

ORRSTOWN FINANCIAL SERVICES INC  
Form DEF 14A  
March 26, 2013  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**  
**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the**  
**Securities Exchange Act of 1934**  
**(Amendment No. )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14(a)-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to § 240.14a-12

**ORRSTOWN FINANCIAL SERVICES, INC.**

(Name of Registrant as Specified in its Charter)

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

Payment of filing fee (Check the appropriate box):

- No fee required
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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

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

## Edgar Filing: ORRSTOWN FINANCIAL SERVICES INC - Form DEF 14A

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

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

.. Fee paid previously with preliminary materials.

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

(1) Amount previously paid:

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

(3) Filing Party:

**Table of Contents**

March 29, 2013

Dear Shareholder:

On behalf of the Board of Directors and management of Orrstown Financial Services, Inc., I cordially invite you to attend our 2013 Annual Meeting of Shareholders. The Annual Meeting will be held at the H. Ric Luhrs Performing Arts Center, 1871 Old Main Drive, Shippensburg, Pennsylvania on Tuesday, April 30, 2013, at 9:00 a.m., local time. The attached Notice of Annual Meeting and Proxy Statement describe the formal business we expect to act upon at the Annual Meeting. I will also report on our operations. Our directors and officers, as well as representatives of Smith Elliott Kearns & Company, LLC, our independent registered public accounting firm, will be present to respond to shareholder questions.

You will be asked to (i) elect the Board's four nominees for director, (ii) provide a non-binding advisory vote approving the compensation paid to our named executive officers as disclosed in this proxy statement; and (iii) ratify the appointment of Smith Elliott Kearns & Company, LLC as our independent registered public accounting firm for the fiscal year ending December 31, 2013. The Board of Directors recommends a vote **FOR** the election as directors to Class B of the four nominees listed in the enclosed Proxy Statement; **FOR** approval of the advisory vote on compensation paid to our named executive officers; and **FOR** ratification of the Audit Committee's selection of Smith Elliott Kearns & Company, LLC as the Company's independent registered public accounting firm for 2013.

Your vote is important, regardless of the number of shares you own. We encourage you to vote by proxy so that your shares will be represented and voted at the meeting even if you cannot attend. All shareholders can vote by returning the enclosed Proxy Card. Also, you may vote in person at the meeting if you so choose. If you do decide to attend the Annual Meeting and feel for whatever reason that you want to change your vote at that time, you will be able to do so.

Sincerely,

Thomas R. Quinn, Jr.

*President and Chief Executive Officer*

Table of Contents

**ORRSTOWN FINANCIAL SERVICES, INC.**

**77 East King Street**

**Shippensburg, Pennsylvania 17257**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**TO BE HELD ON APRIL 30, 2013**

The Annual Meeting of Shareholders of Orrstown Financial Services, Inc. will be held on Tuesday, April 30, 2013, at 9:00 a.m., at the H. Ric Luhrs Performing Arts Center, 1871 Old Main Drive, Shippensburg, Pennsylvania, to consider and take action on the following matters:

1. Elect four (4) directors to Class B for three (3) year terms expiring in 2016;
2. Approve a non-binding advisory vote regarding the compensation paid to our named executive officers ( Say-On-Pay );
3. Ratify the Audit Committee s selection of Smith Elliott Kearns & Company, LLC as the Company s independent registered public accounting firm for 2013; and
4. Transact such other business as may properly come before the annual meeting.

**Your Board of Directors recommends a vote FOR the election as directors to Class B of the four nominees listed in the enclosed Proxy Statement; FOR approval of the advisory vote on compensation paid to our named executive officers; and FOR ratification of the Audit Committee s selection of Smith Elliott Kearns & Company, LLC as the Company s independent registered public accounting firm for 2013.**

This Notice of Annual Meeting of Shareholders, the Proxy Statement and the enclosed Proxy card are being mailed on or about March 29, 2013 to shareholders of record at the close of business on March 8, 2013. A copy of the Annual Report on Form 10-K for the year ended December 31, 2012 is also enclosed.

