

ORRSTOWN FINANCIAL SERVICES INC
Form DEF 14A
March 19, 2018

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

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

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

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(3) the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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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
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Form or Schedule and the date of its filing.

(1) Amount previously paid:

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

(3) Filing Party:

(4) Date Filed:

March 24, 2018

Dear Shareholder:

On behalf of the Board of Directors and management of Orrstown Financial Services, Inc. (the “Company”), I cordially invite you to attend our 2018 Annual Meeting of Shareholders (the “Annual Meeting”). The Annual Meeting will be held at the H. Ric Luhrs Performing Arts Center, 1871 Old Main Drive, Shippensburg, Pennsylvania on Tuesday, May 1, 2018, 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. We will also report on our results of operations. Our directors and officers, as well as representatives of Crowe Horwath LLP, 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) approve the amendment to the 2011 Orrstown Financial Services, Inc. Stock Incentive Plan; (iii) provide a non-binding advisory vote approving the compensation paid to our named executive officers as disclosed in the attached proxy statement (“Say-on-Pay”); and (iv) ratify the appointment of Crowe Horwath LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2018. The Board of Directors recommends a vote “FOR” the election as directors to Class C of the four nominees listed in the enclosed Proxy Statement; “FOR” the amendment to the 2011 Orrstown Financial Services, Inc. Stock Incentive Plan; “FOR”, approval of the advisory vote on compensation paid to our named executive officers; and “FOR” ratification of the Audit Committee’s selection of Crowe Horwath LLP as the Company’s independent registered public accounting firm for the fiscal year ending December 31, 2018.

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 Annual Meeting even if you cannot attend. There are a number of ways shareholders can vote. You can vote by returning the enclosed Proxy Card, on line, by phone or 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

ORRSTOWN FINANCIAL SERVICES, INC.
77 East King Street
Shippensburg, Pennsylvania 17257

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON MAY 1, 2018

The Annual Meeting of Shareholders of Orrstown Financial Services, Inc. (the “Company”) will be held on Tuesday, May 1, 2018, 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 C for three (3) year terms expiring in 2021;
2. Approve the amendment to the 2011 Orrstown Financial Services, Inc. Stock Incentive Plan;
3. Approve a non-binding advisory vote regarding the compensation paid to our named executive officers (“Say-On-Pay”);
4. Ratify the Audit Committee’s selection of Crowe Horwath LLP as the Company’s independent registered public accounting firm for the fiscal year ending December 31, 2018; and
5. 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 C of the four nominees listed in the enclosed proxy statement; “FOR” the Amendment to the 2011 Orrstown Financial Services, Inc. Stock Incentive Plan; “FOR” approval of the advisory vote on compensation paid to our Named Executive Officers; and “FOR” ratification of the Audit Committee’s selection of Crowe Horwath LLP as the Company’s independent registered public accounting firm for the fiscal year ending December 31, 2018.

This Notice of Annual Meeting of Shareholders, the proxy statement and the enclosed proxy card are being mailed on or about March 24, 2018 to shareholders of record at the close of business on March 15, 2018. A copy of the Annual Report on Form 10-K for the year ended December 31, 2017 is also enclosed.

Sincerely,

Dr. Anthony F. Ceddia
Secretary

March 24, 2018

Important Notice Regarding Internet Availability of Proxy Materials
for the Annual Meeting of Shareholders to be
Held on May 1, 2018 at 9:00 a.m.
The Proxy Statement and Annual Report to
Shareholders are available on the Internet at

<http://www.cstproxy.com/orrstown/2018>

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ORRSTOWN FINANCIAL SERVICES, INC.

77 East King Street

Shippensburg, Pennsylvania 17257

PROXY STATEMENT

Annual Meeting Information

This proxy statement contains information about the Annual Meeting of Shareholders (the “Annual Meeting”) of Orrstown Financial Services, Inc. (the “Company”) to be held Tuesday, May 1, 2018, 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 24, 2018.

Who is entitled to vote?

Shareholders owning shares of the Company’s common stock, no par value per share (the “Company Common Stock”), as of the close of business on March 15, 2018 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 15, 2018 there were 8,412,014 shares of Company Common Stock outstanding.

On what am I voting?

You will be asked to:

- (i) elect four (4) directors to Class C for three (3) year terms expiring in 2021;
- (ii) approve the amendment to the 2011 Orrstown Financial Services, Inc. Stock Incentive Plan;
- (iii) 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
- (iv) ratify the Audit Committee’s selection of Crowe Horwath LLP as the Company’s independent registered public accounting firm for the fiscal year ending December 31, 2018.

