ORRSTOWN FINANCIAL SERVICES INC
Form 424B5
March 24, 2010
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File Number 333-164780

PROSPECTUS SUPPLEMENT

(To Prospectus Dated February 23, 2010)

1,481,481 Shares

Common Stock

We are offering 1,481,481 shares of our common stock, no par value per share. Our common stock is traded on the NASDAQ Capital Market under the symbol ORRF. On March 23, 2010, the closing sale price of our common stock was $30.50 per share, as reported on the NASDAQ Capital Market.

Investing in our common stock involves risks. You should carefully read and consider the risk factors described in this prospectus supplement, the accompanying base prospectus, our periodic reports and other information we file with the Securities and Exchange Commission, or the SEC, before making a decision to purchase our common stock. See Risk Factors beginning on page S-8 of this prospectus supplement.

	Per Share	Total
Public offering price	$ 27.00	$ 39,999,987
Underwriting discount	$ 1.485	$ 2,199,999
Proceeds, before expenses, to us	$ 25.515	$ 37,799,988

The underwriters also may purchase up to an additional 222,222 shares of our common stock at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus supplement to cover over-allotments, if any.

Neither the Securities and Exchange Commission, any state securities commission, the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, any state banking regulator nor any other regulatory body has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement or the accompanying base prospectus. Any representation to the contrary is a criminal offense.

These securities are not savings accounts, deposits or other obligations of any bank and are not insured or guaranteed by the FDIC or any other governmental agency.

The underwriters expect to deliver the shares of common stock only in book-entry form through the facilities of The Depository Trust Company on or about March 29, 2010.

The date of this prospectus supplement is March 23, 2010

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You should rely only on the information contained in this prospectus supplement and the accompanying base prospectus. We have not, and the underwriters have not, authorized any other person to provide you with information that is different from that contained in, or incorporated by reference in, this prospectus supplement or the accompanying base prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer of these securities in any jurisdiction where the offer is not permitted. You should assume that the information appearing in, or incorporated by reference in, this prospectus supplement and the accompanying base prospectus is accurate only as of their respective dates. Our business, financial condition and results of operations may have changed since those dates. This prospectus supplement supersedes the accompanying base prospectus to the extent it contains information that is different from or in addition to the information in that prospectus.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document consists of two parts. The first part is this prospectus supplement, which describes the specific terms of this offering and certain other matters and also adds to and updates information contained in the accompanying base prospectus and the documents incorporated by reference into this prospectus supplement and the accompanying base prospectus. The second part, the accompanying base prospectus, gives more general information about us and the common stock offered by the prospectus supplement and the accompanying base prospectus. Some of the information in the accompanying base prospectus may not apply to this offering. Generally, when we refer to the prospectus, we are referring to this prospectus supplement and the base prospectus combined as one document. To the extent the information in the prospectus supplement differs from the information in the accompanying base prospectus or any document incorporated by reference filed prior to the date of this prospectus supplement, you should rely on the information in this prospectus supplement.

We and the underwriters are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where offers and sales are permitted. The distribution of this prospectus and the offering of the common stock in certain jurisdictions may be restricted by law. Persons outside the United States who come into possession of this prospectus must inform themselves about, and observe any restrictions relating to, the offering of the common stock and the distribution of this prospectus outside the United States. This prospectus does not constitute, and may not be used in connection with, an offer to sell, or a solicitation of an offer to buy, any common stock offered by this prospectus by any person in any jurisdiction in which it is unlawful for such person to make such an offer or solicitation.

It is important for you to read and consider all of the information contained in this prospectus supplement and the accompanying base prospectus, including the documents incorporated by reference therein, in making your investment decision. You should rely only on the information contained in, or incorporated by reference in, this prospectus supplement and the accompanying base prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. This prospectus may only be used where it is legal to sell our common stock. You should not assume that the information that appears in this prospectus supplement, the accompanying base prospectus and any document incorporated by reference into this prospectus supplement or the accompanying base prospectus is accurate as of any date other than their respective dates. Our business, financial condition, results of operations and prospects may have changed since the date of such information.

Unless this prospectus supplement indicates otherwise or the context otherwise requires, references to we, us, our, Orrstown Financial Services, Orrstown or the Company refer to Orrstown Financial Services, Inc. and its direct or indirect owned subsidiaries. References to the Bank refer to Orrstown Bank, our sole subsidiary. The term you refers to a prospective investor. Unless otherwise expressly stated or the context otherwise requires, all information in this prospectus supplement assumes that the over-allotment option to purchase additional shares granted to the underwriters is not exercised in whole or in part.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain of the statements made in this prospectus, including information incorporated by reference in this prospectus by reference to other documents, are forward-looking statements within the meaning and protections of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.

Forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, expectations, anticipations, assumptions, estimates, intentions, and future performance, and involve known and unknown risks, uncertainties and other factors, which may be beyond our control, and which may cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements.

All statements other than statements of historical fact are statements that could be forward-looking statements. You can identify these forward-looking statements through our use of words such as may , will , anticipate , assume , should , indicate , would , believe , conte expect , estimate , continue , plan , point to , project , could , intend , target , and other similar words and expressions of the future. Th forward-looking statements may not be realized due to a variety of factors, including, without limitation:

- the effects of future economic, business and market conditions, domestic and foreign, including seasonality;
- the effects of, and changes in, governmental monetary and fiscal policies;
- legislative and regulatory changes, including changes in banking, insurance, securities and tax laws and regulations and their application by our regulators;
- changes in accounting policies, rules and practices;
- the risk of changes in interest rates on the levels, composition and costs of deposits, loan demand, and the values and liquidity of loan collateral, securities, and interest sensitive assets and liabilities;
- the risk of decreases in the value of investment securities we own;
- the effects of other-than-temporary impairment charges relating to our investment portfolio;
- failure to realize deferred tax assets;
- credit risks of borrowers;
- changes in the availability and cost of credit and capital in the financial markets;
- changes in the prices, values and sales volumes of residential and commercial real estate;

the effects of competition from a wide variety of local, regional, national and other providers of financial, investment and insurance services;

the failure of assumptions underlying the establishment of allowances or reserves for possible loan losses and other estimates;

regulatory restrictions on our ability to pay dividends;

potential undiscovered weaknesses in our internal controls;

a potential decline in the value of our Federal Home Loan Bank of Pittsburgh common stock;

our inability to realize growth opportunities or to manage our growth; and

other factors and risks, including those detailed in this prospectus supplement and under Risk Factors in our filings with the SEC.

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Because such forward-looking statements are subject to risks and uncertainties, actual results may differ materially from those expressed or implied by such statements. The foregoing list of important factors is not exclusive and you are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this document or, in the case of documents incorporated by reference, the dates of those documents. We do not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by or on behalf of us.

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PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights some information about us and this offering and it may not contain all of the information that is important to you. You should carefully read the sections entitled Risk Factors in this prospectus supplement and in the accompanying base prospectus and the documents identified in the sections Where You Can Find More Information and Incorporation of Certain Documents by Reference in this prospectus supplement. Except as otherwise noted, all information in this prospectus supplement assumes no exercise of the underwriters over-allotment option.

The Company

We are a Pennsylvania business corporation incorporated on November 17, 1987 and a financial holding company registered under the Gramm-Leach-Bliley Act, as amended. Our primary activity consists of owning and supervising our only subsidiary, Orrstown Bank, a state-chartered Pennsylvania bank. Orrstown Bank was originally organized in 1919. The Bank is engaged in providing bank and bank-related services through twenty-one (21) offices in South Central Pennsylvania (principally Franklin, Perry and Cumberland Counties) and in Washington County, Maryland. Through Orrstown Bank we offer a full array of deposit accounts and retail banking services, engage in consumer and commercial lending and provide a variety of trust services. As of December 31, 2009, we had total deposits of approximately $915.2 million, total assets of approximately $1.20 billion and shareholders equity of approximately $110.9 million. Orrstown Financial Services operating revenues and net income are derived primarily from Orrstown Bank through the payment of dividends.

Business Strategy

Our goal is to remain one of the most highly regarded financial institutions in the markets we serve. We intend to accomplish this goal by combining our extensive suite of financial products and services with the personal attention, service and responsiveness that has been the foundation of our customer relationships throughout our history. When combined with a disciplined approach to growth, risk management and operating expenses, we believe that this strategy will result in enhanced profitability. We seek to maintain our position as market leader in our key saturation markets of Shippensburg, Carlisle and Chambersburg, while enhancing our market position throughout the four county market that we serve. Management is focused on diversification of revenue sources and increased market penetration in growing geographic areas through organic growth and opportunistic acquisitions. The primary components of our business strategy are commercial banking, mortgage banking, focus on asset quality, enhancement of fee income, organic and acquisitive growth and best-in-class customer service.

Commercial Banking. Commercial banking comprises the core of our business model, with our focus on small to middle market businesses and institutions within our branch footprint. We have and will continue to develop and enhance community relationships in an effort to expand our commercial relationships. Many of these customers require us to have a high degree of understanding of their business in order for us to be able to customize solutions. We believe that this helps to distinguish us from our competitors. We offer a wide range of lending products including commercial real estate, permanent working capital, short term working capital, machinery or equipment financing, agribusiness and other commercial purpose loans as required by the broad range of borrowers across the Bank s various markets.

Mortgage Banking. In 2009, we undertook an initiative to expand our residential mortgage banking capabilities, believing that market dislocation had presented an opportunity to diversify our revenue sources. We have hired several displaced loan officers from other financial institutions, undertaken the necessary capital investments to improve our technological infrastructure and became qualified to participate in government sponsored loan programs, such as programs run by the Federal Housing Administration, or FHA, and the Department of Veterans Affairs, or VA. We sell the majority of the residential mortgage loans that we originate in the secondary market.

