimated by the Black-Scholes model. The actual value, if any, a Director will realize will depend upon the excess of the stock price over the exercise price on the date the option is exercised. In determining the Black-Scholes value, the following assumptions were used for the options awarded in 2010:

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(i) stock price volatility represents the standard deviation in stock prices for Company common stock during the 12 month period prior to grant of the option (47.44%); (ii) dividend yield represents the cumulative dividends per share for the 12 month period prior to grant of the option, divided by the average monthly price of Company common stock over the same period (3.42%); (iii) the risk-free rate of return represents the average monthly yield on US Treasury Notes maturing within 7 years after the date of grant (3.32%); and (iv) an expected time of exercise of seven years.

(2) For each Director, the aggregate number of shares underlying unexercised but exercisable option awards at December 31, 2010 was: Mr. Ceddia 5,161; Mr. Coy 5,161; Mr. Keller 349; Ms. Pugh 5,161; Mr. Rosenberry 4,761; Mr. Shoemaker 46,366; Mr. Snoke 5,161; Mr. Ward 5,161; and Mr. Zullinger 5,161.

(3) Based on an October 1, 2009 to September 30, 2010 plan year for the Directors Retirement Plan.

(4) For Mr. Zullinger, includes a $12,330 increase in the net present value of his accrued benefit under the Directors Retirement Plan, plus a $10,066 calendar year increase in the net present value of his accrued benefit under his brick plan.

(5) For Mr. Shoemaker, includes $100,000 in base salary pursuant to the terms of his three year Executive Employment Agreement (expires May 2012) pursuant to which he serves as President Emeritus of the Bank and President of the Orrstown Bank Foundation; $160 in a discretionary bonus; $10,500 in Company contributions to his 401(k) plan account; and, $141,666 in payments pursuant to his Salary Continuation Plan. A description of the key terms and conditions of the Salary Continuation Plan is set forth in the Executive Compensation section under Potential Payments Upon Termination or Change in Control.

Directors Fees. During 2010 each director of the Company, other than Mr. Quinn, was paid an annual retainer fee of $6,000 and each non-employee director of the Company received $700.00 for each meeting of the Company Board of Directors attended and $300.00 for each committee meeting attended, except that committee chairs received a fee of $400.00 for each committee meeting attended. Each director of Orrstown Bank, other than Mr. Quinn, was paid an annual retainer fee of $6,000.00 and each non-employee director of Orrstown Bank was paid a fee of $700.00 for each meeting of the Bank s Board of Directors attended and $300.00 for each committee meeting attended, except that committee chairs received a fee of $400.00 for each committee meeting attended and Mr. Shoemaker, although an employee director, received a fee for each Technology Committee meeting he attended. In addition, in 2010 the Chairman of the Board of Orrstown Bank received an annual fee of $13,000, the Vice Chairman received an annual fee of $11,000 and the Secretary received an annual fee of $10,000.

Deferred Compensation Plan. In 1995 the Company and Orrstown Bank established a non-qualified deferred compensation plan for directors and executive officers. Participation in the plan is voluntary. Each participant may elect each year to defer all or a portion of his or her directors fees or, in the case of an executive officer, compensation. Directors deferring compensation must begin withdrawals from the plan by age 75 or termination of service as a director, whichever occurs later. Executive officers must begin withdrawals by age 65 or retirement, whichever occurs later. Payments may be made in equal monthly or annual installments over not more than ten years. Immediate distributions may be made in the event the Company would experience a hostile takeover, an acquiring bank or bank holding company would fail to approve the plan or Orrstown Bank, or any acquiring bank or bank holding company, would experience bankruptcy. If a participant would die before payment of his or her entire account, the Company will pay the balance to his or her beneficiary in a single lump sum payment. The amounts deferred are invested in a rabbi trust with the trust department of Orrstown Bank as trustee. The participants direct the investment of their own accounts among various publicly available mutual funds designated by Orrstown Bank s Trust Investment Committee. Growth of each participant s account is a result of investment performance and the public markets and is not a result of an interest factor or interest formula established by the participant or by the Company or its subsidiary bank. In 2010 Ms. Pugh deferred $37,400 and Mr. Ward deferred $29,000.