Sincerely,

Dr. Anthony F. Ceddia  
Secretary

March 29, 2013

**Important Notice Regarding Internet Availability of Proxy Materials**

**for the Shareholder Annual Meeting to be**

**Held on April 30, 2013 at 9:00 a.m.**

**The Proxy Statement and Annual Report to**

**Shareholders are available on the Internet at**

**<http://www.cfpproxy.com/5772>**

**Table of Contents**

**TABLE OF CONTENTS**

	Page
<u>Annual Meeting Information</u>	1
<u>Who is entitled to vote?</u>	1
<u>On what am I voting?</u>	1
<u>How does the Board of Directors recommend I vote?</u>	1
<u>How do I vote?</u>	2
<u>What is a quorum?</u>	2
<u>How are abstentions and broker non-votes counted?</u>	2
<u>What vote is required to elect directors?</u>	3
<u>What vote is required to approve the other proposals?</u>	3
<u>Who will count the vote?</u>	3
<u>What is the deadline for shareholder proposals for next year's Annual Meeting?</u>	3
<u>How are proxies being solicited?</u>	3
<u>Important Notice Regarding Internet Availability of Proxy Materials for the Shareholder Annual Meeting to be held on April 30, 2013</u>	3
<u>Share Ownership of Certain Beneficial Owners</u>	4
<u>Share Ownership of Management</u>	5
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	5
<u>Proposal 1 Election of Directors</u>	6
<u>Nomination of Directors</u>	6
<u>Biographical Summaries of Nominees and Directors</u>	9
<u>Director Independence</u>	11
<u>Shareholder Communications with the Board of Directors</u>	11
<u>Board Structure, Committees and Meeting Attendance</u>	12
<u>Audit Committee Report</u>	14
<u>Compensation Committee Interlocks and Insider Participation</u>	14
<u>Transactions with Directors and Management</u>	15
<u>Compensation of Directors</u>	16
<u>2012 Director Compensation Table</u>	16
<u>Information About Executive Officers and Other Significant Employees</u>	18
<u>Compensation Discussion and Analysis</u>	19
<u>Compensation Committee Report</u>	26
<u>Compensation Risk Assessment</u>	26
<u>Executive Compensation Tables</u>	26
<u>2012 Summary Compensation Table</u>	27
<u>2012 All Other Compensation Table</u>	28
<u>2012 Outstanding Equity Awards at Fiscal Year-End Table</u>	29
<u>2012 Option Exercises and Stock Vested Table</u>	29
<u>2012 Pension Benefits Table</u>	30
<u>Potential Payments Upon Termination or Change in Control</u>	30
<u>Proposal 2 Advisory Vote on Compensation Paid to Named Executive Officers ( Say-On-Pay )</u>	33
<u>A Non-Binding Advisory Vote to Approve the Compensation Paid to Our Named Executive Officers</u>	33
<u>Proposal 3 Ratification of the Audit Committee's Selection of Smith Elliott Kearns &amp; Company, LLC as the Company's Independent Registered Public Accounting Firm for 2013</u>	35
<u>Relationship with Independent Registered Public Accounting Firm</u>	35
<u>Annual Report on Form 10-K</u>	36

**Table of Contents**

**ORRSTOWN FINANCIAL SERVICES, INC.**

**77 East King Street**

**Shippensburg, Pennsylvania 17257**

**PROXY STATEMENT**

**Annual Meeting Information**

This proxy statement contains information about the Annual Meeting of Shareholders (the Annual Meeting) of Orrstown Financial Services, Inc. (the Company) to be held Tuesday, April 30, 2013, beginning at 9:00 a.m., at the H. Ric Luhrs Performing Arts Center, 1871 Old Main Drive, Shippensburg, Pennsylvania, and at any adjournments or postponements of the Annual Meeting. This proxy statement was prepared at the direction of the Company's Board of Directors to solicit your proxy for use at the Annual Meeting. This proxy statement and the enclosed form of proxy will be mailed to shareholders on or about March 29, 2013.

***Who is entitled to vote?***

Shareholders owning Company common stock as of the close of business on March 8, 2013 are entitled to vote at the Annual Meeting or any adjournment or postponement of the Annual Meeting. Each shareholder has one vote per share on all matters to be voted on. As of March 8, 2013 there were 8,084,813 shares of the Company's common stock outstanding.