Focus on Credit Quality. We view sound credit practices and stringent underwriting standards as an integral component of our continued success. In September 2009, we created the position of Chief Credit Officer to enhance our processes and controls, as well as clearly delineate independence between sales and credit. Our credit approval process is structured in a manner such that all major decisions regarding loans need to be approved by a committee of senior management and board members. Under our current loan approval practices, no individual lender has a maximum authority exceeding $350,000. The Chief Commercial Officer has authority up to $500,000 and the Chief Credit Officer up to $1 million, with no single credit exceeding $500,000. Beyond that, all loans must be reviewed and ratified by the Bank s Loan Committee, which is comprised of the Chief Executive Officer, Chief Credit Officer, Chief Commercial Officer, Chief Financial Officer, and two directors.

Credit oversight is provided by our board s Credit Administration Committee, comprised of four independent directors, on an ongoing basis. This Committee annually reviews all loan relationships with an aggregate committed exposure of greater than or equal to $750,000. Additionally, a loan review officer rates all relationships with aggregate committed exposure less than or equal to $1 million dollars, with Committee review and approval of all gradings. On an annual basis, this officer reviews all Reg O loans (i.e., loans to insiders) and performs a review of a 5% sample of loan relationships under review threshold, as well as any portfolios which the Committee feels deserve special attention.

While certain borrowers have come under stress due to the economic conditions affecting our markets, we believe that this disciplined approach to lending results in peer-leading asset quality metrics even in a difficult environment. As of December 31, 2009, our non-performing assets to total assets ratio was 0.44%. Additionally, we have proactively moved to address any problem credits and ensure that we are adequately reserved for any potential losses. In November 2009, we undertook an expanded review of our loan portfolio which covered $526 million in outstanding and committed balances. During 2009, we provided $4.9 million (including $3.6 million during the fourth quarter) to the loan loss reserve, versus net charge-offs of $938,000. This resulted in an increase in our loan loss reserve to gross loan ratio from 0.87% as of December 31, 2008 to 1.26% as of December 31, 2009.

Enhancement of Fee Income. In addition to generating fee income through our banking operations, we offer trust and advisory services through Orrstown Bank. Combined trust and brokerage assets under management grew from $599 million on December 31, 2008 to $740 million at 2009 year end, an increase of 24%. In 2009, we altered the fee structure of these services for the first time in 19 years to more effectively reflect market pricing. As a result, we expect profitability in this business segment to improve in 2010.

Organic and Acquisitive Growth. We view the current market environment as being full of opportunity for those institutions with a strong balance sheet and management. We believe that we are well-positioned to take advantage of competitor weakness and market dislocation. We have hired talented professionals in our market from competitors and continue to cultivate opportunities to further enhance our team.

Additionally, we have and will continue to be opportunistic in garnering customer relationships from those not satisfied with their current financial services provider. We have identified numerous market areas that could present considerable business opportunities and will seek to judiciously expand our branch network into those communities. We will also explore and evaluate acquisition opportunities, including FDIC-assisted transactions, of depository institutions both within our footprint and contiguous to the areas that we serve.

Best-in-Class Customer Service. Our business strategy is supported by delivery of best-in-class customer service. Our professionals are intimately involved in the communities they serve and understand the dynamic needs of our customer base. We view this as a distinguishing factor of our business model and critical to our continued expansion and success. Members of senior management are involved heavily in customer interaction and business development and play an integral role in promoting Orrstown s brand and capabilities.

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Corporate Information

Our principal executive offices are located at 77 East King Street, Shippensburg, Pennsylvania 17257, and our telephone number at that address is (717) 532-6114. We maintain an Internet website at www.orrstown.com. The foregoing website address is intended to be an inactive textual reference only. The information on this website is not a part of this prospectus supplement.

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The Offering

Common stock offered by us	1,481,481 shares (or 1,703,703 shares if the underwriters exercise in full the over-allotment option to purchase additional shares).
Common stock outstanding after this offering(1)	7,935,698 shares, or 8,157,920 shares if the underwriters exercise their over-allotment option in full.
Net proceeds	We estimate that our net proceeds from this offering (after deducting offering expenses payable by us) will be approximately $37.5 million, or approximately $43.2 million if the underwriters exercise their over-allotment option in full.
Use of proceeds	We intend to use our net proceeds of this offering for general corporate purposes which may include, without limitation, making investments at the holding company level, providing capital to support our subsidiary, Orrstown Bank, supporting asset and deposit growth, engaging in acquisitions or other business combinations, and reducing or refinancing existing debt. We do not have any specific plans for acquisitions or other business combinations at this time. Allocations of the net proceeds from this offering to specific purposes have not been made as of the date of this prospectus supplement. See Use of Proceeds.
NASDAQ Capital Market symbol	ORRF
Risk Factors	An investment in our common stock involves risks. You should carefully consider the risks described below under the heading Risk Factors beginning on page S-8 and the other information included in this prospectus supplement and the accompanying base prospectus before you purchase any shares of our common stock.

(1) The number of shares of common stock outstanding immediately after the closing of this offering is based on 6,454,217 shares of common stock outstanding as of March 23, 2010. Unless otherwise indicated, the number of outstanding shares of common stock presented in this prospectus supplement excludes: 222,222 shares of common stock issuable pursuant to the exercise of the underwriters over-allotment option; 737,144 shares of common stock authorized for future issuance pursuant to our dividend reinvestment and stock purchase plan as of March 23, 2010; 336,169 shares of common stock issuable upon exercise of outstanding options under our equity incentive and director plans as of March 23, 2010; and 110,809 shares of common stock issuable under our employee stock purchase plan as of March 23, 2010. All of the outstanding options as of March 23, 2010 were exercisable as of that date at a weighted average exercise price of $ 29.77 per share.

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Summary Selected Consolidated Financial Data

The following table sets forth summary historical consolidated financial information as of and for the years ended December 31, 2009, 2008, 2007, 2006 and 2005 (which has been derived from our audited consolidated financial statements). The following summary selected consolidated financial information should be read in conjunction with our consolidated financial statements and related notes and Management s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2009, which has been filed with the SEC, and is incorporated herein by reference.

	Year Ended December 31,				
(Dollars in thousands)	**2009**	**2008**	**2007**	**2006**	**2005**
Summary of Operations					
Interest income	$ 53,070	$ 52,313	$ 53,106	$ 44,788	$ 32,415
Interest expense	16,500	19,408	22,986	17,371	9,537
Net interest income	36,570	32,905	30,120	27,417	22,878
Provision for loan losses	4,865	1,450	750	390	144
Net interest income after provision for loan losses	31,705	31,455	29,370	27,027	22,734
Noninterest income excluding securities (losses)/gains and gains from sale of credit card loans	16,233	15,444	13,248	11,042	9,119
Net impairment losses recognized in earnings from available-for-sale securities	36	84			
Realized gains on available-for-sale securities	1,661	(27)	58	41	(60)
Noninterest expenses	32,140	28,203	24,921	21,628	17,397
Income before income taxes	17,423	18,585	17,755	16,482	14,396
Applicable income tax	4,050	5,482	5,197	4,850	4,409
Net income	$ 13,373	$ 13,103	$ 12,558	$ 11,632	$ 9,987
Per Common Share Data					
Basic earnings	2.09	2.04	1.95	1.87	1.76
Diluted net income	1.98	1.94	1.86	1.79	1.69
Stock dividend			5%		5%
Cash dividend paid	0.88	0.87	0.82	0.743	0.556
Book value at December 31	17.21	16.18	14.97	13.88	10.03
Tangible book value at December 31[(1)]	13.96	12.87	11.64	10.53	9.69
Average shares outstanding basic	6,406,106	6,421,022	6,428,853	6,201,978	5,677,927
Average shares outstanding diluted	6,740,492	6,750,128	6,735,174	6,475,721	5,917,933
Year-End Balance Sheet Data					
Total investment securities	$ 204,309	$ 128,353	$ 96,355	$ 91,393	$ 71,677
Total loans	881,074	820,468	701,964	618,827	460,386
Allowance for loan losses	11,067	7,140	6,141	5,520	4,428
Total assets	1,196,432	1,051,783	884,979	809,031	601,460
Total deposits	915,170	757,368	646,356	638,719	462,822
Repurchase agreements	64,614	63,407	55,580	40,953	36,138
Liabilities for borrowed money	98,158	118,887	78,453	33,190	40,306
Total shareholders equity	$ 110,886	$ 103,347	$ 96,124	$ 89,388	$ 57,310

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(Dollars in thousands)	2009	2008	2007	2006	2005
	At or for the Year Ended December 31,				
Year-End Balances					
Total Assets	$ 1,196,432	$ 1,051,783	$ 884,979	$ 809,031	$ 601,460
Earning Assets	1,100,372	963,163	799,358	729,519	558,938
Gross Loans	881,074	820,468	701,964	618,827	460,386
Deposits	915,170	757,368	646,356	638,719	462,822
Shareholders equity	110,886	103,347	96,124	89,388	57,310
Tangible common equity(2)	89,948	82,161	74,756	67,821	55,375
Key Ratios					
Return on average assets (annualized)	1.19%	1.38%	1.50%	1.61%	1.81%
Return on average equity (annualized)	12.48%	13.20%	13.64%	15.10%	18.69%
Average equity to average assets	9.55%	10.45%	10.98%	10.66%	9.67%
Net interest margin(3)	3.66%	3.93%	4.08%	4.32%	4.55%
Efficiency(4)	58.85%	56.73%	55.58%	53.98%	52.86%
Cash dividends as a % of diluted earnings per share	44.44%	44.85%	44.09%	41.34%	33.14%
Tier 1 leverage	7.60%	7.90%	8.60%	8.60%	9.50%
Tier 1 risk-based based capital	10.10%	10.00%	10.70%	11.00%	11.80%
Total risk-based capital	11.30%	10.90%	11.60%	12.00%	12.80%
Tangible common equity/tangible assets(2)	7.65%	7.97%	8.66%	8.61%	9.24%
Return on average tangible assets(5)	1.23%	1.43%	1.56%	1.66%	1.81%
Return on average tangible equity(5)	15.73%	17.02%	18.02%	18.98%	19.28%
Credit Quality Ratios					
NCOs/Average Loans Outstanding	0.11%	0.06%	0.02%	0.00%	0.01%
Reserves to Gross Loans	1.26%	0.87%	0.87%	0.89%	0.96%
Nonperforming Assets/ Total Assets	0.44%	0.09%	0.04%	0.05%	0.30%

(1) Tangible book value per share is a non-GAAP-based financial measure calculated using non-GAAP-based amounts. The most directly comparable GAAP-based measure is book value per share of common stock. In order to calculate tangible book value per share, the Company s management divides tangible common equity, which is a non-GAAP-based measure described in footnote 2 below, by the number of shares of common stock outstanding. In contrast, book value per common share is calculated by dividing total shareholders equity by the number of shares of common stock outstanding. Management uses tangible book value per share because it believes such ratio is useful in understanding the Company s capital position and ratios. A reconciliation of book value per share to tangible book value per share is set forth below.