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?

The Board of Directors recommends that shareholders vote:

- (i) “FOR” the election of each of the four nominees as directors to Class C named in this proxy statement;
- (ii) “FOR” the amendment to the 2011 Orrstown Financial Services, Inc. Stock Incentive Plan;
- (iii) “FOR” approval of the non-binding advisory vote on the compensation paid to our Named Executive Officers as disclosed in this proxy; and
- (iv) “FOR” ratification of the Audit Committee’s selection of Crowe Horwath LLP as the Company’s independent registered public accounting firm for the fiscal year ending December 31, 2018.

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 your shares represented by such proxy:

- (i) “FOR” the four persons nominated for election as directors to Class C named in this proxy statement;
- (ii) “FOR” the amendment to the 2011 Orrstown Financial Services, Inc. Stock Incentive Plan;

- (iii) “FOR” approval of the non-binding advisory vote on the compensation paid to our Named Executive Officers as disclosed in this proxy statement; and

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(iv) “FOR” ratification of the Audit Committee’s selection of Crowe Horwath LLP as the Company’s independent registered public accounting firm for the fiscal year ending December 31, 2018.

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 Annual Meeting after giving notice to the Secretary. Please note that simply attending the Annual Meeting in person without voting will not revoke your proxy.

You are only entitled to vote at the Annual Meeting if our records show that you held shares of Company Common Stock as of the close of business on March 15, 2018. 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, amendment of the Stock Incentive Plan and Say-on-Pay, 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.

What vote is required to elect directors?

Directors are elected by a plurality of votes. 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 brokered 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.

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 (the “SEC”) 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 28, 2018. In addition, in order to be considered for possible action by the shareholders at the 2019 Annual Meeting of Shareholders (the “2019 Annual Meeting”), proposals, including shareholder nominations for director, not included in the Company’s proxy statement must be submitted to the Secretary of the Company not later than January 2, 2019. 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 Company Common Stock held

by such persons and will be reimbursed by the Company for their expenses.

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Important Notice Regarding Internet Availability of Proxy Materials for the Shareholder Annual Meeting to be held on May 1, 2018

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.cstproxy.com/orrstown/2018>

Share Ownership of Certain Beneficial Owners

The Company does not know of any person or group who beneficially owned more than 5% of Company Common Stock on March 15, 2018, except as shown in the following table:

Name and address of Beneficial Owner Common Stock Beneficially Owned Percent of Class

Orrstown Bank ⁽¹⁾ 77 East King Street Shippensburg, PA 17257	589,307	7.0 %
Basswood Capital Management, LLC ⁽²⁾ Matthew Lindenbaum Bennett Lindenbaum 645 Madison Avenue, 10 th Floor New York, NY 10022	526,900	6.3 %
Black Rock, Inc. ⁽³⁾ 55 East 52 nd Street New York, NY 10055	524,850	6.2 %

Shares held directly by Orrstown Bank (the "Bank"), or by way of its nominees, in its trust department as fiduciary (1) for certain trusts, estates and agency accounts that beneficially own the shares. The Bank does not have the right to vote with respect to any of these shares.

(2) Based on information set forth in a Schedule 13G, as amended, filed with the Securities and Exchange Commission on February 9, 2018 by Basswood Capital Management, LLC, Matthew Lindenbaum and Bennett Lindenbaum.

(3) Based on information set forth in a Schedule 13G, as amended, filed with the Securities and Exchange Commission on January 29, 2018 by BlackRock, Inc.

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 Named Executive Officer, and by all of the incumbent directors, nominees and executive officers of the Company as a group, as of March 15, 2018, based on information furnished by the persons named and the Company's records. Except as otherwise indicated, sole voting power and sole investment power with respect to the shares shown in the table are held either by the individual alone or by the individual together with his or her spouse.

Name	Common Stock ⁽¹⁾	Exercisable Stock Options ⁽¹⁾⁽²⁾
David P. Boyle	43,635	0
Anthony F. Ceddia	8,355	1,377
Jeffrey W. Coy	39,661	⁽³⁾ 1,377
Philip E. Fague	37,793	8,785
Cindy J. Joiner	4,535	0
Mark K. Keller	9,977	349
Thomas D. Longenecker	5,313	0
Adam L. Metz	10,784	0
Andrea Pugh	31,811	1,377
Thomas R. Quinn, Jr.	61,279	6,000
Gregory A. Rosenberry	42,030	1,377
Eric A. Segal	8,023	0
Glenn W. Snoke	17,837	1,377
Floyd E. Stoner	14,139	0
Benjamin W. Wallace	25,646	0
Joel R. Zullinger	38,692	⁽⁴⁾ 1,377
Directors, nominees and executive officers as a group (19) persons including those named above)	457,073	23,396

On March 15, 2018, 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, and ⁽¹⁾ executive officers as a group beneficially owned approximately 480,469 shares or 5.7 % 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.