***On what am I voting?***

You will be asked to:

- (i) elect four (4) directors to Class B for three (3) year terms expiring in 2016;
- (ii) approve a non-binding advisory vote regarding the compensation paid to our named executive officers as disclosed in this proxy statement ( Say-On-Pay ); and
- (iii) ratify the Audit Committee's selection of Smith Elliott Kearns & Company, LLC as the Company's independent registered public accounting firm for 2013.

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

***How does the Board of Directors recommend I vote?***

## Edgar Filing: ORRSTOWN FINANCIAL SERVICES INC - Form DEF 14A

The Board of Directors recommends that shareholders vote:

- (i) FOR the election of each of the four nominees as directors to Class B named in this proxy statement;
- (ii) FOR approval of the non-binding advisory vote on the compensation paid to our named executive officers as disclosed in this proxy statement; and
- (iii) FOR ratification of the Audit Committee's selection of Smith Elliott Kearns & Company, LLC as the Company's independent registered public accounting firm for 2013.



## **Table of Contents**

### ***How do I vote?***

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

- (i) FOR the four persons nominated for election as directors to Class B named in this proxy statement;
- (ii) FOR approval of the non-binding advisory vote on the compensation paid to our named executive officers as disclosed in this proxy statement; and
- (iii) FOR ratification of the Audit Committee's selection of Smith Elliott Kearns & Company, LLC as the Company's independent registered public accounting firm for 2013.

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

You are only entitled to vote at the Annual Meeting if our records show that you held shares of the Company's common stock as of the close of business on March 8, 2013. If your shares are held by a broker or other intermediary, you can only vote your shares at the Annual Meeting if you have a properly executed proxy from the broker or other intermediary which is the record holder of your shares.

### ***What is a quorum?***

A quorum is the presence at the meeting, in person or by proxy, of the holders of a majority of the outstanding shares. There must be a quorum for the Annual Meeting to be held.

### ***How are abstentions and broker non-votes counted?***

Abstentions are counted for purposes of determining the presence or absence of a quorum, but are not considered a vote cast under Pennsylvania law.

A broker non-vote occurs when a broker, bank or other nominee holding shares on your behalf does not receive voting instructions from you. If that happens, the broker, bank or other nominee may vote those shares only on matters deemed routine, such as the ratification of the appointment of the Company's independent registered public accounting firm. On non-routine matters, such as the election of directors, the broker, bank or other nominee cannot vote those shares unless they receive voting instructions from the beneficial owner. A broker non-vote occurs when a broker has not received voting instructions and either declines to exercise its discretionary authority to vote on routine matters or is barred from doing so because the matter is non-routine. Broker non-votes are counted to determine if a quorum is present, but are not considered a vote cast under Pennsylvania law.

As a result, abstentions and broker non-votes are not included in the tabulation of the voting results on issues requiring approval of a majority of the votes cast and, therefore, do not have the effect of votes in opposition in such tabulation.

## **Table of Contents**

### ***What vote is required to elect directors?***

Directors are elected by a plurality of votes. The four nominees for election as directors to Class B receiving the highest number of votes will be elected to the Board of Directors. Votes withheld and broker non-votes will have no effect on the election of directors.

### ***What vote is required to approve the other proposals?***

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

### ***Who will count the vote?***

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

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

Shareholders may submit proposals on matters appropriate for shareholder action at future annual meetings by following the rules of the Securities and Exchange Commission and the Company's bylaws. Proposals intended for inclusion in next year's proxy statement and proxy card must be received by the Company not later than November 29, 2013. In addition, in order to be considered for possible action by the shareholders at the 2014 annual meeting of shareholders (the 2014 Annual Meeting), proposals not included in the Company's proxy statement must also be submitted to the Secretary of the Company not later than November 29, 2013. All proposals should be addressed to the Secretary of the Company.