Directors Retirement Plan. Orrstown Bank has entered into Director Retirement Agreements with Ms. Pugh and Messrs. Ceddia, Coy, Rosenberry, Shoemaker, Snoke, Ward and Zullinger. Each Director

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Retirement Agreement provides the respective Director with a normal retirement benefit in a specified amount, payable in 120 consecutive monthly installments commencing the month following the Director s termination of service after having reached the normal retirement age of 65. Generally, the amount of a Director s annual normal retirement benefit is intended to approximate the amount of his or her directors fees during the year in which he or she became a party to a Director Retirement Agreement, projected to the normal retirement age of 65 based upon annual increases of 4 percent. For every complete plan year after normal retirement age and before termination of service, the amount of the annual benefit will increase by 4 percent.

A Director will forfeit his or her benefits under his or her Director Retirement Agreement if Orrstown Bank would terminate his or her service for gross negligence or gross neglect of duties, commission of a felony or gross misdemeanor involving moral turpitude or fraud, disloyalty or willful violation of any law or policy committed in connection with the Director s service resulting in an adverse effect on Orrstown Bank or if the Director, after termination of service (other than following a change in control of Orrstown Bank), would compete with Orrstown Bank within a 50 mile radius of its main office in Shippensburg, Pennsylvania. Orrstown Bank also would not be obligated to pay any benefit under a Director Retirement Agreement to the extent the benefit would constitute an excess parachute payment under Section 280G of the Internal Revenue Code of 1986, as amended.

If a Director is in active service of Orrstown Bank at the time of a change in control of Orrstown Bank, as defined in Section 409A of the Code, the Director will be entitled to begin receiving his or her normal retirement benefit following the later of the Director s termination of service or attaining normal retirement age. The Director Retirement Agreement provides for an early termination benefit in a specified amount in the event of an early termination of service before normal retirement age, a disability benefit in the event of an early termination of service due to disability and a death benefit.

The amount of the increase in 2010 in the net present value of the accrued benefit under the Directors Retirement Agreement is reported in the 2010 Directors Compensation Table for each participating Director in the Change in Pension Value and Nonqualified Deferred Compensation Earnings Column.

Brick Plan. Mr. Zullinger and three of Orrstown Bank s former Directors participate in so-called brick plans that provide the director or his or her beneficiaries with a monthly cash benefit for a period of 10 years beginning at age 65. The change in the net present value of Mr. Zullinger s accrued benefit under his brick plan from 2009 is reported in the 2010 Director Compensation Table above. Under the brick plan, Mr. Zullinger s annual benefit at age 65 would be $21,804. Mr. Zullinger s total accrued benefit at December 31, 2010 was $110,724 and the vested amount of his annual benefit is $18,020.

Non-Employee Director Stock Option Plan of 2000. On January 27, 2000, the Board of Directors of the Company approved the Orrstown Financial Services, Inc. Non-Employee Director Stock Option Plan of 2000. The Directors Option Plan is a formula plan under which options to purchase shares of Company Common Stock are granted each year to directors in office on April 1. The number of options granted each year is based on the Company s return on average tangible equity for the most recent fiscal year. All options have a term of 10 years from the regular grant date, are fully exercisable from the regular grant date and have an exercise price equal to the fair market value of Company Common Stock as of the date of the grant of the option, defined as the closing price for shares of Company common stock reported on the NASDAQ Stock Market on such date. If a director retires, the options previously granted to the director will expire at their scheduled expiration date. If a director s service as a director terminates for any other reason, the options previously granted to the director will expire six months after the date of termination of service unless scheduled to expire sooner. In April 2010, each director, except for Messrs. Quinn and Shoemaker, was granted an option covering 349 shares of Company Common Stock at an exercise price of $25.76 per share.