The amounts shown reflect the number of shares of Company Common Stock that the indicated individuals and ⁽²⁾ group have the right to acquire within 60 days of March 15, 2018 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 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, as amended, requires our directors and executive officers and the beneficial owners of more than 10% of Company Common Stock to file reports of ownership and changes in ownership of their equity securities of the Company with the SEC 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 2017 our directors and executive officers who were subject to the reporting requirements of Section 16(a) of the Securities Exchange Act of 1934, as amended, complied with all SEC filing requirements applicable to them. As of the date of this proxy statement, to the best of its knowledge, the Company did

not have any beneficial owners of more than 10% of Company Common Stock.

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PROPOSAL 1 – ELECTION OF DIRECTORS

The bylaws of the Company provide that the directors will serve in three classes, as nearly equal in number as possible, with each class of directors serving a 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 C to serve until the annual meeting of shareholders in 2021 or until their successors are elected and qualified. The Board of Directors has nominated the following persons for election as directors to Class C:

Anthony F. Ceddia

Thomas D. Longenecker

Andrea Pugh

Floyd E. Stoner

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

If you return a properly signed and dated proxy form, 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 four named nominees for election of directors to Class C receiving the highest number of votes will be elected to the Board of Directors.

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

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 C.

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 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 Company Common Stock. Directors will have one year from the date they join the Board to meet this requirement. In addition, no one may be nominated to serve as a director of the Company if such person: (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 with the prior approval of the Board.

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

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 must be made in accordance with the procedures set forth in the Company's bylaws 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.

Biographical Summaries of Nominees and Directors

The Board of Directors believes that each of the nominees and directors possess 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 C at the Annual Meeting and information about the directors in Class B and Class A demonstrating these characteristics is set forth below.

Nominees for Director:

CLASS C DIRECTORS - TERM EXPIRES IN 2018

Anthony F. Ceddia - 74, is Secretary of the Boards of Directors of the Company and the Bank. Dr. Ceddia has been a member of the Boards of Directors of the Company and of the Bank since 1996. Dr. Ceddia is President Emeritus of Shippensburg University, where he was President from 1981 to 2005. Since his retirement as President of Shippensburg University, Dr. Ceddia has been a Visiting Professor at various institutions. Dr. Ceddia has also acted as a leadership and management consultant. The Board of Directors values Dr. Ceddia's executive level experience, perspective and leadership skills.

Thomas D. Longenecker - 50, was appointed to the Board of Directors of the Company and the Bank on January 4, 2016. He is Chief Operating Officer of Commonwealth Charter Academy since 2012, a cyber charter school headquartered in Harrisburg, Pennsylvania. Prior to that, Mr. Longenecker was the Director of Finance for the Carlisle Area School District in Carlisle, Pennsylvania. The Board of Directors values Mr. Longenecker's experience in technology and operations and knowledge of the market area.

Andrea Pugh - 65, has been a member of the Boards of Directors of the Company and of the Bank since 1996. She is President and sole member of PharmCare Consultants LLC, a pharmacy consulting business. The Board of Directors values Ms. Pugh's knowledge, experience and perspective as a woman who is an entrepreneur and small business owner and the insight it provides her into the financial services needs of and business issues facing many of the Bank's small business customers, including those that are owned and operated by women.

Floyd E. Stoner - 69, has been a member of the Board of Directors of the Company and of the Bank since 2012. Since January 2012, Mr. Stoner has served as a Senior Advisor - Consultant with Alliance Partners, in Chevy Chase, Maryland. Mr. Stoner was the Executive Vice President for Congressional Relations and Public Policy at the American Bankers Association ("ABA") until his retirement in December 2011 and has over 26 years of experience as a lobbyist for the ABA. As the ABA's chief lobbyist, he has been involved at the highest levels in all of the banking policy debates of recent years and he has a nearly unparalleled perspective on the issues facing the banking industry today, which the Board of Directors finds very valuable.

Continuing Directors:

CLASS B DIRECTORS - TERM EXPIRES IN 2019

Mark K. Keller - 64, was appointed to the Company's Board of Directors in 2009 and to the Bank's Board of Directors in 2008. Mr. Keller has served as a Representative to the Pennsylvania General Assembly, representing the 86th Legislative District, since

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2004. The Board of Directors values Mr. Keller's knowledge of the Bank's market area attained through his representation of that area in the General Assembly.