### ***How are proxies being solicited?***

In addition to solicitation by mail, the officers, directors and employees of the Company may, without additional compensation, solicit proxies by telephone or personal interview. Brokers and other custodians, nominees and fiduciaries will be requested to forward soliciting material to the beneficial owners of Common Stock held by such persons and will be reimbursed by the Company for their expenses. The Company has retained Georgeson to assist in the solicitation of proxies for a fee of approximately \$25,000. The cost of soliciting proxies for the Annual Meeting will be borne by the Company.

### **Important Notice Regarding Internet Availability of Proxy Materials for the Shareholder Annual Meeting to be held on April 30, 2013**

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

<http://www.cfpproxy.com/5772>

**Table of Contents****Share Ownership of Certain Beneficial Owners**

The Company does not know of any person or group who beneficially owned more than 5% of the Company's Common Stock on March 8, 2013, except as shown in the following table:

Name and address of Beneficial Owner	Common Stock Beneficially Owned	Percent of Class
Orrstown Bank 77 East King Street Shippensburg, PA 17257	558,893 <sup>(1)</sup>	6.91%
PL Capital Group <sup>(2)</sup> 20 East Jefferson Avenue Suite 22 Naperville, IL 60540	556,153	6.88%

(1) Shares held directly by Orrstown Bank (the "Bank"), or by way of its nominees, in its trust department as fiduciary for certain trusts, estates and agency accounts that beneficially own the shares. The Bank shares voting power as to 342,106 of these shares but, as a matter of policy, votes such shares solely in accordance with the directions, if any, of the persons with whom it shares voting power. The Bank has sole voting power as to 69,529 of these shares and, subject to the provisions of governing instruments and/or in accordance with applicable provisions of fiduciary law, may vote such shares in what it reasonably believes to be the best interest of the respective trust, estate or agency account for which it holds such shares. As a matter of policy, however, the Bank does not vote shares for which it has sole voting power. The Bank does not have the right to vote with respect to the remaining 147,258 shares and disclaims beneficial ownership of such shares. The Bank has investment discretion with respect to 411,635 of the shares but, as a matter of policy, does not exercise that discretion and acts with respect to such shares solely upon the written direction of the client. The Bank does not have investment discretion with respect to the remaining 147,258 shares.

(2) The information regarding beneficial ownership by PL Capital Group is as reported in a Schedule 13D/A filed with the SEC on February 5, 2013 by:

Financial Edge Fund, L.P. ( "Financial Edge Fund" );

Financial Edge-Strategic Fund, L.P. ( "Financial Edge Strategic" );

PL Capital/Focused Fund, L.P. ( "Focused Fund" );

PL Capital, LLC, general partner of Financial Edge Fund, Financial Edge Strategic and Focused Fund ( "PL Capital" );

## Edgar Filing: ORRSTOWN FINANCIAL SERVICES INC - Form DEF 14A

PL Capital Advisors, LLC, the investment advisor to Financial Edge Fund, Financial Edge Strategic, Focused Fund and Goodbody/PL Capital, L.P. ( PL Capital Advisors );

Goodbody/PL Capital, L.P. ( Goodbody/PL LP );

Goodbody/PL Capital, LLC, general partner of Goodbody/PL LP ( Goodbody/PL LLC ); and

John W. Palmer and Richard J. Lashley, as managing members of PL Capital, PL Capital Advisors and Goodbody/PL LLC.

According to the Schedule 13D/A, (a) Financial Edge Fund has shared voting and shared dispositive power over 294,614 shares, (b) Financial Edge Strategic has shared voting and shared dispositive power over 96,462 shares, (c) Focused Fund has shared voting and shared dispositive power over 59,123 shares, (d) PL Capital has shared voting and shared dispositive power over 450,199 shares, (e) PL Capital Advisors has shared voting and shared dispositive power over 556,153 shares, (f) Goodbody/PL LP has shared voting and shared dispositive power over 105,954 shares, (g) Goodbody/PL LLC has shared voting and shared dispositive power over 105,954 shares, (h) John W. Palmer has shared voting and shared dispositive power over 556,153 shares, and (i) Richard J. Lashley has shared voting and shared dispositive power over 556,153 shares.