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Information About Executive Officers and Other Significant Employees

In addition to Thomas R. Quinn, Jr., President and Chief Executive Officer of the Company and of Orrstown Bank, who also serves as a Director of the Company and of Orrstown Bank, the Executive Officers and other significant employees of the Company and of Orrstown Bank are:

Jeffrey W. Embly 40, is Executive Vice President of the Company. Since January 2008, he has served as Executive Vice President and, since September 2009, Chief Credit Officer of Orrstown Bank. From January 2008 to September 2009, Mr. Embly served as Chief Commercial Officer of Orrstown Bank and, from May 2005 to 2008, Senior Vice President and Chief Loan Officer of Orrstown Bank.

Bradley S. Everly 60, is Executive Vice President and Treasurer of the Company and the Bank and has been Chief Financial Officer of the Company and of Orrstown Bank since 1998. From 1998 to September 2010 he was Senior Vice President of the Company and the Bank.

Philip E. Fague 51, is Executive Vice President and Assistant Secretary of the Company. He has served as Executive Vice President since 1997 and, since September 2009, Mortgage and Consumer Business officer of Orrstown Bank. From January 2008 to September 2009, Mr. Fague served as Chief Retail Officer of Orrstown Bank and, from 2002 to 2008, as Chief Sales and Service Officer of Orrstown Bank.

Douglas P. Barton 46, has been Senior Vice President and Chief Accounting Officer of the Company and Orrstown Bank since September 2010. From 1999 to 2005, Mr. Barton served as Chief Accounting Officer of Sterling Financial Corporation, formerly a $2.8 billion financial holding company. From January 1, 2009 to September 2010, Mr. Barton was a partner in the independent registered public accounting firm ParenteBeard, LLC, and its predecessor, Beard Miller Company LLP. From 2005 to December 31, 2008, Mr. Barton was a senior manager at Beard Miller Company LLP.

Barbara E. Brobst 52, has been Senior Vice President since 2005 and, since 2000, Senior Trust Officer of Orrstown Bank.

Michelle N. Paulnock 50, has been Senior Vice President of Operations of Orrstown Bank since September 2009. She was Vice President and Senior IT Portfolio Manager for The South Financial Group from January 2009 to September 2009, and Vice President and Solution Support Manager for Sterling Financial Corporation from June 2000 to August 2008.

Jeffrey S. Gayman 38, has been Senior Vice President since January 2008 and, since September 2009, Chief Commercial Officer, of Orrstown Bank. Mr. Gayman was Chief Sales and Service Officer of Orrstown Bank from January 2008 to September 2009, Vice President and Regional Senior Loan Officer from June 2006 to January 2008, and Vice President and Commercial Market Manager from December 2002 to June 2006.

Gary R. Holder 49, has been Senior Vice President and Chief Retail Officer of Orrstown Bank since September 2009. He was Vice President and Regional Senior Loan Officer of Orrstown Bank from June 2006 to September 2009 and Business Development Officer from July 2003 to June 2006.

Benjamin S. Stoops 59, has been Senior Vice President since May 2005 and, since December 1998, Chief Technology Officer of Orrstown Bank. Mr. Stoops was Vice President of Orrstown Bank from December 1998 to May 2005.

Mark G. Bayer 48, has been Vice President and Director of Marketing of Orrstown Bank since December 2007. He was Vice President and Director of Sales and Marketing for CommunityBanks from 2004 to December 2007.

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Stephen C. Caldwell 62, has been Vice President, since 2002, and Director of Human Resources, since 2001, of Orrstown Bank.

Compensation Discussion and Analysis

In this section we provide an overview and analysis of our executive compensation programs and policies, the material decisions we have made under those programs and policies and the material factors that we considered in making those decisions.