Thomas R. Quinn, Jr. - 58, was appointed as President and Chief Executive Officer and a director of the Company and of the Bank in May 2009 immediately following the 2009 Annual Meeting of Shareholders. Mr. Quinn joined the Bank in March 2009 as President-elect and served in that capacity until he was appointed President and Chief Executive Officer. The Pennsylvania Banking Code requires that a bank president be a member of the bank's board of directors. The Board of Directors believes that it is important that the President, who also is the Chief Executive Officer, be a member of the Board of Directors of the Company and the Bank so that the President may interact on a peer-to-peer basis with his fellow directors. In addition, the Board of Directors believes that the knowledge, experience and perspective Mr. Quinn possesses as a result of his service as a senior executive with Fifth Third Bancorp and Citigroup have been, and will continue to be, valuable to the Company as it continues to execute its strategic plan as a relationship based community bank.

Gregory A. Rosenberry - 63, has been a member of the Boards of Directors of the Company and of the Bank since 1997. He is President and General Partner of Rosenberry Family Limited Partnership, a timber harvesting and wholesale, real estate and securities investment business, President and owner of Tri-Valley Forestry, Inc., and a director, Secretary and shareholder of Rosenberry Brothers Lumber, Inc. The Board of Directors values Mr. Rosenberry's knowledge, experience and perspective as an entrepreneur and small business owner and the insight it provides him into the financial services needs of and business issues facing many of the Bank's small business customers.

Glenn W. Snoke - 69, has been a member of the Boards of Directors of the Company and of the Bank since 1999. Mr. Snoke is President of Snoke's Excavating & Paving, Inc. The Board of Directors values Mr. Snoke's knowledge, experience and perspective as an entrepreneur and owner of a small business involved in the construction industry and the insight it provides him into the financial services needs and business issues facing many of the Bank's construction industry customers.

CLASS A DIRECTORS - TERM EXPIRES IN 2020

Jeffrey W. Coy - 66, is Vice Chairman of the Boards of Directors of the Company and of the Bank. Mr. Coy has served as a director since 1984. From 2005 to February 2011, Mr. Coy served as a Commissioner on the Pennsylvania Gaming Control Board. From 1983 through 2004, Mr. Coy served as a Representative to the Pennsylvania General Assembly, representing the 89th Legislative District. The Board of Directors values the knowledge, experience and perspective Mr. Coy has attained through his long tenure as a director of the Company and the Bank and the substantial knowledge of the Bank's Franklin and Cumberland Counties, Pennsylvania market areas he attained through his representation of those areas in the General Assembly.

Cindy J. Joiner, CPA - 56, was appointed to the Board of Directors of the Company and the Bank on January 4, 2016. She is the Chief Financial Officer for The Bowman Group, LLC. The Bowman Group, LLC is a privately held corporation located in Williamsport, Maryland specializing in transportation, logistics, hospitality and real estate development. Ms. Joiner has held this position since 2007. The Board of Directors values Ms. Joiner's accounting acumen and knowledge of multiple industries that align with the Bank's lending businesses. In addition, the Board believes her familiarity and knowledge of the Maryland market adds significant value to the Company.

Eric A. Segal - 60, was appointed to the Boards of Directors of both the Company and the Bank in 2013. Since 2008, Mr. Segal has been Managing Director, and head of the Banking and Financial Institutions Group at CFO Consulting Partners LLC in Princeton, New Jersey. The Board of Directors values Mr. Segal's strong financial acumen and the knowledge and experience he has gained through his consulting experience in many banking organizations in the Mid-Atlantic and other regions.

Joel R. Zullinger - 69, is Chairman of the Boards of Directors of the Company and the Bank. Mr. Zullinger has served as a director since 1981. Mr. Zullinger is an attorney, of counsel, with Zullinger-Davis-Trinh, P.C., in Chambersburg, Pennsylvania. The Board of Directors values the knowledge, experience and perspective Mr. Zullinger has attained through his long tenure as a director of the Company and the Bank. The Board of Directors also values the leadership and communication skills manifested by Mr. Zullinger's service as Chairman.