**Table of Contents****Share Ownership of Management**

The following table shows the number of shares of Company Common Stock beneficially owned by each incumbent director, each nominee and each executive officer, and by all of the incumbent directors, nominees and executive officers of the Company as a group, as of March 8, 2013, based on information furnished by the persons named and the Company's records. Except as otherwise indicated, sole voting power and sole investment power with respect to the shares shown in the table are held either by the individual alone or by the individual together with his or her spouse.

Name	Common Stock <sup>(1)</sup>	Exercisable Stock Options <sup>(1)(2)</sup>
David P. Boyle	18,500	0
Barbara E. Brobst	6,415	18,472
Anthony F. Ceddia	8,296	3,602
Jeffrey W. Coy	37,485 <sup>(3)</sup>	3,602
Philip E. Fague	16,949	29,782
Jeffrey S. Gayman	5,250 <sup>(4)</sup>	14,239
Mark K. Keller	4,868	349
Andrea Pugh	21,478	3,602
Thomas R. Quinn, Jr.	8,890	6,000
Gregory A. Rosenberry	40,674 <sup>(5)</sup>	3,602
Jeffrey M. Seibert	2,500	0
Glenn W. Snoke	14,193 <sup>(6)</sup>	3,602
Floyd E. Stoner	11,327	0
Benjamin Wallace	0	0
John S. Ward	4,893	3,602
Joel R. Zullinger	36,571 <sup>(7)</sup>	3,602
Directors, nominees and executive officers as a group (17 persons including those named above)	238,290	94,056

- (1) On March 8, 2013, none of the individuals named in the above table may be deemed to beneficially own more than 1% of the outstanding shares of Company Common Stock. On that date, all of the incumbent directors, nominees, and executive officers as a group beneficially owned approximately 332,346 shares or 4.06% of the outstanding shares of Company Common Stock. Fractional shares beneficially owned by such individuals have been rounded down to the number of whole shares beneficially owned.
- (2) The amounts shown reflect the number of shares of Common Stock that the indicated individuals and group have the right to acquire within 60 days of March 8, 2013 through the exercise of stock options granted pursuant to the Company's stock option plans.
- (3) Includes 6,324 shares held by Mr. Coy's spouse in her IRA.
- (4) Includes 10 shares Mr. Gayman holds as custodian for his children.
- (5) Includes 56 shares Mr. Rosenberry holds as custodian for his son.
- (6) Includes 150 shares held by Mr. Snoke's spouse as custodian for her son.
- (7) Includes 220 shares held by Mr. Zullinger's spouse.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934 requires our directors and executive officers and the beneficial owners of more than 10% of our common stock to file reports of ownership and changes in ownership of their equity securities of the Company with the Securities and Exchange Commission and to furnish the Company with copies of such reports. Based solely upon a review of these reports (Forms 3, 4 and 5 and any amendments thereto) furnished to the Company, we believe that during 2012 our directors, executive officers and beneficial owners of more than 10% of our common stock who are subject to the reporting requirements of Section 16(a) of the Securities

## **Table of Contents**

Exchange Act of 1934 complied with all SEC filing requirements applicable to them, except for two instances. David P. Boyle and Jeffrey M. Seibert did not timely file their respective Form 3 upon becoming executive officers of the Company. Mr. Boyle and Mr. Seibert did not own any stock of the Company upon becoming an executive officer. Messrs. Boyle and Seibert have subsequently filed Forms 4 to report the acquisition of Company stock.

### **PROPOSAL 1 ELECTION OF DIRECTORS**

The bylaws of the Company provide that the directors will serve in three classes, as nearly equal in number as possible, with each class of directors serving a three year term of office. At each annual meeting of shareholders, a class consisting of approximately one third of all of the Company's directors is elected to hold office for a term expiring at the annual meeting held in the third year following the year of their election and until their successors have been elected and qualified. Accordingly, at the Annual Meeting, the shareholders will be asked to elect four directors to Class B to serve until the annual meeting of shareholders in 2016 or until their successors are elected and qualified.

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

Mark K. Keller

Thomas R. Quinn, Jr.