Executive Summary. 2010 marked an exceptional year for the Company. Despite continuing economic headwinds, tight credit markets, low consumer confidence and substantial regulatory change, we managed our organization well and achieved superior operating and financial performance. The following are a sample of key operating and financial highlights from 2010:

- Net income grew 24.0% to $16,581,000.
- Return on assets grew from 1.19% to 1.21%.
- Diluted earnings per share grew $0.10 to $2.17.
- Assets increased 26.4%.
- Deposits were up 29.9%.
- Net interest margin grew 7 basis points to 3.73%.
- The cash dividend increased by one cent per share.
- The efficiency ratio was 54.89% for the year.
- The ratio of non-performing assets to total assets was 1.07%.
- The ratio of non-performing loans to total loans was 1.56%.

In addition to these achievements, we also raised $37.6 million in capital in March 2010. Although the capital raise impacted our stock price for the short term in 2010, we believe it was the correct long term decision to support our objective of creating long-term shareholder value. We also strategically modified our organizational structure to further enhance our value proposition to our customers, providing for a more integrated service delivery system.

Given our strong performance in 2010, the Compensation Committee rewarded management with the following actions:

- Named executive officers were provided salary increases commensurate with market practice and reflecting individual contributions to our overall successes.

Bonuses were awarded to named executive officers based on a broad review of performance, as well as comparative market compensation data for similar positions.

Stock options were granted to named executive officers to more closely align executive compensation to shareholder interests, as well as to balance incentives on short- and long-term bases.

In addition to these actions, the Compensation Committee also expects to implement the following changes in 2011, subject to final Committee approval in the case of annual incentives and shareholder approval of the proposed 2011 Orrstown Financial Services, Inc. Stock Incentive Plan in the case of long-term incentives. The Committee believes that these changes will promote greater line of sight in incentive programs, achieve a balance of pay for performance and appropriate risk taking, and substantially improve the retentive power of our executive compensation program.

Implement a comprehensive scorecard of metrics to evaluate named executive officers for the purpose of determining annual incentive compensation payouts.

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Shift our long-term incentive strategy from 100% stock options to a balance of stock options and restricted stock, both with multi-year vesting conditions.

Shift the total mix of pay towards more emphasis on long-term incentive compensation than has historically been provided.

Executive Compensation Objectives and Philosophy. The Company s compensation and benefits programs and policies are intended to provide fair, reasonable and competitive levels of compensation and benefits in order to recruit, motivate, reward and retain qualified executive officers and generate long term value for the Company s shareholders. A significant amount of compensation is dependent upon Company performance and individual contribution to Company success, but with a level of risk taking appropriate for the potential reward to the Company. Our goal is for our executive officers to prosper when the Company prospers, but for them to realize less personal income if the Company is less successful.

Compensation Structure. We compensate our executive officers through a combination of base salary, annual cash incentives, stock options and other benefits. Base salaries are set at levels competitive within the industry and the local market area in order to attract and retain executive officers who possess the knowledge, skills and abilities necessary to successfully execute their duties and responsibilities. A portion of annual cash bonuses are linked to annual Company performance in order to incent and reward such performance and a portion of annual cash bonuses are paid to incent and reward annual individual contributions to Company performance. Stock options are awarded annually to further link annual compensation to annual Company performance, but also to link the compensatory interests of executive officers to the interests of shareholders in the long term success and growth of the Company. Health and welfare benefit programs are provide to executive officers on the same terms and conditions as all other employees and are intended to be competitive within the industry and the local market area. We also provide our executive officers with certain supplemental retirement programs on a basis competitive within the industry.

Illustrated below is our overall mix of pay for direct compensation elements, including our base salaries, annual incentive bonuses, and long-term incentive (i.e., stock option) awards.