(Dollar Values in Thousands, except Per Share)	2009	2008	2007	2006	2005
	Year Ended December 31,				
Common shareholders equity	$ 110,886	$ 103,347	$ 96,124	$ 89,388	$ 57,310
Less: intangible assets	$ 20,938	$ 21,186	$ 21,368	$ 21,567	$ 1,935
Tangible common equity	$ 89,948	$ 82,161	$ 74,756	$ 67,821	$ 55,375
Book value per share	$ 17.21	$ 16.18	$ 14.97	$ 13.88	$ 10.03
Less: Intangible assets per share	$ 3.25	$ 3.31	$ 3.33	$ 3.35	$ 0.34
Tangible book value per share	$ 13.96	$ 12.87	$ 11.64	$ 10.53	$ 9.69

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(2) The ratio of tangible common equity to tangible assets is a non-GAAP-based financial measure calculated using non-GAAP-based amounts. The most directly comparable GAAP-based measure is the ratio of shareholders equity to assets. In order to calculate tangible common equity and tangible assets, the Company s management subtracts intangible assets from both common equity and assets. Tangible common equity is then divided by tangible assets to arrive at the ratio of tangible common equity to tangible assets. Management uses the ratio of tangible common equity to tangible assets to assess the strength of the Company s capital position. A reconciliation of the ratio of shareholders equity to assets and tangible common equity to tangible assets is set forth below.

	Year Ended December 31,				
	2009	**2008**	**2007**	**2006**	**2005**
Shareholders equity	$ 110,886	$ 103,347	$ 96,124	$ 89,388	$ 57,310
Intangible assets	20,938	21,186	21,368	21,567	1,935
Tangible common equity	89,948	82,161	74,756	67,821	55,375
Total assets	1,196,432	1,051,783	884,979	809,031	601,460
Intangible assets	20,938	21,186	21,368	21,567	1,935
Tangible assets	$ 1,175,494	$ 1,030,597	$ 863,611	$ 787,464	$ 599,525
Total equity/assets	9.27%	9.83%	10.86%	11.05%	9.53%
Tangible common equity/tangible assets	7.65%	7.97%	8.66%	8.61%	9.24%

(3) Rates of return on tax-exempt securities and loans are calculated on a fully-taxable equivalent basis.

(4) The efficiency ratio is calculated by dividing total noninterest expense (excluding amortization expense from intangible assets) by the sum of net interest income (including income from tax-exempt securities and loans on a fully-taxable equivalent basis) and noninterest income excluding securities (losses)/gains.

(5) Return on average tangible assets and return on average tangible equity is a non-GAAP-based financial measure calculated using non-GAAP-based amounts. The most directly comparable GAAP-based measure is return on average assets and return on average equity, which are calculated using GAAP-based amounts. The Company calculates the return on average tangible assets and equity by excluding the balance of intangible assets and their related amortization expense from the calculation of return on average assets and equity. Management uses the return on average tangible assets and equity to assess the Company s core operating results and believes that this is a better measure of our performance. In addition, this is consistent with the treatment by bank regulatory agencies, which exclude goodwill and other intangible assets from the calculation of risk-based capital ratios. However, these non-GAAP financial measures are supplemental and are not a substitute for an analysis based on GAAP measures. A reconciliation of return on average assets and equity to the return on average tangible assets and equity, respectively, is set forth below.

	Year Ended December 31,				
(Dollars in thousands)	**2009**	**2008**	**2007**	**2006**	**2005**
Return on average assets (GAAP basis)	1.19%	1.38%	1.50%	1.61%	1.81%
Effect of excluding average intangible assets and related amortization	0.04%	0.05%	0.06%	0.05%	0.00%
Return on average tangible assets	1.23%	1.43%	1.56%	1.66%	1.81%
Return on average equity (GAAP basis)	12.48%	13.20%	13.64%	15.10%	18.69%
Effect of excluding average intangible assets and related amortization	3.25%	3.82%	4.38%	3.88%	0.59%
Return on average tangible equity	15.73%	17.02%	18.02%	18.98%	19.28%

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RISK FACTORS

An investment in our common stock involves certain risks. You should carefully consider the following risk factors, in addition to the information included or incorporated by reference in this prospectus supplement and the accompanying base prospectus, before making an investment decision to purchase shares of our common stock in this offering. The risks and uncertainties described below and those incorporated by reference into this prospectus supplement and the accompanying base prospectus are not the only ones facing us. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business. If any of the risks actually occur, our business, financial condition, liquidity, results of operations and prospects could be materially adversely affected. In that case, the market price of our common stock could decline substantially and you could lose all or a part of your investment.

Risks Related to Our Business and Industry

Unfavorable economic and market conditions due to the current global financial crisis may materially and adversely affect us.

Economic and market conditions in the United States and around the world have deteriorated significantly and may remain depressed for the foreseeable future. Conditions such as slowing or negative growth and the sub-prime debt devaluation crisis have resulted in a low level of liquidity in many financial markets and extreme volatility in credit, equity and fixed income markets. These economic developments could have various effects on us, including insolvency of major customers and a negative impact on the investment income we are able to earn on our investment portfolio.

Since lending money is an essential part of our business, due to the current economic conditions, customers may be unable or unwilling to borrow money or repay funds already borrowed. The risk of non-payment is affected by credit risks of a particular customer, changes in economic conditions, the duration of the loan and, in the case of a collateralized loan, uncertainties as to the future value of the collateral and other factors. The potential effects of the current global financial crisis are difficult to forecast and mitigate. As a consequence, our operating results for a particular period are difficult to predict. The impact of this situation, together with concerns regarding the financial strength of financial institutions, has led to distress in credit markets and liquidity issues for financial institutions. Some financial institutions around the world have failed; others have been forced to seek acquisition partners. The United States and other governments have taken unprecedented steps to try to stabilize the financial system, including investing in financial institutions. Our business and our financial condition and results of operations could be adversely affected by (1) continued or accelerated disruption and volatility in financial markets, (2) continued capital and liquidity concerns regarding financial institutions generally and our counterparties specifically, (3) limitations resulting from further governmental action in an effort to stabilize or provide additional regulation of the financial system, or (4) recessionary conditions that are deeper or last longer than currently anticipated.

We operate in a highly regulated environment and may be adversely affected by changes in laws or regulations.

We are subject to extensive regulation and supervision under federal and state laws and regulations. The requirements and limitations imposed by such laws and regulations limit the manner in which we conduct our business, undertake new investments and activities and obtain financing. These regulations are designed primarily for the protection of the deposit insurance funds and consumers and not to benefit our shareholders. Financial institution regulation has been the subject of significant legislation in recent years and may be the subject of further significant legislation in the future, none of which is within our control. There are currently several legislative proposals pending in Congress and proposed rule makings by the federal banking regulators which, if adopted as proposed, will impact the banking industry. On June 17, 2009, the U.S. Department of the Treasury released a financial regulatory reform plan that would, if enacted, represent the most sweeping reform of financial regulation and financial services in decades. These programs and proposals subject us and other financial institutions to additional restrictions, oversight and costs that may have an adverse impact on our business, financial condition, results of operations or the price of our common stock. If enacted, the Treasury Department s financial reform plan would substantially increase regulation of the financial services industry and impose restrictions on the operations and general ability of firms within the industry to conduct business consistent with historical practices. Federal and state regulatory agencies also frequently adopt changes to their regulations or change the manner in which existing regulations are applied or enforced. We cannot predict the substance or impact of pending or future legislation, regulation or the application thereof. Compliance with such current and potential regulation and scrutiny may significantly increase our costs, impede the efficiency of our internal business processes, require us to increase our regulatory capital and limit our ability to pursue business opportunities in an efficient manner.

We may be required to make further increases in our provisions for loan losses and to charge off additional loans in the future, which could materially adversely affect us.

There is no precise method of predicting loan losses. We can give no assurance that our allowance for loan losses is or will be sufficient to absorb actual loan losses. We maintain an allowance for loan losses, which is a reserve established through a provision for loan losses charged to expense, that represents management s best estimate of probable incurred losses within the existing portfolio of loans. The level of the allowance reflects management s evaluation of, among other factors, the status of specific impaired loans, trends in historical loss experience, delinquency trends, credit concentrations and economic conditions within our market area. The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and judgment and requires us to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require us to increase our allowance for loan losses. Increases in nonperforming loans have a significant impact on our allowance for loan losses.