Director Independence

The Board of Directors of the Company has adopted the definition of “independent director” as set forth in Rule 5605(a)(2) of the NASDAQ Stock Market and has determined that each director is independent under this rule, other than Mr. Quinn due to his position as President and Chief Executive Officer of the Company. Under NASDAQ rules, employees of the Company are deemed not to be independent. In making this determination with respect to the remaining directors, the Board of Directors was aware of, and considered, the loan and deposit relationships and other transactions with directors and their related interests, which the Company or the Bank enters into in the ordinary course of business. Except as noted above and for loans, deposits, fiduciary and other similar relationships with the Company or the Bank, no director or any of his or her related interests has engaged in any transaction or series of transactions,

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or is involved in any relationships, as a result of which the director would not be independent under the rules of the NASDAQ Stock Market.

Shareholder Communications with the Board of Directors

The Company has a formal process by which shareholders may send communications to the Board of Directors. Our policy is to recommend that all correspondence from shareholders be addressed to the Chief Executive Officer of the Company, who shares such correspondence with the Board of Directors. As a matter of practice, shareholder communications received by the Chief Executive Officer are included under the topic “Correspondence” with the Board of Directors’ meeting materials routinely furnished by management to directors in connection with meetings of the Board of Directors. In addition, shareholder communications determined by the Chief Executive Officer, at his discretion, to require immediate attention, also are promptly furnished by him to the Chairman. When and as appropriate, the Company seeks to provide a timely response to shareholder communications it receives.

Board Structure, Committees and Meeting Attendance

During 2017, the Board of Directors of the Company met 20 times and the Board of Directors of the Bank met 12 times. The Board of Directors of the Company has a Compensation Committee, an Audit Committee and a Nominating and Governance Committee. During 2017, all of the directors of the Company attended at least 75% of all meetings of the respective Boards and Committees on which they served.

With the exception of Mr. Quinn, all of the directors of the Company and the Bank are independent as defined in Rule 5605(a)(2) of the NASDAQ Stock Market. Leadership of the Boards of Directors of the Company and the Bank is entrusted to an independent Chairman and an independent Vice Chairman. The Vice Chairman also serves as Chair of the Executive Committee. The Boards of Directors believe that this independent leadership structure helps to provide an appropriate check and balance on the influence of the executive management team generally and the President and Chief Executive Officer more specifically, particularly in consideration of the President and Chief Executive Officer’s membership on the Boards of Directors and Executive Committee. In addition, the directors generally have at least two meetings each year in which they meet in executive session without Mr. Quinn being present. The directors also may meet in executive session at additional times as necessary.

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

The Compensation Committee Charter provides that the Compensation Committee is to be composed of three or more members, each of whom is to be “independent” as defined in NASDAQ Rule 5605(a)(2), an “outside director” within the meaning of Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”), Section 162(m) and a “non-employee director” within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, as amended. The members of the Compensation Committee are to be appointed by the Board of Directors upon the recommendation of the Nominating and Governance Committee.

The members of the Compensation Committee during 2017 were Floyd E. Stoner (Chair), Jeffrey W. Coy, Mark K. Keller, Glenn W. Snoke, and Joel R. Zullinger, each of whom the Board of Directors has determined to be independent, an outside director and a non-employee director. Each of these members currently serves on the Compensation Committee.

The Compensation Committee Charter provides that the Compensation Committee is to meet at least two times each year and at such other times as it deems necessary to fulfill its responsibilities. The Compensation Committee met six times during 2017.

Nominating and Governance Committee. The Nominating and Governance Committee exercises general oversight with respect to the governance of the Board of Directors. It reviews the qualifications of and recommends to the Board of Directors proposed nominees for election to the Board. As discussed above, it also is responsible for evaluating and recommending to the Board corporate governance practices applicable to the Company and for leading the Board in its self-evaluation process.

The Nominating and Governance Committee reviews its Charter annually and recommends proposed changes for Board approval. The members of the Nominating and Governance Committee during fiscal 2017 were Glenn W. Snoke, (Chair), Mark K. Keller, Thomas D. Longenecker, Eric Segal, and Joel R. Zullinger. Each Director serving on

the Nominating and Governance Committee has been determined to be independent, and an outside director and a non-employee director. The Nominating and Governance Committee Charter is posted on the Company's website at www.orrstown.com. The Nominating and Governance Committee met seven times in 2017.

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

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

Members of the Audit Committee for 2017 were Cindy J. Joiner, CPA, (Chair), Mark K. Keller, Thomas D. Longenecker, Andrea Pugh and Floyd E. Stoner. Each of the directors serving on the Audit Committee have been determined to be independent.

In addition, the Board of Directors, has determined that Ms. Cindy J. Joiner, CPA has the requisite financial sophistication required by the Audit Committee Charter to serve as the Audit Committee financial expert. Ms. Joiner has experience as a CPA and Chief Financial Officer for a multi-state logistics and real estate enterprise where all finance and accounting functions reported directly to her. Ms. Joiner has had ultimate responsibility for overseeing and assessing the performance of the respective organizations in the preparation of their respective financial statements which, together with her tenure as a member of the Audit Committee, has provided her with an understanding of, and familiarity with, Generally Accepted Accounting Principles and internal controls over financial reporting.