Process for Determining Executive Compensation. The Compensation Committee, management, and the Compensation Committee s independent compensation consultant, Pearl Meyer & Partners, LLC, participate in the determination of executive compensation programs and practices. The actual roles for each group are thoughtfully developed to align with governance best practices and objectives. Generally, the Compensation Committee is responsible for carrying out the responsibilities of its charter, including (but not limited to) establishing, implementing and monitoring adherence to the Company s compensation philosophy. The Compensation Committee seeks to ensure that the total compensation paid to our executive officers is fair, reasonable and competitive.

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Management s role in determining executive compensation programs and practices consists of developing proposals regarding program design and administration for the Compensation Committee s review and approval. Management also is responsible for making compensation recommendations each year, typically in the form of salary adjustments, short-term incentive targets and awards, and long-term incentive grants. For Mr. Quinn, the Compensation Committee, comprised entirely of independent Directors, makes and approves recommendations regarding his pay.

The Compensation Committee also uses outside compensation consultants. A compensation consultant generally reviews, analyzes and provides advice about the Company s executive compensation programs in relation to the objectives of those programs, including comparisons to designated peer group companies and comparisons to best practices, along with information and advice on competitive compensation practices and trends, and specific views on the Company s compensation programs. For 2010, the Compensation Committee retained the services of Pearl Meyer & Partners, LLC. Pearl Meyer provides no other consulting or other services on behalf of the Company.

Benchmarking of Compensation Levels. In making compensation decisions, the Compensation Committee generally reviews competitive market data. In 2010, Pearl Meyer developed a peer group of 19 banks to be used in evaluating the competitiveness of the Company s current executive compensation program, as well as the appropriateness of any proposed changes. The peer group represented banks that met the following basic criteria:

- Assets of approximately 0.5x 2.0x that of the Company
- Commercial banks
- Domiciled in the Mid-Atlantic region of the United States
- Similar business models

These criteria, further refined to reduce the number of comparators, resulted in the following peer group:

- Metro Bancorp, Inc.
- Financial Institutions, Inc.
- Univest Corporation of Pennsylvania
- Cardinal Financial Corporation
- Eagle Bancorp, Inc.
- Arrow Financial Corporation
- Tower Bancorp, Inc.

Peapack-Gladstone Financial Corporation

Alliance Financial Corporation

First Mariner Bancorp

Citizens & Northern Corporation

CNB Financial Corporation

VIST Financial Corp.

Bryn Mawr Bank Corporation

Commonwealth Bankshares, Inc.

Community Bankers Trust Corporation

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Center Bancorp, Inc.

Royal Bancshares of Pennsylvania, Inc.

Shore Bancshares, Inc.

2010 Compensation Decisions. The Compensation Committee met 6 times in 2010, as well as attended a conference in Chicago relating to industry changes as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act. At its July meeting, the Compensation Committee decided to engage Pearl Meyer to evaluate the Company s current executive compensation programs and practices. Throughout the year, Pearl Meyer conducted interviews with members of the Compensation Committee and executive management team.

In December the Compensation Committee met to consider executive bonuses for 2010 and executive salaries for 2011. Mr. Quinn made recommendations regarding the compensation of each of the named executive officers other than himself. After presenting his recommendations, Mr. Quinn was excused from the meeting and the Compensation Committee s members, Messrs. Coy, Ward, and Zullinger, reviewed and considered Mr. Quinn s recommendations, as well as independently evaluated and considered matters relating to Mr. Quinn s compensation. The Compensation Committee accepted certain of Mr. Quinn s recommendations and presented and modified others in accordance with their own evaluations and judgments. The Compensation Committee s recommendations were then presented to and approved by the independent directors of Orrstown Bank at its December meeting.