In addition, bank regulatory agencies periodically review our allowance for loan losses and may require us to increase the provision for loan losses or to recognize further loan charge-offs, based on judgments that differ from those of management. If loan charge-offs in future periods exceed our allowance for loan losses, we will need to record additional provisions to increase our allowance for loan losses. Furthermore, growth in our loan portfolio would generally lead to an increase in the provision for loan losses. Generally, increases in our allowance for loan losses will result in a decrease in net income and stockholders equity, and may have a material adverse effect on our financial condition, results of operations and cash flows.

Our allowance for loan losses was 1.26% of total loans and 259% of non-performing loans at December 31, 2009, compared to 0.87% of total loans and 2,094% of non-performing loans at December 31, 2008. Material additions to our allowance could materially decrease our net income. In addition, at December 31, 2009, we had 50 loan relationships, aggregating $307.5 million that were performing according to their original terms with outstanding balances that exceeded $3.0 million. However, the deterioration of one or more of these loans could result in a significant increase in our nonperforming loans and our provisions for loan losses, which would negatively impact our results of operations.

Changes in interest rates could adversely impact our financial condition and results of operations.

Our operating income, net income and liquidity depend to a great extent on our net interest margin, i.e., the difference between the interest yields we receive on loans, securities and other interest earning assets and the interest rates we pay on interest-bearing deposits, borrowings and other liabilities. These rates are highly sensitive to many factors beyond our control, including competition, general economic conditions and monetary and fiscal policies of various governmental and regulatory authorities, including the Board of Governors of the Federal Reserve System, or the Federal Reserve. If the rate of interest we pay on our interest-bearing deposits, borrowings and other liabilities increases more than the rate of interest we receive on loans, securities and other interest earning assets, our net interest income, and therefore our earnings, and liquidity could be materially adversely affected. Our earnings and liquidity could also be materially adversely affected if the rates on our loans, securities and other investments fall more quickly than those on our deposits, borrowings and other liabilities. Our operations are subject to risks and uncertainties surrounding our exposure to change in interest rate environment.

Additionally, based on our analysis of the interest rate sensitivity of our assets, an increase in the general level of interest rates will negatively affect the market value of our investment portfolio because of the relatively long duration of the securities included in our investment portfolio.

Changes in interest rates also can affect: (1) our ability to originate loans; (2) the value of our interest-earning assets, which would negatively impact stockholders equity, and our ability to realize gains from the sale of such assets; (3) our ability to obtain and retain deposits in competition with other available investment alternatives; and (4) the ability of our borrowers to repay adjustable or variable rate loans.

Increases in FDIC insurance premiums may have a material adverse effect on our results of operations.

During 2008 and 2009, higher levels of bank failures have dramatically increased resolution costs of the Federal Deposit Insurance Corporation, or the FDIC, and depleted the deposit insurance fund. In addition, the FDIC and the U.S. Congress have taken action to increase federal deposit insurance coverage, placing additional stress on the deposit insurance fund.

In order to maintain a strong funding position and restore reserve ratios of the deposit insurance fund, the FDIC increased assessment rates of insured institutions uniformly by seven cents for every $100 of deposits beginning with the first quarter of 2009, with additional changes beginning April 1, 2009, which require riskier institutions to pay a larger share of premiums by factoring in rate adjustments based on secured liabilities and unsecured debt levels.

To further support the rebuilding of the deposit insurance fund, the FDIC imposed a special assessment on each insured institution, equal to five basis points of the institution s total assets minus Tier 1 capital as of September 30, 2009. For Orrstown Bank, this represented an aggregate charge of approximately $515,000. In lieu of imposing an additional special assessment, the FDIC required all institutions to prepay their assessments for all of 2010, 2011 and 2012, which for us totaled $4.4 million. The FDIC has indicated that future special assessments are possible, although it has not determined the magnitude or timing of any future assessments.

We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. If there are additional bank or financial institution failures, we may be required to pay even higher FDIC premiums. Our expenses for the year ended December 31, 2009 have been significantly and adversely affected by these increased premiums and the special assessment. These increases and assessment and any future increases in insurance premiums or additional special assessments may materially adversely affect our results of operations.

We are a holding company dependent for liquidity on payments from Orrstown Bank, our sole subsidiary, which are subject to restrictions.

We are a holding company and depend on dividends, distributions and other payments from Orrstown Bank, our only subsidiary to fund dividend payments and to fund all payments on obligations. Orrstown Bank is subject to laws that restrict dividend payments or authorize regulatory bodies to block or reduce the flow of funds from it to us. Restrictions or regulatory action of that kind could impede access to funds that we need to make payments on our obligations, dividend payments or stock repurchases. In addition, our right to participate in a distribution of assets upon our subsidiary s liquidation or reorganization is subject to the prior claims of the subsidiary s creditors.

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Because our business is concentrated in South Central Pennsylvania and Washington County, Maryland, our financial performance could be materially adversely affected by economic conditions and real estate values in these market areas.

Our operations and the properties securing our loans are primarily in South Central Pennsylvania (principally Franklin, Perry and Cumberland Counties) and in Washington County, Maryland. As of December 31, 2009, managements estimates that more than 81% of deposits and 87% of loans came from its market area. Our operating results depend largely on economic and real estate valuations in these and surrounding areas. A further deterioration in the economic conditions in these market areas could materially adversely affect our operations and increase loan delinquencies, increase problem assets and foreclosures, increase claims and lawsuits, decrease the demand for our products and services and decrease the value of collateral securing loans, especially real estate, in turn reducing customers borrowing power, the value of assets associated with nonperforming loans and collateral coverage.

Our commercial real estate lending may expose us to a greater risk of loss and hurt our earnings and profitability.

Our business strategy involves making loans secured by commercial real estate. These types of loans generally have higher risk-adjusted returns and shorter maturities than traditional one-to-four family residential mortgage loans. At December 31, 2009, our loans secured by commercial real estate totaled approximately $306 million, which represented 35% of total loans. Loans secured by commercial real estate properties are generally for larger amounts and may involve a greater degree of risk than one-to-four family residential mortgage loans. Payments on loans secured by these properties are often dependent on the income produced by the underlying properties which, in turn, depends on the successful operation and management of the properties. Accordingly, repayment of these loans is subject to adverse conditions in the real estate market or the local economy. In addition, many economists believe that deterioration in income producing commercial real estate is likely to worsen as vacancy rates continue to rise and absorption rates of existing square footage continue to decline. Because of the current general economic slowdown, these loans represent higher risk, could result in an increase in our total net-charge offs and could require us to increase our allowance for loan losses, which could have a material adverse effect on our financial condition or results of operations. While we seek to minimize these risks in a variety of ways, there can be no assurance that these measures will protect against credit-related losses.

Our construction loans and land development loans involve a higher degree of risk than other segments of our loan portfolio.

Construction financing typically involves a higher degree of credit risk than financing on improved, owner-occupied real estate. Risk of loss on a construction loan is largely dependent upon the accuracy of the initial estimate of the property s value at completion of construction and the bid price and estimated cost (including interest) of construction. If the estimate of construction costs proves to be inaccurate, we may be required to advance funds beyond the amount originally committed to permit completion of the project. If the estimate of the value proves to be inaccurate, we may be confronted, at or prior to the maturity of the loan, with a project whose value is insufficient to assure full repayment. When lending to builders, the cost of construction breakdown is provided by the builder, as well as supported by the appraisal. Although our underwriting criteria are designed to evaluate and minimize the risks of each construction loan, there can be no guarantee that these practices will safeguard against material delinquencies and losses to our operations. At December 31, 2009, we had loans of approximately $117 million, or 13% of total loans, outstanding to finance construction and land development. Construction and land development loans are dependent on the successful completion of the projects they finance, however, in many cases such construction and development projects in our primary market areas are not being completed in a timely manner, if at all.

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We are required to make a number of judgments in applying accounting policies and different estimates and assumptions in the application of these policies could result in a decrease in capital and/or other material changes to our reports of financial condition and results of operations. Also, changes in accounting standards can be difficult to predict and can materially impact how we record and report our financial condition and results of operations.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses and reserve for unfunded lending commitments and the fair value of certain financial instruments (securities, derivatives, and privately held investments). While we have identified those accounting policies that are considered critical and have procedures in place to facilitate the associated judgments, different assumptions in the application of these policies could result in a decrease to net income and, possibly, capital and may have a material adverse effect on our financial condition and results of operations.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time, the Financial Accounting Standards Board changes the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be hard to predict and can materially impact how we record and report our financial condition and results of operations.

Competition from other banks and financial institutions in originating loans, attracting deposits and providing various financial services may adversely affect our profitability and liquidity.

We have substantial competition in originating loans, both commercial and consumer, in our market area. This competition comes principally from other banks, savings institutions, mortgage banking companies and other lenders. Some of our competitors enjoy advantages, including greater financial resources and access to capital, stronger regulatory ratios, and higher lending limits, a wider geographic presence, more accessible branch office locations, the ability to offer a wider array of services or more favorable pricing alternatives, as well as lower origination and operating costs. This competition could reduce our net income and liquidity by decreasing the number and size of loans that we originate and the interest rates we may charge on these loans.

In attracting business and consumer deposits, we face substantial competition from other insured depository institutions such as banks, savings institutions and credit unions, as well as institutions offering uninsured investment alternatives, including money market funds. Some of our competitors enjoy advantages, including greater financial resources and access to capital, stronger regulatory ratios, stronger asset quality and performance, more aggressive marketing campaigns, better brand recognition and more branch locations. These competitors may offer higher interest rates than we do, which could decrease the deposits that we attract or require us to increase our rates to retain existing deposits or attract new deposits. Increased deposit competition could materially adversely affect our ability to generate the funds necessary for lending operations. As a result, we may need to seek other sources of funds that may be more expensive to obtain and could increase our cost of funds.