Gregory A. Rosenberry

Glenn W. Snoke

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

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

**The Board of Directors recommends that you vote FOR the election of each of the named nominees as directors to Class B.**

#### **Nomination of Directors**

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

In addition to meeting the minimum criteria to serve as a director as outlined in the Company's bylaws, the Nominating and Governance Committee has considered a variety of factors including each

## **Table of Contents**

candidate's integrity, independence, qualifications, skills, experience (including experience in finance and banking and diversity of experience in relation to other members of the Board of Directors), compatibility with other members of the Board of Directors, the strategic direction of the Company and the Bank, involvement in the communities served by the Bank and such other factors as it has deemed to be in the best interest of the Company, the Bank and the Company's shareholders, which factors may change from time to time.

The Nominating and Governance Committee will consider the incumbent directors whose terms are expiring at the forthcoming annual meeting, other candidates, if any, recommended to it by shareholders, other qualified individuals within the community, including the Bank's regional advisory boards, and any candidates nominated by shareholders in accordance with the procedures set forth in the Company's bylaws. The criteria for consideration of board candidates nominated by the Company's shareholders, if nominated in a timely manner, is the same as for other board nominees.

*Director Eligibility Requirements.* The Company's bylaws provide for certain director eligibility requirements for a nominee to be eligible to become a member of the Board. All directors must hold at least 3,500 shares of the Company's common stock. In addition, no one may be nominated to serve as a director of the Company that: (a) is under indictment or has been convicted of a crime involving a breach of trust with a penalty of imprisonment for more than one year; (b) has been issued within the past 10 years a non-appealable cease and desist order by a federal or state bank regulatory agency related to conduct involving dishonesty or breach of trust; (c) has been found guilty in a final decision, either by any federal or state regulatory agency of: (i) committing a willful violation of any law governing banking, securities, commodities or insurance, or any final cease and desist order issued by a banking, securities, commodities or insurance regulatory agency, or (ii) breaching a fiduciary duty involving personal profit; or (d) has been nominated by someone who is ineligible to serve as a director of the Company under requirements (a)-(c) listed above. In addition, the age of members of the Board is limited to 75 years, provided that any director who reaches such age during his or her term of office may continue to serve on the Board until the expiration of their term.

*Settlement of Proxy Contest and Derivative Lawsuit.* On January 31, 2013, the Company entered into a Confidential Settlement and General Release Agreement (the Settlement Agreement) by and among, the Company and its directors, PL Capital; Financial Edge Fund; Richard J. Lashley; and John W. Palmer and certain other affiliates of PL Capital (collectively, the PL Capital Parties). Based on the most recent amendment to the PL Capital Parties' Schedule 13D, filed with the Securities and Exchange Commission on February 5, 2013, certain of the PL Capital Parties beneficially own, in the aggregate, up to 556,153 shares, or 6.88% of the Company's outstanding common stock.

On December 28, 2012, PL Capital principal John Palmer, on behalf of the Financial Edge Fund, mailed a notice of intent to nominate Richard J. Lashley for election as a director at the Annual Meeting. On January 7, 2013, the PL Capital Parties filed a shareholder derivative action (the Lawsuit) against the Company and its directors (the Defendants) alleging discriminatory application of certain bylaw amendments adopted by the Company on November 19, 2012.

Under the terms of the Settlement Agreement, the PL Capital Parties agreed to, among other things, not bring or advise any shareholders on proposals before the Annual Meeting, direct their counsel to take all steps necessary for dismissal of the Lawsuit with prejudice, withdraw the nomination of Richard J. Lashley for the Annual Meeting and refrain from nominating any other Board candidate through the last day of the Annual Meeting, refrain from waging or advising any

**Table of Contents**

shareholders on any proxy contests related to the Annual Meeting, and not disparage the Board or the Company through the last day of the Annual Meeting.