Base Salary. Base salaries for executive officers are determined based upon a comparison of Company performance to competitive market data, as well as evaluations of individual performance and contributions. Using the median as a starting point, Mr. Quinn recommends annual changes in base salaries of executive officers, other than himself, based on his evaluation of past performance, job duties, scope and responsibilities and expected further contributions. In determining the level of base salary, an individual s personal performance in achieving previously established goals is the most important factor. Following consideration of the information obtained and reviewed, and the recommendations of Mr. Quinn, the members of the Compensation Committee recommended and the Bank s independent directors approved at its December meeting increasing base salaries in 2011 to $414,027 for Mr. Quinn; $206,013 for Mr. Everly; $209,391 for Mr. Fague; $209,906 for Mr. Embly; and $154,274 for Ms. Brobst. In December 2009 base salaries for 2010 were set to $400,012 for Mr. Quinn, $168,817 for Mr. Everly, $202,800 for Mr. Fague, $203,287 for Mr. Embly and $149,762 for Ms. Brobst.

Cash Bonuses. As noted above, a portion of annual cash bonuses are linked to annual Company performance and a portion are related to annual individual contributions to Company performance. As a guide for determining the amount of cash bonus to be awarded to an executive officer, the Compensation Committee historically has referred to Orrstown Bank s Executive Incentive Plan, established in 1998. The purpose of the Plan is to support and promote the pursuit of the Bank s organizational objectives and financial goals through the payment of annual cash bonuses to executive officers and other key employees based upon the percentage increase in earnings for the year, which is given a 75% weighting, and the percentage increase in funds (deposits and short-term purchased funds) for the year, which is given a 25% weighting. The resulting percentage factors are then added together, resulting in a bonus percentage factor to be applied to an executive s salary to determine the amount of his or her bonus. For example, a 10% increase in earnings and a 20% increase in funds would result in a 12.5% bonus percentage factor (10% x .75 = 7.5%, 20% x .25 = 5%; 7.5% + 5% = 12.5%). Assuming a base salary of $100,000, the amount of the bonus would be $12,500. In addition, the Compensation Committee and the Board of Directors have further discretion to modify cash bonus amounts calculated pursuant to the Plan to reflect individual performance, contribution and company successes that are not captured in the formula-based calculation. Thus, the amounts reported as bonus in the Summary Compensation Table for 2010 reflect amounts that the members of the Compensation Committee and the independent directors believe appropriately reward individual contributions to total Company performance. 2010 awards were $196,000 for Mr. Quinn, $70,267 for Mr. Everly, $83,776 for Mr. Embly, $71,176 for Mr. Fague and $30,213 for Ms. Brobst. The rationale for increased bonus payouts relative to the formula-based amounts were that the Company outperformed the peer group on many of the key financial and operating measures the Bank reviews, including net income, return on average assets, return on equity and efficiency ratio. The Committee believes that these results were achieved as a result of the efforts of the executive management team.

For 2011 the bonus program is expected to be modified to be driven by performance measured by seven key metrics. These metrics are net income, diluted earnings per share, return on average assets, return on tangible equity, efficiency ratio and the ratios of non-performing assets to total assets and non-performing loans to total loans, which emphasize rates of return, efficiency of operations and asset quality. Three tiers of performance targets will be established and the attainment of higher levels of performance will lead to the creation of a larger bonus pool. In addition to absolute measurement, it is the intent of the Committee to measure results on a relative basis as well, comparing the Company s results with those of the peer group. The 2011 bonus program has not yet been approved by the Compensation Committee and, therefore, is subject to change.

Stock Options. On January 27, 2000, the Board of Directors of the Company unanimously approved and adopted the Employee Stock Option Plan of 2000. The Stock Option Plan was ratified by the shareholders at the 2000 Annual Meeting. The purpose of the Stock Option Plan is to promote the long term success of the Company and the creation of shareholder value by providing additional incentives to those officers and key employees who are in a position to contribute to the long term growth and profitability of the Company; assist the Company to attract, retain and motivate key personnel with experience and ability; and link employees receiving stock options directly to shareholder interests through increased stock ownership.