Impairment of investment securities, goodwill, other intangible assets, or deferred tax assets could require charges to earnings, which could result in a negative impact on our results of operations.

In assessing the impairment of investment securities, we consider the length of time and extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuers, and our intent and ability to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value in the near term. Under current accounting standards, goodwill and certain other intangible assets with indeterminate lives are no longer amortized but, instead, are assessed for impairment periodically or when impairment indicators are present. Assessment of goodwill and such other intangible assets could result in circumstances where the applicable intangible asset is deemed to be impaired for accounting purposes. Under such circumstances, the intangible asset s impairment would be reflected as a charge to earnings in the period

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during which such impairment is identified. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The impact of each of these impairment matters could have a material adverse effect on our business, results of operations, and financial condition.

Our business strategy includes the continuation of moderate growth plans, and our financial condition and results of operations could be negatively affected if we fail to grow or fail to manage our growth effectively.

Our assets increased $595.0 million, or 98.9%, from $601.5 million at December 31, 2005, to $1.20 billion at December 31, 2009, primarily due to our acquisition of First National Bank of Newport in 2006 and organic growth through increases in residential mortgage loans and commercial real estate loans funded by growth in deposits. Over the long term, we expect to continue to experience growth in the amount of our assets, the level of our deposits and the scale of our operations. However, achieving our growth targets requires us to successfully execute our business strategies, which include continuing to grow our loan portfolio thereby recognizing the value of our investments in personnel in that area. Our ability to successfully grow will also depend on the continued availability of loan opportunities that meet our stringent underwriting standards. In addition, we may consider the acquisition of other financial institutions and branches within or outside of our market area, the success of which will depend on a number of factors, including our ability to integrate the acquired branches into the current operations of the Company, our ability to limit the outflow of deposits held by customers of the acquired institution or branch locations, our ability to control the incremental increase in non-interest expense arising from any acquisition and our ability to retain and integrate the appropriate personnel of the acquired institution or branches. While we believe we have the resources and internal systems in place to successfully achieve and manage our future growth, there can be no assurance growth opportunities will be available or that we will successfully manage our growth. If we do not manage our growth effectively, we may not be able to achieve our business plan, and our business and prospects could be harmed.

If we want to, or are compelled to, raise additional capital in the future, that capital may not be available when it is needed and on terms favorable to current shareholders.

Federal banking regulators require us and our banking subsidiary to maintain adequate levels of capital to support our operations. These capital levels are determined and dictated by law, regulation and banking regulatory agencies. In addition, capital levels are also determined by our management and board of directors based on capital levels that they believe are necessary to support our business operations. At December 31, 2009, all three capital ratios for us and our banking subsidiary were above well capitalized levels under current bank regulatory guidelines. To be well capitalized, banking companies generally must maintain a tier 1 leverage ratio of at least 5%, a Tier 1 risk-based capital ratio of at least 6%, and a total risk-based capital ratio of at least 10%. However, our regulators may require us or our banking subsidiary to operate with higher capital levels. For example, regulators recently have required some banks to attain a Tier 1 leverage ratio of at least 8%, a Tier 1 risk-based capital ratio of at least 10%, and a total risk-based capital ratio of at least 12%.

Our ability to raise additional capital will depend on conditions in the capital markets at that time, which are outside of our control, and on our financial performance. Accordingly, we cannot assure you of our ability to raise additional capital on terms and time frames acceptable to us or to raise additional capital at all. If we cannot raise additional capital in sufficient amounts when needed, our ability to comply with regulatory capital requirements could be materially impaired. Additionally, the inability to raise capital in sufficient amounts may adversely affect our operations, financial condition and results of operating. Our ability to borrow could also be impaired by factors that are nonspecific to us, such as severe disruption of the financial markets or negative news and expectations about the prospects for the financial services industry as a whole as evidenced by recent turmoil in the domestic and worldwide credit markets. If we raise capital through the issuance of additional shares of our common stock or other securities, we would likely dilute the ownership interests of current investors and could dilute the per share book value and earnings per share of our common stock. Furthermore, a capital raise through issuance of additional shares may have an adverse impact on our stock price.

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We may be adversely affected by technological advances.

Technological advances impact our business. The banking industry is undergoing technological changes with frequent introductions of new technology-driven products and services. In addition to improving customer services, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend, in part, on our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience as well as to create additional efficiencies in operations. Many competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or successfully market such products and services to its customers.

The soundness of other financial institutions could adversely affect us.

Our ability to engage in routine funding and other transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems, losses of depositor, creditor and counterparty confidence and could lead to losses or defaults by us or by other institutions. We could experience increases in deposits and assets as a result of other banks difficulties or failure, which would increase the capital we need to support such growth.

A substantial decline in the value of our Federal Home Loan Bank of Pittsburgh common stock may adversely affect our financial condition.

We own common stock of the Federal Home Loan Bank of Pittsburgh, or the FHLB, in order to qualify for membership in the Federal Home Loan Bank system, which enables us to borrow funds under the Federal Home Loan Bank advance program. The carrying value and fair market value of our FHLB common stock was approximately $6.8 million as of December 31, 2009.

Published reports indicate that certain member banks of the Federal Home Loan Bank system may be subject to asset quality risks that could result in materially lower regulatory capital levels. In December 2008, the FHLB had notified its member banks that it had suspended dividend payments and the repurchase of capital stock until further notice is provided. In an extreme situation, it is possible that the capitalization of a Federal Home Loan Bank, including the FHLB, could be substantially diminished or reduced to zero. Consequently, given that there is no market for our FHLB common stock, we believe that there is a risk that our investment could be deemed other-than-temporarily impaired at some time in the future. If this occurs, it may adversely affect our results of operations and financial condition. If the FHLB were to cease operations, or if we were required to write-off our investment in the FHLB, our business, financial condition, liquidity, capital and results of operations may be materially adversely affected.

An interruption or breach in security with respect to our information system, or our outsourced service providers, could adversely impact our reputation and have an adverse impact on our financial condition or results of operations.

We rely on software, communication, and information exchange on a variety of computing platforms and networks and over the Internet. Despite numerous safeguards, we cannot be certain that all of our systems are entirely free from vulnerability to attack or other technological difficulties or failures. We rely on the services of a variety of vendors to meet our data processing and communication needs. If information security is breached or other technology difficulties or failures occur, information may be lost or misappropriated, services and operations may be interrupted and we could be exposed to claims from customers. Any of these results could have a material adverse effect on our financial condition, results of operations or liquidity.

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If we fail to maintain an effective system of internal control over financial reporting and disclosure controls and procedures, we may be unable to accurately report our financial results and comply with the reporting requirements under the Securities Exchange Act of 1934. As a result, current and potential shareholders may lose confidence in our financial reporting and disclosure required under the Securities Exchange Act of 1934, which could adversely affect our business and could subject us to regulatory scrutiny.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, referred to as Section 404, we are required to include in our Annual Reports on Form 10-K, our management s report on internal control over financial reporting. While we have reported no material weaknesses in the Form 10-K for the fiscal year ended December 31, 2009, we cannot guarantee that we will not have any material weaknesses reported in our management s report on internal control or by our independent registered public accounting firm in the future. Compliance with the requirements of Section 404 is expensive and time-consuming. If, in the future, we fail to complete this evaluation in a timely manner, or if our independent registered public accounting firm cannot timely attest to our evaluation, we could be subject to regulatory scrutiny and a loss of public confidence in our internal control over financial reporting. In addition, any failure to establish an effective system of disclosure controls and procedures could cause our current and potential shareholders and customers to lose confidence in our financial reporting and disclosure required under the Securities Exchange Act of 1934, which could adversely affect our business.

Risks Related to Our Common Stock and this Offering

The price of our common stock may fluctuate significantly, and this may make it difficult for you to resell shares of common stock owned by you at times or at prices you find attractive.

Stock price volatility may make it difficult for you to resell your common stock when you want and at prices you find attractive. Our stock price can fluctuate significantly in response to a variety of factors including, among other things:

- actual or anticipated variations in quarterly results of operations;
- recommendations by securities analysts;
- operating and stock price performance of other companies that investors deem comparable to us;
- any failure to pay dividends on our common stock or a reduction in dividends;
- continued levels of loan quality and volume origination;
- the adequacy of loan loss reserves;
- the willingness of customers to substitute competitors products and services for our products and services and vice versa, based on price, quality, relationship or otherwise;
- interest rate, market and monetary fluctuations;
- the timely development of competitive new products and services by us and the acceptance of such products and services by customers;

changes in consumer spending and saving habits relative to the financial services we provide;

relationships with major customers;

our ability to continue to grow our business internally and through acquisition and successful integration of new or acquired entities while controlling costs;

news reports relating to trends, concerns and other issues in the financial services industry, including the failures of other financial institutions in the current economic downturn;

perceptions in the marketplace regarding us and/or our competitors;

new technology used, or services offered, by competitors;

deposit flows;

- changes in accounting principles, policies and guidelines;
- rapidly changing technology;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or our competitors;
- failure to integrate acquisitions or realize anticipated benefits from acquisitions;
- changes in and compliance with laws and government regulations of federal, state and local agencies; and
- geopolitical conditions such as acts or threats of terrorism or military conflicts.

General market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause our stock price to decrease regardless of operating results as evidenced by the current volatility and disruption of capital and credit markets.

Our common stock is not insured by any governmental entity, and, therefore, an investment in our common stock involves risk.

Our common stock is not a bank deposit and, therefore, is not insured against loss by the Federal Deposit Insurance Corporation, any other deposit insurance fund or by any other public or private entity. Investment in our common stock is inherently risky for the reasons described in this Risk Factors section and elsewhere in this prospectus and is subject to the same market forces that affect the price of common stock in any company. As a result, if you acquire our common stock, you may lose some or all of your investment.