The PL Capital Parties have also agreed to advise the Defendants, within 10 days of the filing of the Company's 2013 third quarter Form 10-Q (the Third Quarter 10-Q), whether they will nominate a candidate to run for a seat on the Board at the 2014 Annual Meeting. If the PL Capital Parties do not nominate a candidate to run for a seat on the Board in 2014 within 10 days of the filing of the Third Quarter 10-Q, the PL Capital Parties have agreed to refrain from taking the following actions: nominating any Board candidate for the 2014 Annual Meeting; waging any proxy contests at the 2014 Annual Meeting; making any shareholder proposals at the 2014 Annual Meeting; advising shareholders on any proposals, proxy contests, and/or nominees through the last day of the 2014 Annual Meeting; commenting on any allegations of improper conduct by the Defendants or the Company, as alleged in the complaint, through the last day of the 2014 Annual Meeting; and disparaging the Defendants and/or the Company through the last day of the 2014 Annual Meeting.

In consideration of the foregoing, the Defendants agreed to amend, and on February 28, 2013 amended, the Company's bylaws to rescind the director eligibility requirements related to residency (contained in Section 3-12, Article III) and not serving as a management official of another bank (contained in Section 3-14, Article III), both of which became effective on November 19, 2012 (the November Amendments). In addition, the Defendants have agreed that, from the date of the Settlement Agreement through the last day of the 2014 Annual Meeting, they will not implement any changes to the Company's articles of incorporation or bylaws that would prevent the PL Capital Parties from nominating a candidate to run for a seat on the Board at the 2014 Annual Meeting. Similarly, the Company and the Defendants have agreed not to add any director eligibility requirements to the bylaws of the Bank through the last day of the 2014 Annual Meeting that would exclude a director nominated by the PL Capital Parties who wins election to the Board from also serving on the Bank's board of directors and represent that such bylaws do not currently contain any eligibility requirement similar to those contained in the November Amendments.

If within 10 days of the filing of the Third Quarter 10-Q, the PL Capital Parties declare that they will not nominate a candidate for a Board seat in 2014, the Defendants have agreed that from the last day of the 2014 Annual Meeting through the last day of the Company's 2015 Annual Meeting of Shareholders (the 2015 Annual Meeting) that they will not implement any changes to the Company's articles or bylaws that would prevent the PL Capital Parties from nominating a candidate at the 2015 Annual Meeting. If the PL Capital Parties do not nominate any Board candidate for the 2014 Annual Meeting, the Company and the Defendants have agreed that, from the last day of the 2014 Annual Meeting through the last day of the 2015 Annual Meeting, they will not add any director eligibility requirements to the Bank's bylaws that would preclude a candidate of the PL Capital Parties who won election to the Board from serving on the Bank's board of directors.

The Company also agreed to pay the reasonable legal fees and expenses of the PL Capital Parties related to the Lawsuit. It is anticipated that the settlement in total will cost the Company approximately \$170,000.

The Settlement Agreement contains other customary terms for an agreement of this type, including a release of claims relating to the claims raised by the PL Capital Parties in the Lawsuit, or to the subject matter of the Lawsuit.



## **Table of Contents**

The foregoing summary of the Settlement Agreement does not purport to be complete and is qualified in its entirety by reference to the Settlement Agreement, a copy of which is attached as Exhibit 99.1 to the Company's Form 8-K filed on February 4, 2013, which is incorporated herein by reference.

No other recommendations were received by the Nominating and Governance Committee in connection with this Annual Meeting from shareholders or others, nor, as of the date of this Proxy Statement, had any candidates been nominated by shareholders in accordance with the procedures set forth in the bylaws.

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

Shareholder nominations in accordance with the procedures set forth in the Company's bylaws must be submitted not less than 120 days prior to the anniversary date of the immediately preceding annual meeting of shareholders of the corporation, and must include a statement setting forth the background, education and business experience of the nominee.

A copy of the Nominating and Governance Committee Charter is posted on the Company's website at [www.orrstown.com](http://www.orrstown.com).

## **Biographical Summaries of Nominees and Directors**

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

### **Nominees for Director:**

#### **CLASS B DIRECTORS    CURRENT TERM EXPIRES IN 2013**

**Mark K. Keller**, 59, was appointed to the Company's Board of Directors in 2009 and the Bank's Board of Directors in 2008. Mr. Keller has served as a Representative to the Pennsylvania General Assembly, representing the 86<sup>th</sup>