The Compensation Committee, on behalf of the Board of Directors, administers the Stock Option Plan, and determines the number of shares to be covered by each option, the term of the option, the period of time for options to vest after grant, if any, and other terms and limitations applicable to the exercise of the option. All options awarded under the Stock Option Plan are exercisable at an option price equal to the fair market value of the Company s common stock on the date of grant of the option, defined as the closing price for shares of Company common stock reported on the NASDAQ Stock Market on such date. Grants to officers of the Company and other key employees are based on criteria established by the Compensation Committee including past performance, job duties, scope and responsibilities and contributions to overall Company performance.

The Compensation Committee has total discretion over the number of shares covered by option grants. Awards generally are recommended by the Compensation Committee and approved by the Board of Directors in June or July. In July 2010, recommendations were made by the members of the Compensation Committee and approved by the independent directors. The following options for common shares were granted: 6,000 for Mr. Quinn, 4,800 for Mr. Everly, 4,800 for Mr. Embly, 4,800 for Mr. Fague and 2,750 for Ms. Brobst. All grants carry a $21.14 exercise price. The Committee made a conscious decision to spread options deeper into the employee base in 2010, so the grants to executive officers represent a smaller portion of the total grants than in previous years.

For 2011 the Compensation Committee has approved changes to the long-term incentive strategy. It is the Committee s intent, subject to receiving approval of the 2011 Orrstown Financial Services, Inc. Stock Incentive Plan, to offer to executive officers a combination of stock options and restricted stock, both with multi-year vesting. The Committee anticipates that proposed changes to both the annual cash bonus plan and the long-term incentive strategy will provide for greater alignment with the overall executive compensation philosophy and purpose.

401(k) and Profit Sharing Plan. Orrstown Bank maintains a 401(k) plan for the benefit of eligible employees. The Bank makes annual matching contributions of up to 50 percent of employee contributions under the plan up to 3 percent of an employee s annual compensation. In addition, the Bank maintains a profit sharing plan covering all employees who have attained age 21, completed one year of service and have worked for 1,000 hours or more during the plan year. Upon becoming eligible to participate in the plan, an employee is fully vested. Contributions to the plan are based on the Company s performance and are at the discretion of the Bank s

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Board of Directors. Substantially all of the Bank s employees are covered by the plan. The Bank s contribution to the plan on behalf of all participants may not be in excess of the maximum amount deductible for tax purposes under Section 404(a) of the Internal Revenue Code of 1986, as amended. In general, this amount cannot be more than 15 percent of compensation otherwise paid during the taxable year to all employees under the profit sharing plan.

Deferred Compensation and Supplemental Benefit Programs. Orrstown Bank has established salary continuation plans and group term replacement plans for certain of its executive officers. The purposes of these programs are to provide to those executive officers an economic incentive for long term service to the Company and the Bank. The Compensation Committee believes that these programs are competitive with those offered by other banks of similar size on a regional basis.

Orrstown Bank has established salary continuation plans for certain of its executive officers including, without limitation, the named executive officers, in order to provide them with supplemental retirement income. The purpose of the plans is to provide an incentive to such persons to continue in the employ of the bank.

Orrstown Bank also has established an officer group term replacement plan for the benefit of Messrs. Quinn, Everly and Fague. This plan provides participating officers with a life insurance benefit equal to two times current salary with no cap. Under the plan the officer receives the same coverage as he currently receives under the Bank s group term plan but at less cost to the Bank while the officer is employed. The officer receives continued coverage after retirement for a small annual charge. The post-retirement coverage will approximate two times annual salary (but not exceed the net coverage purchased).

As noted above in connection with director compensation, the Company also has established a non-qualified deferred compensation plan for directors and executive officers, but no executive officer made any deferrals pursuant to that plan in 2010.