The Audit Committee Charter provides that the Audit Committee is to meet at least four times each year. The Audit Committee met 10 times during 2017.

Audit Committee Report

The Audit Committee has reviewed and discussed with management the Company’s audited financial statements for the year ended December 31, 2017. The Audit Committee also has discussed with Crowe Horwath LLP, the matters required to be discussed by the Statement on Auditing Standards, No 61, as amended (AICPA Professional Standards, Vol. 1 Section 380) as adopted by the Public Company Accounting Oversight Board in Rule 3200T; received from Crowe Horwath LLP, the written disclosures and letter required by applicable requirements of the Public Company Accounting Oversight Board regarding Crowe Horwath LLP’s communications with the Audit Committee concerning independence and has discussed with Crowe Horwath LLP, that firm’s independence. In that regard, the Audit Committee has considered whether the provision by Crowe Horwath LLP of certain limited permissible non-audit services in addition to its audit services is compatible with maintaining that firm’s independence and has determined that it is. Based on the review and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017, filed with the Securities and Exchange Commission.

Submitted by the Audit Committee:

Cindy J. Joiner, CPA, Chair

Mark K. Keller

Thomas D. Longenecker

Andrea Pugh

Floyd E. Stoner

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

Compensation Committee Interlocks and Insider Participation

As noted previously, members of the Compensation Committee during 2017 were Floyd E. Stoner, (Chair), Jeffrey W. Coy, Mark K. Keller, Glenn W. Snoke, and Joel R. Zullinger, each of whom the Board of Directors has determined to be independent, an outside director and a non-employee director. There are no interlocking relationships, as defined by SEC regulations under the Securities Exchange Act of 1934, as amended, involving members of the Compensation

Committee or the overall Board of Directors of the Company.

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Transactions with Related Persons, Promoters and Certain Control Persons

During 2017, some of the directors and executive officers of the Company and the Bank, members of their immediate families and some of the companies with which they are associated, had banking transactions in the ordinary course of business with the Bank and may have similar transactions in the future. These transactions were made on substantially the same terms, including interest rates, collateral requirements and repayment terms, as those prevailing at the time for comparable transactions with non-affiliated persons and did not involve more than the normal risk of collectability or present other unfavorable features.

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

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

Compensation of Directors

The following table sets forth compensation received by directors of the Company in 2017, other than Thomas R. Quinn, Jr., President and Chief Executive Officer. Mr. Quinn does not receive compensation in his capacity as a director.

2017 DIRECTOR COMPENSATION TABLE

Name	Fees Earned or Stock Paid in Cash (\$)	Option Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (1)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)(2)	All Other Compensation (\$)	Total (\$)
Anthony F. Ceddia	\$ 62,000	\$ 27,375	\$ 0	\$ 0	\$ 8,091	\$ 0	\$97,466
Jeffrey W. Coy	64,000	27,375	0	0	9,220	0	100,595
Cindy J. Joiner	53,000	21,900	0	0	0	0	74,900
Mark K. Keller	53,000	21,900	0	0	38,039	0	112,939
Thomas D. Longenecker	53,000	21,900	0	0	0	0	74,900
Andrea Pugh	53,000	21,900	0	0	17,660	0	92,560
Gregory A. Rosenberry	53,000	21,900	0	0	18,592	0	93,492
Eric A. Segal	53,000	21,900	0	0	0	0	74,900
Glenn W. Snoke	53,000	21,900	0	0	6,148	0	81,048
Floyd E. Stoner	53,000	21,900	0	0	0	0	74,900
Joel R. Zullinger	66,000	32,850	0	0	18,937	0	117,787

(1)

The aggregate number of shares underlying unexercised but exercisable option awards at December 31, 2017 was as follows: Dr. Ceddia - 1,377; Mr. Coy - 1,377; Mr. Keller - 349; Ms. Pugh - 1,377; Mr. Rosenberry - 1,377; Mr. Snoke - 1,377; and Mr. Zullinger - 1,377. Ms. Joiner, Mr. Longenecker, Mr. Stoner and Mr. Segal have not received option awards from the Company.

(2) Represents the aggregate increase in the present value of the directors' accumulated benefit under defined benefit and supplemental plans for the year ended December 31, 2017. This includes both the director's retirement and "brick" plans.

