

ORRSTOWN FINANCIAL SERVICES INC
Form S-4/A
February 09, 2006
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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. Jeffrey 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.

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Dear Shareholder:

We cordially invite you to attend a special meeting of shareholders of The First National Bank of Newport to be held at 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.

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HOW TO OBTAIN MORE INFORMATION

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

Bradley S. Everly, Senior Vice President and

Chief Financial Officer

Orrstown Financial Services, Inc.

77 East King Street

Shippensburg, PA 17257

Telephone Number: (717) 532-6114

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

Jane L. Timothy, Secretary

The First National Bank of Newport

Center Square

Newport, PA 17074

Telephone Number: (717) 567-3414

To obtain timely delivery of requested documents, you should request the information no later than March 20, 2006.

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

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THE FIRST NATIONAL BANK OF NEWPORT

Center Square

Newport, PA 17074

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that a special meeting of shareholders of The First National Bank of Newport will be held at First National's main office at Center Square, Newport, Pennsylvania, on 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

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QUESTIONS AND ANSWERS ABOUT THE TRANSACTION

Q: What am I being asked to vote on?

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

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

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

Q: What will I receive in the transaction?

A: If the merger is approved and subsequently completed, you will receive, for each share of First National common stock that you own, 1.75 shares of Orrstown common stock and \$22.20 in cash. On 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.

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

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

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

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

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

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

Q: Should I send in my stock certificates now?

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

Q: When do you expect to complete the transaction?

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

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SUMMARY

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

The Special Meeting

First National Special Meeting To Be Held 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.

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The Merger

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

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

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

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

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

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

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

The full text of Boenning's updated opinion dated as of 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

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

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

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

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

the approval of the reorganization agreement by First National shareholders;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Dividend Policy (see page 40)

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

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

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

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

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

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

The Companies

The First National Bank of Newport (see page 62)

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

The principal executive offices of First National are located at:

The First National Bank of Newport

Center Square

Newport, PA 17074

(717) 567-3414

Orrstown Financial Services, Inc. (see page 59)

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

The principal executive offices of Orrstown are located at:

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Orrstown Financial Services, Inc.

77 East King Street

Shippensburg, PA 17257

(717) 532-6114

Market Price and Dividend Information

First National common stock is traded over the counter and trading is very limited in volume. Quotations for First National common stock appear on the Pink Sheets under the symbol FNBT. Orrstown common stock is also traded over the counter in limited volume and quotations for Orrstown common stock appear on the OTC Bulletin Board under the symbol ORRF. As of 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.

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

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

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The historical market values per share of Orrstown common stock and First National common stock and the historical market value of Orrstown common stock used to determine the equivalent market value per share of First National common stock are the per share closing sales prices on November 21, 2005 and 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.

	Orrstown Historical(1)	First National	
		Historical(2)	Equivalent Market Value
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.

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(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.

	At September 30, 2005	At December 31, 2004
	<u> </u>	<u> </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	\$