Employment Agreements. On March 1, 2009, the Company entered into an executive Employment Agreement with Mr. Quinn providing for a two year term expiring February 28, 2011. The Company and the Bank entered into Executive Employment Agreements on January 21, 2010, back dated to be effective December 31, 2009, with Messrs. Fague and Embly, providing for two year terms to expire December 31, 2011. The Company and the Bank entered into an Executive Employment Agreement with Mr. Everly providing for a two year term to expire September 30, 2012. Subject to the right of the executive to resign at any time upon ninety days prior notice, the Executive Employment Agreements provide for renewal or extension for successive two year terms by written notice to the Executive by the Company and the Bank not later than one hundred twenty days prior to the expiration of the then current term. In addition to annual base salaries, the Executive Employment Agreements provide that each officer is eligible to receive annual incentive payments and equity incentive awards, and to participate in any retirement plan, deferred compensation plan, welfare benefit plan or other benefit program in which other senior officers of Orrstown Bank are eligible to participate. The Executive Employment Agreements also contain customary nondisclosure, nonsolicitation and mutual nondispargement provisions and restrictive covenants. The purpose of the Executive Employment Agreements is to provide those officers with job security while providing the Company and Orrstown Bank with protections against competition and solicitation of customers and employees if any of the officers would leave the Bank s employ.

Change in Control Agreements. The Company and Orrstown Bank entered into Change in Control Agreements with Mr. Quinn in March 2009, and with Messrs. Embly, Fague and Everly in May 2008. The purpose of the Change in Control Agreements is to promote the interests of the Company and Orrstown Bank by mitigating the concerns senior officers may have for job security, authority or compensation in connection with a change in control of the Company or Orrstown Bank, such that the business and strategic decisions such officers may make on behalf of the Company and the Bank may be made independently of such concerns. The Compensation Committee believes that providing Change in Control Agreements to such senior executives is competitive with the practices of its peers. The key terms and conditions of the Change in Control Agreements are described below under Potential Payments Upon Termination or Change in Control.

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Risk Management. We do not believe that the Company s compensation programs and practices present any risks that are reasonably likely to have a material adverse effect on the Company. As demonstrated by the charts above, approximately two-thirds of executive compensation is base salary. Annual incentive compensation is wholly subject to the discretion of the Compensation Committee and the independent directors. Similarly, not only is long-term incentive compensation in the form of stock options also subject to Compensation Committee and independent director discretion, it also reflects a modest portion of total compensation at lesser levels than among the Company s peers. With respect to those employees whose compensation may involve a variable component such as loan originators and investment counselors who are paid, in significant part, based upon production, we believe the aggregate absolute amount of such compensation is not material to the Company and that the Company s internal controls further mitigate the risks that otherwise might be incurred as a result of such activities and compensation practices.

Compensation Committee Report

We, the members of the Compensation Committee of the Board of Directors of Orrstown Financial Services, Inc., have reviewed and discussed the Compensation Discussion and Analysis set forth above with the management of the Company and, based on such review and discussion, have recommended to the Board of Directors of the Company inclusion of the Compensation Discussion and Analysis in this proxy statement and, through incorporation by reference from this proxy statement, in the Company s Annual Report on Form 10-K for the year ended December 31, 2010.

Submitted by the Compensation Committee

Jeffrey W. Coy, Chair

John S. Ward

Joel R. Zullinger

This report shall not be deemed to be incorporated by reference by any general statement incorporating by reference this proxy statement into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, and shall not otherwise be deemed filed under such acts.

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Executive Compensation Tables

The following table sets forth information as to the compensation paid or accrued by the Company for the year ended December 31, 2010 for services rendered in all capacities by our principal executive officer, principal financial officer and for each and up to three other executive officers who received total compensation in excess of $100,000.

2010 Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)(1)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)(2)	All Other Compensation ($) (See Table Below)	Total ($)
Thomas R. Quinn, Jr.	2010	399,051	196,160	-	34,860	-	194,122	89,775	913,968
President & Chief Executive Officer	2009	302,885	75,160	-	-	-	14,490	27,299	419,834
Bradley S. Everly,	2010	180,204	70,267	-	27,888	-	49,266	33,262	360,887
Executive Vice	2009	158,346	33,660	-	11,336	-	32,055	29,158	264,555
President & Chief									
Financial Officer	2008	146,000	15,000	-					