Our common stock is equity and is subordinate to our existing and future indebtedness and preferred stock and effectively subordinated to all the indebtedness and other non-common equity claims against our subsidiaries.

Shares of our common stock are equity interests in us and do not constitute indebtedness. As such, shares of our common stock rank junior to all of our indebtedness and to other non-equity claims against us and our assets available to satisfy claims against us, including in our liquidation. Additionally, holders of our common stock could be subject to the prior dividend and liquidation rights of holders of our preferred stock should we issue any. Furthermore, our right to participate in a distribution of assets upon any of our subsidiaries liquidation or reorganization is subject to the prior claims of that subsidiary s creditors.

We may attempt to increase our capital resources or, if our or our Bank s capital ratios fall below the required minimums, we could be forced to raise additional capital by making additional offerings of debt or preferred equity securities, including medium-term notes, trust-preferred securities, senior or subordinated notes and preferred stock. Upon liquidation, holders of our debt securities and shares of preferred stock and lenders with respect to other borrowings are likely to receive distributions of our available assets prior to the holders of our common stock. Additional equity offerings may dilute the holdings of our existing shareholders or reduce the market price of our common stock, or both. Holders of our common stock are not entitled to preemptive rights or other protections against dilution.

We are currently authorized to issue up to 50,000,000 shares of common stock of which 6,454,217 shares were outstanding as of March 23, 2010, and up to 500,000 shares of preferred stock, none of which were outstanding as of March 23, 2010. Our board of directors has authority, without action or vote of the shareholders of common stock, to issue all or part of the authorized but unissued shares. Authorized but unissued shares of our common stock or preferred could be issued on terms or in circumstances that could dilute the interests of other shareholders.

There are restrictions on our ability to pay cash dividends.

Although we have historically paid cash dividends, there is no assurance that we will continue to pay cash dividends. No determination has been made by our board of directors regarding whether or what amount of dividends will be paid in future quarters. Additionally, there can be no assurance that regulatory approval will be granted by the Federal Reserve Board to pay dividends. Future payment of cash dividends, if any, will be at the discretion of our board of directors and will be dependent upon our financial condition, results of operations, capital requirements and such other factors as the board may deem relevant and will be subject to applicable federal and state laws that impose restrictions on our and our bank subsidiary s ability to pay dividends, as well as guidance issued from time to time by regulatory authorities. Our ability to pay dividends depends primarily on receipt of dividends from our direct and indirect subsidiaries.

Under guidance issued by the Federal Reserve, as a bank holding company we are to consult the Federal Reserve before declaring dividends and are to strongly consider eliminating, deferring, or reducing dividends we pay to our shareholders if (1) our net income available to shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends, (2) our prospective rate of earnings retention is not consistent with our capital needs and overall current and prospective financial condition, or (3) we will not meet, or are in danger of not meeting, our minimum regulatory capital adequacy ratios.

There may be future sales of our common stock, which may materially and adversely affect the market price of our common stock.

Except as described under Underwriting, we are not restricted from issuing additional shares of our common stock, including securities that are convertible into or exchangeable or exercisable for shares of our common stock. As of March 23, 2010, there were 6,454,217 shares of our common stock outstanding. Most of these shares are available for resale in the public market without restriction, except for shares held by our affiliates. Generally, our affiliates may sell their shares in compliance with the volume limitations and other requirements imposed by Rule 144 under the Securities Act.

As of March 23, 2010, there were 336,169 shares of our common stock issuable upon conversion, exchange or exercise in respect of outstanding securities, options or warrants, and we had the authority to issue up to approximately 157,336 shares of our common stock under our employee and non-employee director stock option plans (not including shares issuable upon exercise of outstanding options), 737,144 shares under our dividend reinvestment and stock purchase plan and 110,809 shares under our employee stock purchase plan.

Additionally, the sale of substantial amounts of our common stock or securities convertible into or exchangeable or exercisable for our common stock, whether directly by us in this offering or future offerings or by existing common shareholders in the secondary market, the perception that such sales could occur or the availability for future sale of shares of our common stock or securities convertible into or exchangeable or exercisable for our common stock could, in turn, materially and adversely affect the market price of our common stock and our ability to raise capital through future offerings of equity or equity-related securities.

The trading volume in our common stock is less than that of other financial services companies.

Our common stock is listed on the NASDAQ Capital Market under the symbol ORRF . The average daily trading volume for shares of our common stock is less than larger financial institutions. Since our listing on the NASDAQ Capital Market on April 28, 2009 through February 23, 2010, the average daily trading volume for our common stock was approximately 13,448 shares. As a result, sales of our common stock may place significant downward pressure on the market price of our common stock. Furthermore, it may be difficult for holders to resell their shares at prices they find attractive, or at all.

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Anti-takeover provisions and restrictions on ownership could negatively impact our shareholders.

Provisions of Pennsylvania law and our articles of incorporation and by-laws as amended could make it more difficult for a third party to acquire control of us or have the effect of discouraging a third party from attempting to acquire control of us. These provisions would make it more difficult for a third party to acquire us even if an acquisition might be in the best interest of our shareholders. In addition, the Bank Holding Company Act of 1956, as amended, or the BHCA, requires any bank holding company to obtain the approval of the Federal Reserve Board prior to acquiring more than 5% of our outstanding common stock. Any person other than a bank holding company is required to obtain prior approval of the Federal Reserve Board to acquire 10% or more of our outstanding common stock under the Change in Bank Control Act. Any holder of 25% or more of our outstanding common stock, other than an individual, is subject to regulation as a bank holding company under the BHCA.

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

- empower our board of directors, without shareholder approval, to issue shares of our preferred stock the terms of which, including voting power, are set by our board;
- divide our board of directors into three classes serving staggered three year terms;
- restrict the ability of shareholders to remove directors;
- require that shares with at least 75% or, in certain circumstances, a majority of total voting power, approve certain transactions with significant beneficial owners of our common stock;
- require that shares with at least 75% or, in certain instances, a majority of total voting power, approve the repeal or amendment of certain provisions of our articles of incorporation;
- require that, following any acquisition by any person or group of 10% of our voting power, the remaining shareholders have the right to receive for their shares, at least the highest price paid by such person for any of the shares then directly or indirectly owned by such person;
- eliminate cumulative voting in the election of directors; and
- require advance notice of nominations for the election of directors and the presentation of shareholder proposals at meetings of shareholders.

See Description of Our Common Stock Anti-Takeover Provisions in the accompanying base prospectus.

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USE OF PROCEEDS

The net proceeds, after underwriting discounts and estimated expenses, to us from the sale of the shares of common stock offered hereby will be approximately $37.5 million (or approximately $43.2 million if the underwriters exercise their over-allotment option in full).

We intend to use our net proceeds of this offering for general corporate purposes which may include, without limitation, making investments at the holding company level, providing capital to support our subsidiary, Orrstown Bank, supporting asset and deposit growth, engaging in acquisitions or other business combinations, and reducing or refinancing existing debt. We do not have any specific plans for acquisitions or other business combinations at this time. Allocations of the net proceeds from this offering to specific purposes have not been made at the date of this prospectus supplement.

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CAPITALIZATION

The following table sets forth our capitalization as of December 31, 2009:

- on an actual basis; and
- on an as adjusted basis after giving effect to our sale and issuance of 1,481,481 shares of common stock in this offering at a public offering price of $27.00 per share and our receipt of $37,549,988 in estimated net proceeds from this offering after deducting the underwriting discount and estimated offering expenses of this offering and assuming no exercise of the underwriters over-allotment option.

You should read the information in this table in conjunction with the Use of Proceeds, Dividend Policy, and Summary Selected Consolidated Financial Data, included in this prospectus supplement, and Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and the notes to those statements that are included in our Annual Report on Form 10-K for the year ended December 31, 2009, which are incorporated by reference into this prospectus supplement and the accompanying base prospectus.

	At December 31, 2009	
	Actual	As Adjusted
	(Dollars in thousands except per share data)	
Long-term debt		
Long-term debt including Federal Home Loan Bank	$ 64,858	$ 64,858
Subordinated debt	0	0
Total long-term debt	$ 64,858	$ 64,858
Shareholders equity		
Common stock, no par value per share; 50,000,000 shares authorized;		
6,469,508 shares issued, actual; and 7,950,989 shares issued, as adjusted	337	414
Additional Paid-in capital	82,895	120,368
Retained earnings	28,857	28,857
Accumulated other comprehensive income (loss)	(501)	(501)
Treasury stock common, at cost 26,313 shares in 2009	(702)	(702)
Total shareholders equity	110,886	148,436
Total capitalization(1)	$ 175,744	$ 213,294
Per common stock		
Common book value per share	$ 17.21	$ 18.73
Tangible common book value per share	$ 13.96	$ 16.09
Capital ratios		
Tier 1 leverage ratio	7.6%	10.5%
Tier 1 risk-based capital ratio	10.1%	13.8%
Total risk-based capital ratio	11.3%	15.0%
Tangible common equity/tangible assets(2)	7.7%	10.5%

(1) Includes shareholders equity and long-term debt.

(2) Tangible common equity to tangible assets is a ratio of non-GAAP financial measure calculated using GAAP amounts. See note 2 to Summary Selected Consolidated Financial Information.

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PRICE RANGE OF COMMON STOCK

Our common stock began trading on the NASDAQ Capital Market under the symbol ORRF as of April 28, 2009. Before such listing, our common stock was quoted on the OTC Bulletin Board (OTCBB). The OTCBB is a regulated quotation service that displays real-time quotes, last-sale prices and volume information in over-the-counter equity securities. Unlike the NASDAQ Capital Market, the OTCBB does not impose listing standards and does not provide automated trade executions. Historical trading in the Company s stock has not been extensive and such trades cannot be characterized as constituting an active trading market.