(3) The grant date fair value of stock awards was calculated by multiplying the number of shares subject to the award by the fair value of Company Common Stock on the grant date (\$21.90). Each director other than Dr. Ceddia, Mr. Coy and Mr. Zullinger received a grant of 1,000 shares of Company Common Stock. Dr. Ceddia and Mr. Coy each received a grant of 1,250 shares and Mr. Zullinger received a grant of 1,500 shares

Directors' Fees. During 2017, each director of the Company and the Bank was paid an annual fee of \$53,000. Fees are paid quarterly on the first business day of the months of January, April, July and October. In addition, Board officers were paid a stipend as follows: Chairman, \$13,000; Vice Chairman, \$11,000; and Secretary, \$9,000.

Restricted Stock Award. In May 2017, non-employee Directors were granted shares of Company Common Stock as part of their 2017 compensation. A \$21,900 equity award in the form of 1,000 shares of Company Common Stock was granted to all Directors on May 2, 2017. Dr. Ceddia and Mr. Coy received 250 additional shares, or \$5,475, to compensate them for their roles as Board officers and Mr. Zullinger received 500 additional shares, or \$10,950, to compensate him for his role as Board Chairman. These awards were granted with a one-year vesting restriction.

Deferred Compensation Plan. In 1995, the Company and the Bank established a non-qualified deferred compensation plan for directors and executive officers. Participation in the plan is voluntary. Each participant may elect each year to defer all or a portion of his or her directors' fees or, in the case of an executive officer, compensation. Directors deferring compensation must begin withdrawals from the plan by age 75 or termination of service as a director, whichever occurs later. Executive officers must begin withdrawals by age 65 or retirement, whichever occurs later. Payments may be made in equal monthly or annual installments over not more than ten years. Immediate distributions may be made in the event the Company would experience a hostile takeover, an acquiring bank or bank holding company would fail to approve the plan, or the Bank, or any acquiring bank or bank holding company, would experience bankruptcy. If a participant would die before payment of his or her entire account, the Company will pay the balance to his or her beneficiary in a single lump sum payment. The amounts deferred are invested in a rabbi trust with the trust department of the Bank as trustee. The participants direct the investment of their own accounts among various publicly available mutual funds designated by the Bank's Trust Investment Committee. Growth of each participant's account is a result of investment performance and the public markets and is not a result of an interest factor or interest formula established by the participant or by the Company or the Bank. In 2017, Mr. Snoke deferred \$10,000 of his director fees.

Directors Retirement Plan. The Bank has entered into director retirement agreements with Ms. Pugh and Messrs. Ceddia, Coy, Keller, Rosenberry, Snoke, and Zullinger. Each director retirement agreement provides the respective director with a normal retirement benefit in a specified amount, payable in 120 consecutive monthly installments commencing the month following the director's termination of service after having reached the normal retirement age of 65. Generally, the amount of a director's annual normal retirement benefit is intended to approximate the amount of his or her directors' fees during the year in which he or she became a party to a director retirement agreement, projected to the normal retirement age of 65 based upon annual increases of four percent. For every complete plan year after normal retirement age and before termination of service, the amount of the annual benefit will increase by four percent.

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

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

The amount of the increase in 2017 in the net present value of the accrued benefit under the directors retirement agreement is reported in the 2017 Director Compensation Table for each participating director in the "Change in Pension Value and Nonqualified Deferred Compensation Earnings" column.

Brick Plan. Mr. Zullinger participates in a so-called "brick plan" that provides Mr. Zullinger or his beneficiaries with a monthly cash benefit for a period of 10 years beginning at age 65. The change in the net present value of Mr. Zullinger's accrued benefit under his brick plan from 2017 is reported in the 2017 Director Compensation Table

above in the “Change in Pension Value and Nonqualified Deferred Compensation Earnings” column. Under the brick plan, Mr. Zullinger’s annual benefit which is fully vested, would be \$21,804.

Information About Executive Officers

In addition to Thomas R. Quinn, Jr., President and Chief Executive Officer of the Company and of the Bank, who also serves as a director of the Company and of the Bank, the other executive officers of the Company and the Bank are: David P. Boyle - 54, has been Executive Vice President and Chief Financial Officer since August 2012, and Principal Accounting Officer of the Company and the Bank since November 2016. From July 2010 to August 2012, he served as Executive Vice President, Chief Performance Officer of PNC Financial Services, Inc. (PNC Bank).

Adam L. Metz - 46, has been an Executive Vice President and Chief Lending Officer since September 2016. From 2011 to 2016, he served as Senior Vice President, Chief Lending Officer of Metro Bank headquartered in Harrisburg, PA.