The following table sets forth, for the fiscal periods indicated, the high and low sales prices or closing bid prices for our common stock for the two most recent fiscal years. The quotations for the periods in which our common stock traded on the OTCBB reflect inter-dealer prices, without retail mark-up, markdown or commission and may not represent actual transactions. Trading prices are based on published financial sources.

	High	Low	Dividend Per Share
Year Ended December 31, 2008			
First Quarter	$ 31.50	$ 29.50	$ 0.21
Second Quarter	$ 33.96	$ 29.10	$ 0.22
Third Quarter	$ 31.75	$ 29.00	$ 0.22
Fourth Quarter	$ 30.25	$ 27.00	$ 0.22
Year Ended December 31, 2009			
First Quarter	$ 29.25	$ 23.50	$ 0.22
Second Quarter	$ 40.00	$ 22.00	$ 0.22
Third Quarter	$ 39.00	$ 34.26	$ 0.22
Fourth Quarter	$ 39.39	$ 27.77	$ 0.22
Year Ended December 31, 2010			
First Quarter (through March 23, 2010)	$ 36.50	$ 29.00	$ 0.22

The closing price for our common stock on March 23, 2010 was $30.50 per share, and as of such date there were approximately 3,103 holders of record of our common stock and 6,454,217 shares of our common stock outstanding.

See Dividend Policy below for a discussion of restrictions on our ability to pay dividends.

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DIVIDEND POLICY

We historically have paid cash dividends on our common stock on a quarterly basis. The most recent quarterly cash dividend was $0.22 per share declared for the first quarter of 2010.

Declaration of future dividends by our board of directors will depend on a number of factors, including capital requirements, regulatory limitations, our operating results and financial condition and general economic conditions. Under guidance issued by the Federal Reserve, as a bank holding company we are to consult the Federal Reserve before declaring dividends and are to strongly consider eliminating, deferring, or reducing dividends we pay to our shareholders if (1) our net income available to shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends, (2) our prospective rate of earnings retention is not consistent with our capital needs and overall current and prospective financial condition, or (3) we will not meet, or are in danger of not meeting, our minimum regulatory capital adequacy ratios.

Our ability to pay dividends depends primarily on receipt of dividends from our direct and indirect subsidiaries. Our bank subsidiary, Orrstown Bank, is our primary source of dividends. Dividend payments from Orrstown Bank are subject to legal and regulatory limitations, generally based on net profits and retained earnings, imposed by bank regulatory agencies. The ability of Orrstown Bank to pay dividends is also subject to profitability, financial condition, regulatory capital requirements, capital expenditures and other cash flow requirements.

The payment of dividends by Orrstown Bank and us may also be affected by other factors, such as the requirement to maintain adequate capital above regulatory guidelines. The federal banking agencies have indicated that paying dividends that deplete a depository institution s capital base to an inadequate level would be an unsafe and unsound banking practice. Under the Federal Deposit Insurance Corporation Improvement Act of 1991, a depository institution may not pay any dividend if payment would cause it to become undercapitalized or if it already is undercapitalized. Moreover, the federal agencies have issued policy statements that provide that bank holding companies and insured banks should generally only pay dividends out of current operating earnings.

We are also subject to certain limitations under the Pennsylvania Business Corporation Law of 1988, as amended, which prohibits payment of dividends if a corporation would be unable to pay its debts as they become due, or the total assets of the corporation would be less than the sum of its total liabilities.

UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary of the anticipated U.S. federal income tax considerations relating to the purchase, ownership and disposition of our common stock. This summary addresses only the U.S. federal income tax considerations relevant to holders of our common stock who are initial purchasers of our common stock and that will hold the common stock as capital assets.

This description does not address tax considerations applicable to holders that may be subject to certain special U.S. federal income tax rules, such as:

- financial institutions,
- insurance companies,
- real estate investment trusts,
- regulated investment companies,
- grantor trusts,
- dealers or traders in securities or currencies or notional principal contracts,
- tax-exempt entities,
- certain former citizens or long-term residents of the United States,
- persons that received shares as compensation for the performance of services or pursuant to the exercise of options or warrants,
- persons that will hold shares as part of a hedging or conversion transaction or as a position in a straddle or as part of synthetic security or other integrated transaction for U.S. federal income tax purposes,
- partnerships or other entities classified as partnerships for U.S. federal income tax purposes, or
- U.S. Holders (as defined below) that have a functional currency other than the U.S. dollar.

Holders of our common stock who are in any of the above categories should consult their own tax advisors regarding the U.S. federal income tax consequences relating to the purchase, ownership, and disposition of our common stock, as the U.S. federal income tax consequences for persons in the above categories relating to the purchase, ownership, and disposition of the common stock may be significantly different than as described below. Moreover, this summary does not address the U.S. federal estate and gift or alternative minimum tax consequences, or any U.S. state or local tax consequences, of the purchase, ownership and disposition of our common stock.

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds our common stock, the tax treatment of a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. Such a partner should consult its own tax advisors as to the U.S. tax consequences of being a partner in a partnership that acquires, holds, or disposes of our common stock.

This summary is not intended to constitute a complete analysis of all U.S. federal income tax consequences relating to the purchase, ownership and disposition of our common stock. Prospective purchasers of our common stock should consult their own tax advisors with respect to the U.S. federal, state, local and foreign tax consequences of purchasing, owning or disposing of our common stock.

This summary is based upon the Internal Revenue Code of 1986, as amended, or the Code, proposed, temporary and final Treasury Regulations promulgated under the Code, and judicial and administrative interpretations of the Code and Treasury Regulations, in each case as in effect and available as of the date of this

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prospectus supplement. The Code, Treasury Regulations and judicial and administrative interpretations thereof may change at any time, and any change could be retroactive to the date of this prospectus supplement. The Code, Treasury Regulations and judicial and administrative interpretations thereof are also subject to various interpretations, and there can be no guarantee that the Internal Revenue Service, or the IRS, or U.S. courts will agree with the tax consequences described in this summary.

U.S. Holders

For purposes of this summary, a U.S. Holder is a beneficial owner of common stock that, for U.S. federal income tax purposes, is:

- a citizen or individual resident of the United States,
- a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or any state thereof (including the District of Columbia),
- an estate the income of which is subject to U.S. federal income taxation regardless of its source, or
- a trust if such trust was in existence on August 20, 1996 and validly elected to be treated as a United States person for U.S. federal income tax purposes or if (1) a court within the United States is able to exercise primary supervision over its administration and (2) one or more United States persons have the authority to control all of the substantial decisions of such trust.

Distributions on common stock

A U.S. Holder that receives a distribution with respect to our common stock, including a constructive distribution, of cash or property, generally will be required to include the amount of such distribution in gross income as a dividend to the extent of our current and accumulated earnings and profits, as computed for U.S. federal income tax purposes. To the extent that a distribution exceeds our current and accumulated earnings and profits, such distribution will be treated first as a tax-free return of capital to the extent of a U.S. Holder s tax basis in our common stock and thereafter as gain from the sale or exchange of common stock. (See Sale or exchange of common stock below.) Dividends received on common stock generally will be eligible for the dividends received deduction available to corporate U.S. Holders. For taxable years beginning before January 1, 2011, a dividend paid by us generally will be eligible to be taxed at the preferential tax rates applicable to long-term capital gains if the U.S. Holder receiving such dividend is an individual, estate, or trust. A U.S. Holder generally will be eligible for the reduced rate only if the U.S. Holder has held our common stock for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date.

Sale or exchange of common stock

A U.S. Holder will recognize gain or loss on the sale or other taxable disposition of our common stock in an amount equal to the difference, if any, between the amount realized on such sale or exchange and the U.S. Holder s adjusted tax basis in our common stock. A holder s adjusted tax basis in a share of our common stock generally will equal the holder s purchase price for that share. Any such gain or loss generally will be capital gain or loss, which will be long-term capital gain or loss if the common stock is held for more than one year. Preferential tax rates presently apply to long-term capital gains of a U.S. Holder that is an individual, estate, or trust. There are presently no preferential tax rates for long-term capital gains of a U.S. Holder that is a corporation. Deductions for capital losses are subject to significant limitations under the Code.

Backup withholding tax and information reporting requirements

Unless a holder of common stock is a corporation or other exempt recipient, payments to certain holders of common stock of dividends or the proceeds of the sale or other disposition of our common stock that are made within the United States or through certain United States-related financial intermediaries may be subject to information reporting. Such payments may also be subject to U.S. federal backup withholding tax, currently at a rate of 28%, if the holder of our common stock fails to supply a correct taxpayer identification number or otherwise fails to comply with applicable U.S. information reporting or certification requirements. Any amount withheld from a payment to a holder of common stock under the backup withholding rules is allowable as a credit against such holder s U.S. federal income tax and may entitle such holder to a refund, provided that the required information is furnished to the IRS.

Non-U.S. Holders

A non-U.S. Holder means a beneficial owner of our common stock that is not a U.S. Holder.

Dividends

In the event that we pay dividends, dividends paid to a non-U.S. Holder of our common stock generally will be subject to withholding of U.S. federal income tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty. However, dividends that are effectively connected with the conduct of a trade or business by the non-U.S. Holder within the United States (and, if required by an applicable income tax treaty, are attributable to a United States permanent establishment of the non-U.S. Holder) are not subject to the withholding tax, provided certain certification and disclosure requirements are satisfied. Instead, such dividends are subject to U.S. federal income tax on a net income basis in the same manner as if the non-U.S. Holder were a United States person as defined under the Code. Any such effectively connected dividends received by a foreign corporation may be subject to an additional branch profits tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty.