Benjamin W. Wallace - 35, has been Executive Vice President, Chief Operations and Technology Officer of the Company and the Bank since February 2013. From January 2007 to February 2013, Mr. Wallace was employed as an Executive Director of Consumer Technologies at JPMorgan Chase & Co. Mr. Wallace is a member of the Pennsylvania Bar.

Philip E. Fague - 58, is Executive Vice President and Assistant Secretary of the Company and Executive Vice President, and Chief Trust Officer. From August 2012 until September 2016 he was Executive Vice President - Trust and Mortgage Officer, of the Bank. From June 2011 to August 2012, he served as Senior Executive Vice President of the Company. From 1997 to June 2011, he served as Executive Vice President of the Bank.

Robert G. Coradi - 56, has been Executive Vice President, Chief Risk Officer of the Company and the Bank since April 2014. From October 2012 to April 2014, he served as Senior Vice President, Chief Credit Officer of the Bank. From January 2012 to October 2012, Mr. Coradi served in the capacity as a Commercial Executive in the Pennsylvania Division of Susquehanna Bank. From September 2008 to January 2012, he served as a Commercial Sales Manager in the Pennsylvania Division of Susquehanna Bank.

Barbara E. Brobst - 59, was named Executive Vice President, Chief Human Resources Officer in 2015. Previously she was Senior Vice President - Human Resources since 2011. Prior to that, she served as Senior Vice President - Wealth Services from 2000 to 2011. She has been employed by the Company since 1997.

Jeffrey S. Gayman - 45, was named Executive Vice President - Retail Banking and Consumer Lending in February 2016. Previously he was Senior Vice President - Retail Banking since 2012 and Chief Commercial Officer from 2009 to 2012. He has been employed by the Company since 1995.

Involvement in Certain Legal Proceedings

On September 27, 2016, the Company entered into a settlement agreement with the SEC resolving an investigation by the SEC of accounting and related matters at the Company for the periods ended June 30, 2010, to December 31, 2011. As part of the settlement of the SEC's administrative proceedings, and pursuant to the cease-and-desist order, without admitting or denying the SEC's findings, the Company agreed to pay a civil money penalty of \$1 million. In the settlement agreement with the SEC, the Company also agreed to cease and desist from committing or causing any violations and any future violations of Securities Act Sections 17(a)(2) and 17(a)(3) and Exchange Act Sections 13(a), 13(b)(2)(A) and 13(b)(2)(B), and Rules 12b-20, 13a-1 and 13a-13 promulgated thereunder. As part of the settlement of the SEC's administrative proceedings, and pursuant to the cease-and-desist order, without admitting or denying the SEC's findings, Thomas R. Quinn, Jr., President and Chief Executive Officer of the Company, agreed to pay a civil money penalty to the SEC in the amount of \$100,000, and to cease and desist from committing and/or causing the violations charged, as well as any future violations of these provisions.

Compensation Discussion and Analysis

Executive Compensation Philosophy and Principles

The Company's compensation and benefits programs and policies are, for the long term, intended to provide fair, reasonable and competitive levels of compensation and benefits in order to recruit, motivate, reward and retain qualified executive officers in order to generate long-term value for the Company's shareholders.

The Compensation Committee believes a well-designed compensation program provides incentives to achieve desired results, helps retain and attract talent, and discourages excessive risk-taking. This section describes how we view compensation going forward and why we make the decisions that we do. The committee believes that successful application of the guiding principles, outlined below, requires program design that balances risk and reward. The committee believes that judgment, flexibility and discretion are critical to its ability to deliver effective incentive compensation that focuses on both current period performance results and long-term value creation for the shareholders. The guiding principles are as follows:

Compensation Principles:

1. Pay for performance;
2. Align executive compensation with the long-term interests of our shareholders;

3. Encourage focus on the long-term success of the Company and discourage excessive risk-taking; and
4. Provide competitive compensation opportunities to attract, retain and motivate executives.

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The Company's Executive Incentive Plan has historically been based directly on Company performance metrics including net income and return on equity. It is the intention of the Compensation Committee to ensure that the plan does not encourage executive management to take excessive risk in the future. Additionally, if the Committee deems that management did expose the Bank to excessive risks, there is appropriate "claw-back" language in the incentive compensation plan guidelines to address the situation in subsequent years.

Compensation Structure. We compensate our executive officers through a combination of base salary, annual cash incentives, equity-based compensation, and other benefits. Base salaries are set at levels competitive within the industry and the local market area in order to attract and retain executive officers who possess the knowledge, skills and abilities necessary