A non-U.S. Holder of our common stock who wishes to claim the benefit of an applicable treaty rate and avoid backup withholding, as discussed below, for dividends will be required to (a) complete IRS Form W-8BEN (or other applicable form) and certify under penalties of perjury that such holder is not a United States person as defined under the Code or (b) if our common stock is held through certain foreign intermediaries, satisfy the relevant certification requirements of applicable United States Treasury Regulations.

A non-U.S. Holder of our common stock eligible for a reduced rate of U.S. withholding tax pursuant to an income tax treaty may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the IRS.

Gain on disposition of common stock

Any gain realized on the disposition of our common stock generally will not be subject to U.S. federal income tax unless:

- the gain is effectively connected with a trade or business of the non-U.S. Holder in the United States, and, if required by an applicable income tax treaty, is attributable to a United States permanent establishment of the non-U.S. Holder;

- the non-U.S. Holder is an individual who is present in the United States for 183 days or more in the taxable year of that disposition, and certain other conditions are met; or

- we are or have been a United States real property holding corporation for U.S. federal income tax purposes.

An individual non-U.S. Holder described in the first bullet point immediately above will be subject to tax on the net gain derived from the sale under regular graduated U.S. federal income tax rates. An individual non-U.S. Holder described in the second bullet point immediately above will be subject to a flat 30% tax on the gain derived from the sale, which may be offset by United States source capital losses, even though the individual is not considered a resident of the United States. If a non-U.S. Holder that is a foreign corporation falls under the

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first bullet point immediately above, it generally will be subject to tax on its net gain in the same manner as if it were a United States person as defined under the Code and, in addition, may be subject to the branch profits tax equal to 30% of its effectively connected earnings and profits or at such lower rate as may be specified by an applicable income tax treaty. We do not believe that we are or have been, and do not expect to become, a United States real property holding corporation for U.S. federal income tax purposes.

Information reporting and backup withholding

We must report annually to the IRS and to each non-U.S. Holder the amount of dividends paid to such holder and the tax withheld with respect to such dividends, regardless of whether withholding was required. Copies of the information returns reporting such dividends and withholding may also be made available to the tax authorities in the country in which the non-U.S. Holder resides under the provisions of an applicable income tax treaty.

A non-U.S. Holder will be subject to backup withholding for dividends paid to such holder unless such holder certifies under penalties of perjury that it is a non-U.S. Holder (and the payor does not have actual knowledge or reason to know that such holder is a United States person as defined under the Code), or such holder otherwise establishes an exemption from backup withholding.

Information reporting and, depending on the circumstances, backup withholding will apply to the proceeds of a sale of our common stock within the United States or conducted through certain United States-related financial intermediaries, unless the beneficial owner certifies under penalties of perjury that it is a non-U.S. Holder (and the payor does not have actual knowledge or reason to know that the beneficial owner is a United States person as defined under the Code), or such owner otherwise establishes an exemption from such requirements.

Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against a non-U.S. Holder s U.S. federal income tax liability provided the required information is furnished to the IRS.

Recent Legislative Proposals

The Obama Administration has recently released general explanations of revenue proposals that would limit the ability of non-U.S. investors to claim relief from U.S. withholding tax in respect of dividends paid on the common stock, if such investors hold the common stock through a non-U.S. intermediary that is not a qualified intermediary. The Administration s proposals also would limit the ability of certain non-U.S. entities to claim relief from U.S. withholding tax in respect of dividends paid to such non-U.S. entities unless those entities have provided documentation of their beneficial owners to the withholding agent. A third proposal would impose a 20% withholding tax on the gross proceeds of the sale of common stock effected through a non-U.S. intermediary that is not a qualified intermediary and that is not located in a jurisdiction with which the United States has a comprehensive income tax treaty having a satisfactory exchange of information program. A non-U.S. investor generally would be permitted to claim a refund to the extent any tax withheld exceeded the investor s actual tax liability. The full details of these proposals have not yet been made public, although the Administration s summary of these proposals generally indicates that they are not intended to disrupt ordinary and customary market transactions. It is unclear whether, or in what form, these proposals may be enacted. Non-U.S. holders are encouraged to consult with their tax advisers regarding the possible implications of the Administration s proposals on their investment in respect of the common stock.

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UNDERWRITING

We are offering the shares of our common stock described in this prospectus supplement in an underwritten offering in which Sandler O Neill & Partners, L.P. is acting as representative of the underwriters. We have entered into an underwriting agreement with Sandler O Neill & Partners, L.P., acting as representative of the underwriters named below, with respect to the common stock being offered. Subject to the terms and conditions contained in the underwriting agreement, each underwriter has severally agreed to purchase the respective number of shares of our common stock set forth opposite its name below.

Name	Number of Shares
Sandler O Neill & Partners, L.P.	888,889
Janney Montgomery Scott LLC	592,592
Total	1,481,481

The underwriting agreement provides that the underwriters obligation to purchase shares of our common stock depends on the satisfaction of the conditions contained in the underwriting agreement, including:

- the representations and warranties made by us are true and agreements have been performed;
- there is no material adverse change in the financial markets or in our business; and
- we deliver customary closing documents.

Subject to these conditions, the underwriters are committed to purchase and pay for all shares of our common stock offered by this prospectus supplement, if any such shares are purchased. However, the underwriters are not obligated to take or pay for the shares of our common stock covered by the underwriters over-allotment option described below, unless and until such option is exercised.

Over-Allotment Option.

We have granted the underwriters an option, exercisable no later than 30 days after the date of the underwriting agreement, to purchase up to an aggregate of 222,222 additional shares of common stock at the public offering price, less the underwriting discount set forth on the cover page of this prospectus supplement. We will be obligated to sell these shares of common stock to the underwriters to the extent the over-allotment option is exercised. The underwriters may exercise this option only to cover over-allotments, if any, made in connection with the sale of our common stock offered by this prospectus supplement.

Commissions and Expenses.

The underwriters propose to offer our common stock directly to the public at the offering price set forth on the cover page of this prospectus supplement and to dealers at the public offering price less a concession not in excess of $0.89 per share. The underwriters may allow, and the dealers may re-allow, a concession not in excess of $0.10 per share on sales to other brokers and dealers. After the public offering of our common stock, the underwriters may change the offering price, concessions and other selling terms.

The following table shows the per share and total underwriting discount that we will pay to the underwriters and the proceeds we will receive before expenses. These amounts are shown assuming both no exercise and full exercise of the underwriters option to purchase additional shares of our common stock.

Per Share

		Total Without Over-Allotment Exercise	Total With Full Over-Allotment Exercise
Public offering price	$ 27.00	$ 39,999,987	$ 45,999,981
Underwriting discount	$ 1.485	$ 2,199,999	$ 2,529,998
Proceeds to us (before expenses)	$ 25.515	$ 37,799,988	$ 43,469,983

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We estimate that the total expenses of this offering payable by us, exclusive of the underwriting discount, will be approximately $250,000.

If the offering is not consummated because the underwriters terminate the underwriting agreement as a result of the failure of certain conditions specified in the underwriting agreement, we are required to reimburse the underwriters for their reasonable out-of-pocket expenses incurred in connection with investigating, marketing and proposing to market the shares of common stock offered by this prospectus or in contemplation of performing their obligations under the underwriting agreement, including, without limitation, legal fees and expenses, and marketing, syndication and travel expenses, up to $175,000 unless we approve expenses above such amount.

Indemnity.

We have agreed to indemnify the underwriters, and persons who control the underwriters, against certain liabilities, including liabilities under the Securities Act, and to contribute to payments that the underwriters may be required to make in respect of these liabilities.

Lock-Up Agreement.

We and each of our directors and executive officers, have agreed, for a period of 90 days after the date of this prospectus supplement, not to sell, offer, contract to sell, pledge, purchase any option to sell, sell any option to purchase, or otherwise dispose of or hedge, directly or indirectly, any common shares or securities convertible into, exchangeable or exercisable for any common shares or warrants or other rights to purchase our common shares or other similar securities without, in each case, the prior written consent of Sandler O Neill & Partners, L.P. These restrictions are expressly agreed to preclude us, and our executive officers and directors, from engaging in any hedging or other transactions or arrangement that is designed to, or which reasonably could be expected to, lead to or result in a sale, disposition or transfer, in whole or in part, of any of the economic consequences of ownership of our common shares, whether such transaction would be settled by delivery of common shares or other securities, in cash or otherwise. The 90-day restricted period described above will be automatically extended if (1) during the last 15 calendar days plus 3 business days of the 90-day restricted period, we issue an earnings release or material news or a material event relating to us occurs or (2) prior to the expiration of the 90-day restricted period, we announce we will release earnings results or become aware that material news or a material event will occur during the 16-day period beginning on the last day of the 90-day restricted period, in which case the restricted period will continue to apply until the expiration of the 15 calendar days plus 3 business days period beginning on the date on which the earnings release is issued or the material news or material event related to us occurs.

Stabilization.

In connection with this offering, the underwriters may engage in stabilizing transactions, over-allotment transactions, syndicate covering transactions and penalty bids.

Stabilizing transactions permit bids to purchase shares of common stock so long as the stabilizing bids do not exceed a specified maximum, and are engaged in for the purpose of preventing or retarding a decline in the market price of the common stock while the offering is in progress.

Over-allotment transactions involve sales by the underwriters of shares of common stock in excess of the number of shares the underwriters are obligated to purchase. This creates a syndicate short position which may be either a covered short position or a naked short position. In a covered short position, the number of shares of common stock over-allotted by the underwriters is not greater than the number of shares that they may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. The underwriters may close out any short position by exercising their over-allotment option and/or purchasing shares in the open market.

